ZURICH

February 27, 2015

Dear Contract Owner:

Zurich American Life Insurance Company is pleased to continue with our customized process for producing and distributing annual reports for the registered funds underlying the investment choices you have selected in your Destinations VA or Farmers VA I variable annuity contract.

Your customized annual report is enclosed. The report provides an update on the relevant funds' performance as of December 31, 2014. Fund performance does not take into account the fees charged by your contract. If these fees had been included, the performance would have been lower. As always, past performance cannot predict or guarantee future returns.

We hope that the enclosed information is helpful. If you have any questions concerning your contract, please do not hesitate to call our Service Center at (800) 449-0523 (toll free).

Thank you for placing your variable annuity contract with us.

Sincerely,

Richard W. Grilli
Senior Vice President and Chief Operating Officer

Enclosure

Zurich American
Life Insurance Company

Administrative Office:
PO Box 7728
Overland Park, KS 66207-0728

Telephone 877-301-5376
Fax 917-534-4606

ZURICHAMERICANLIFEINSURANCE.COM

December 16, 2014

THE DREYFUS SOCIALLY RESPONSIBLE GROWTH FUND, INC.

Supplement to Summary and Statutory Prospectuses
dated May 1, 2014

The following information supersedes and replaces the information contained in "Portfolio Management" in the summary prospectus and "Fund Summary – Portfolio Management" in the statutory prospectus:

The fund's investment adviser is The Dreyfus Corporation (Dreyfus). Investment decisions for the fund are made by members of the Active Equity Team of Mellon Capital Management Corporation (Mellon Capital), an affiliate of Dreyfus. The team members are C. Wesley Boggs, William Cazalet, Warren Chiang, CFA, and Ronald Gala, CFA. Messrs. Boggs, Chiang and Gala have each served as a primary portfolio manager of the fund since May 2012, and Mr. Cazalet has served as a primary portfolio manager of the fund since December 2014. Mr. Boggs is a vice president, senior portfolio manager and active equity strategist at Mellon Capital. Mr. Cazalet is a managing director and global investment strategist at Mellon Capital. Mr. Chiang is a managing director and head of active equity strategies at Mellon Capital. Mr. Gala is a managing director and senior portfolio manager at Mellon Capital. Each member of the team also is an employee of Dreyfus.

The following information supersedes and replaces the third paragraph in "Fund Details – Management" in the statutory prospectus:

Investment decisions for the fund are made by members of the Active Equity Team of Mellon Capital, an affiliate of Dreyfus. The team members are C. Wesley Boggs, William Cazalet, Warren Chiang, CFA, and Ronald Gala, CFA, each of whom serves as a primary portfolio manager of the fund and all of whom are jointly and primarily responsible for managing the fund's portfolio. Messrs. Boggs, Chiang and Gala have each served as a primary portfolio manager of the fund since May 2012, and Mr. Cazalet has served as a primary portfolio manager of the fund since December 2014. Mr. Boggs is a vice president, senior portfolio manager and active equity strategist at Mellon Capital, where he has been employed since 1993. He also has been employed by Dreyfus since 2007. Mr. Cazalet is a managing director and global investment strategist at Mellon Capital, where he has been employed since July 2013. He also has been employed by Dreyfus since December 2014. Prior to joining Mellon Capital, Mr. Cazalet was employed from November 2011 until June 2013 by Commonfund, Inc. as a Managing Director where he was responsible for U.S. west coast and international clients. From October 2005 until December 2010, he served as global co-head of long short equity strategies at AXA Rosenberg Investment Management LLC, where he was responsible for strategy and portfolio design, product development and marketing. Mr. Chiang is a managing director and head of active equity strategies at Mellon Capital, where he has been employed since 1997. He also has been employed by Dreyfus since 2007. Mr. Gala is a managing director and senior portfolio manager at Mellon Capital and has been employed by other current or predecessor BNY Mellon entities since 1993. He also has been employed by Dreyfus since 1998.

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 Balanced Portfolio

ANNUAL REPORT

December 31, 2014

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ALGER BALANCED PORTFOLIO

Go Paperless With Alger Electronic Delivery Service

Alger is pleased to provide you with the ability to access regulatory materials online. When documents such as prospectuses and annual and semi-annual reports are available, we'll send you an e-mail notification with a convenient link that will take you directly to the fund information on our website. To sign up for this free service, simply enroll at **www.icsdelivery.com/alger.**

Dear Shareholders,

Earnings Growth Drives Equity Gains

Investors who downplay the powerful impact of corporate earnings on equities would be well served to analyze capital markets during the 12-month reporting period ended December 31. Indeed, concerns over equity valuations, global economic growth, geopolitical turmoil, and monetary policy drove considerable market volatility during the period. Yet strong corporate earnings and to a lesser extent U.S. economic growth later in the period supported investor sentiment, resulting in the S&P 500 index generating a 13.69% return and reaching an all-time high of 2,090.57 on December 29. Concerns about weakening global economic growth, meanwhile, resulted in foreign securities trailing the S&P 500. For the reporting period, the MSCI ACWI ex USA Index declined 3.43% and the MSCI Emerging Markets Index declined 1.82%.

Growth Scare Creates Buying Opportunity

The reporting period started with the S&P 500 having a forward price-to-earnings capitalization-weighted ratio of 15.42 compared to a 20-year average of 16.81. At Alger, we maintained that the ratio was reasonable considering corporations' potential to grow earnings as the U.S. economy was expanding. We also held to our belief that the valuations were reasonable from a historical perspective. Yet some investors and various pundits maintained that uneven economic growth would fail to support valuations. Those fears escalated when severe winter weather appeared to dampen gains in job creation and other economic indicators. By mid-February 2014, skittish investors sparked a "growth scare" or the selloff of high-growth stocks that were trading at high valuations. To illustrate the magnitude of this reaction, we noted that the NYSE Arca Biotechnology Index, which consists of high-growth biotech companies, and the NASDAQ Internet Index, which consists of high-growth Internet companies, both declined substantially. The NYSE Arca Biotechnology Index dropped 19.64% from February 25 to April 14 and the NASDAQ Internet Index declined 20.42% from March 6 to May 8. At the same time, investors flocked to defensive names such as Wal-Mart Stores, Inc. and "old" technology names such as Microsoft Corp. and International Business Machines Corp.

At that time, we urged investors to use the selloff as a buying opportunity, which we believe was a timely call. [1] From its April 14, 2014, low to the end of the reporting period, the NYSE Arca Biotechnology Index generated a 45.25% return compared to the 12.47% return of the S&P 500. Similarly, the NASDAQ Internet Index generated a 13.98% return from its May 8, 2014, low to the end of the reporting period compared to the 9.77% return of the S&P 500. In making the call, we reasoned that investors would eventually return their focus to the potential for high-growth companies to rapidly increase their earnings.

Even with the bounce-back in stock prices, we maintain that valuations are still reasonable among leading high-growth companies, especially when considering that many companies have strong potential for expanding their earnings.

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[1] See Alger Markets Insight, "Fear of Growth Stocks Creates Buying Opportunities," April 2014.

In the biotech industry, for example, many companies have potential to benefit from robust product development pipelines and increasing Food and Drug Administration (FDA) approvals. The increase in successful late-stage clinical trials and FDA approvals over the past three years, furthermore, points to an improvement in research and development productivity for the industry. The quality of products being developed has also improved as illustrated by the creation of new drugs that target rare diseases that have had limited treatment options. In addition, some new drugs are major advancements in treating life threatening diseases. As of the end of the reporting period, the large-cap biotech group was trading at 17 times 2016 expected earnings versus the 10-year average of 21. The average three-year per share revenue growth for the group is estimated to be 12% and the average three-year per share earnings growth is estimated to be 15%.

Falling Oil Prices Drive Volatility

Moderating demand for oil and an oil supply glut caused the commodity's price to drop approximately 46% during the year, which drove market volatility. Investors feared that declining oil prices would adversely impact energy companies' earnings and revenues and that the adverse impact on profits could spill over to other industries. At the same time, however, we believe lower energy costs, including sharp declines in gasoline prices, will support the economy by improving consumers' spending power and by cutting operating costs for U.S. businesses.

Global Economic Concerns

During the reporting period, investors also struggled with fears that weakening economic growth in China and disappointing results in Europe would curtail corporations' revenues abroad and hinder U.S. exports. In the second half of October, the People's Bank of China (PBOC) responded to concerns over moderating growth by cutting lending and deposit rates. We believe China's growth will eventually reach a sustainable rate, yet many investors have been concerned about the country's economy. Even with moderating economic growth, we believe the country's expansion is still occurring at a substantial rate with GDP growing 7.7% in 2013 and the PBOC estimating that 2014 GDP grew 7.4%. We note that the moderation is helping to curtail global inflation as the country's demand for commodities softens.

Economic growth remained weak in the eurozone with growing concerns over rapidly dropping oil prices, the decline of the Russian ruble, and economic sanctions against Russia stemming from the country's annexation of the Crimea region of Ukraine. Despite those concerns, we are encouraged to observe that the decline in the euro is making European exports more competitive. In addition, the European Central Bank (ECB) is continuing with accommodative policies that are supporting economic growth. In September, the ECB cut the rate that it charges banks for short-term loans to 0.05% from 0.15%. The 0.15% rate reflected a June rate cut.The ECB also increased the fee that it charges banks to store money to 0.2% from a 0.1% rate that it implemented in June. Shortly after announcing the September rate changes, ECB President Mario Draghi said the bank will implement unconventional monetary policy by purchasing securitized debt and covered bonds to help ease the flow of bank funding within the region. In addition to the ECB's plans for quantitative easing, we believe eurozone countries need to implement structural reforms, including changes in labor policies, business regulations, and taxation, to promote growth.

Yet we continue to find attractive investment opportunities with our bottom-up, research-driven investment strategy.

Geopolitical Turmoil Rattles Investors

Russia's annexation of Crimea also generated concerns. The Russian actions provoked strong criticism from the U.S. and the European Union. Russia quickly became subjected to targeted economic sanctions which sparked fears that the country's economy may weaken further. The actions also sparked fears that Russia would retaliate by curtailing its exports of gas to Europe, which receives more than 30% of its gas from the country. Tensions escalated in July when a Malaysia Airlines jet was shot down in eastern Ukraine. At times, U.S equities retreated in response to Russia increasing its troops along the Ukraine border, and at other times equities rallied when the conflict appeared to be moderating. The conflict continues to simmer with ongoing tension between Ukrainians who want the country to become part of Russia and others who want the country to remain independent.

Also during the reporting period, terrorist organization ISIS, or the Islamic State, launched an insurgency in Iraq, which sparked fears that oil production in the country could be disrupted. With investors already fearful that Russia may curtail its oil and gas exports in response to sanctions, the ISIS actions escalated concerns over the world's energy supply. The U.S. responded by forming an international coalition that has been launching airstrikes against ISIS. As the reporting period wound down, ISIS remained a considerable threat to political stability. At the same time, however, concerns over energy security have weakened as global oil production has continued to expand, creating a supply glut.

U.S. Monetary Policy and Economic Growth

During the reporting period, the U.S. Federal Reserve stuck with its proposed October timeframe for ending asset purchases or quantitative easing. Investors, meanwhile, began to anticipate when the central bank will start to raise interest rates from record low levels as economic growth continued. Many observers have speculated that the change will occur next year. Favorable economic news, however, occasionally caused investors to sell equities in response to fears that that the Federal Reserve may raise rates sooner than anticipated. At times, those fears were alleviated by Federal Reserve officials emphasizing that the central bank remains committed to its accommodative policy for the foreseeable future. Throughout the reporting period, we remained unconcerned about the potential for rate increases. Market interest rates remain extremely low and the economy has considerable capacity for growth.

Corporate Earnings Support Equity Markets

Broadly speaking, expectations for continuing fiscal stimulus and economic expansion supported investor sentiment. More importantly, strong corporate earnings also drove equity performance and helped reverse a considerable market decline late in the reporting period. After reaching a peak on September 19, the S&P 500 declined 9.83% as investors grew weary of weakening global economic growth and geopolitical turmoil. The downward spiral quickly reversed in mid-October, however, as corporate America started releasing strong earnings reports and the S&P 500 went on to set a new closing high on December 29. Noteworthy market movers included Caterpillar Inc. and 3M Company, both of which reported stronger-than-expected third-quarter results and raised their guidance for the remainder of 2014. Comcast Corp. and General Motors Co. also supported investor sentiment with per-share earnings that beat expectations. They were not isolated examples with third-quarter earnings for the S&P 500 climbing 8% compared to a 4.5% growth rate that analysts had expected, according to FactSet. Earlier in the reporting period, investor sentiment was supported by second-quarter S&P 500 earnings growing 6% and revenues growing 4.9%. Corporations were also able to grow earnings 3% and revenues 3.4% during the first quarter despite a decline in GDP for the time period.

Portfolio Management

Rather than quickly responding to market volatility and the frequently changing whims of investors, we continued to follow our disciplined and research-driven investment strategy that seeks companies with strong potential to grow earnings. We continued to seek leading companies with compelling products and services that have potential to benefit from large and quickly evolving trends, such as the growing use of Internet-connected devices, increasing advertising on the web, cloud computing, and medical breakthroughs. We maintain that such companies offer attractive potential for long-term performance because equity prices are typically driven by corporate earnings. We also held to our view that the U.S. economy is stronger than commonly believed.

Going Forward

We continue to believe that equities have potential for generating substantial gains in the foreseeable future as a growing economy provides fertile ground for businesses to grow their earnings. An expanding labor force is strengthening the U.S. consumer, which should help corporations grow revenues and earnings. At the same time, consumers are getting relief from pain at the gasoline pump with the average U.S. price of automobile fuel dropping from approximately $3.26 per gallon in December of 2013 to $2.22 as of the end of the reporting period. Low energy costs resulting from an ongoing U.S. renaissance in oil and gas production, meanwhile, are helping to provide a favorable business environment.

Strong corporate fundamentals should also support equity gains as corporations continue to return capital to shareholders in the form of dividends and stock buybacks. According to Standard & Poor's, dividend payments among companies monitored by the organization increased 14.3% in 2014. Stock buybacks have also increased. For the 12-month period ended September 30, 2014, S&P 500 companies repurchased $567.2 billion in stocks, which was a 27% year-over-year increase, according to FactSet.

The health of corporations is also illustrated by strong balance sheets. As of the end of the third quarter, S&P 500 non-financial companies held $1.37 trillion in cash and marketable securities, according to FactSet. In another indication of strong fundamentals, large capitalization companies excluding financials and utilities had a free-cash flow yield of 4.36% at the end of December while the average from November of 1952 through the end of the reporting period was only 3.67% according to Empirical Research Partners.

Portfolio Matters

The Alger Balanced Portfolio returned 9.43% for the fiscal 12-month period ended December 31, 2014. The equity portion of the Portfolio outperformed the 13.05% return of the Russell 1000 Growth Index, and the fixed-income portion trailed the 6.01% return of the Barclays Capital U.S. Government/Credit Bond Index.

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

Among the most important relative contributors were Intel Corp.; Wells Fargo & Company; CSX Corp.; and General Dynamics Corp. Shares of CVS Health Corp. also performed strongly and contributed to results. During the fourth quarter, CVS announced that it had generated strong earnings. The company is a pharmacy benefits manager and an operator of pharmacies and retail stores. In discussing its results, CVS management said prescription sales increased, which was a result, in part, of the Affordable Care Act expanding the number of Americans with medical insurance.

Conversely, detracting from overall results on a relative basis were Facebook, Inc., Cl. A; Gilead Sciences, Inc.; Copa Holdings SA, Cl. A; Apollo Global Management LLC, Cl. A; and Exxon Mobil Corporation. Share performance of Gilead Sciences weakened late in the reporting period in response to developments described in the Alger Growth & Income Portfolio.

Regarding the fixed-income portion of the Portfolio, as of December 31, 2014, 96.5% was in corporate securities and 3.5% was in U.S. Treasuries. During the year, the number of securities held was reduced from 18 to16. For calendar year 2014, investment grade corporate credit posted a positive total return of 7.51%, more than recovering the 1.46% loss of 2013, but marginally underperforming on a duration neutral basis as compared to the prior year. Furthermore, while investment grade corporates had the highest total return among fixed-income alternatives over the course of the year, the category generated the lowest excess return due to its exposure to the Industrial subsector, which was the most impacted by recent oil price volatility and geopolitical tensions. Last year, investment grade corporate performance was a tale of two halves as spreads tightened 19 basis points over the first half of the year, only to widen 42 basis points in the second half of the year commensurate with the fall in oil prices. The bond market ended a stellar 2014 on a very positive tone. Looking ahead, we expect spreads to widen 10 basis points throughout 2015, resulting in a total return of 2.50%. For 2014, BofA Merrill Lynch U.S. Treasury Master Index generated a total return of 6.02%. While it will be extremely difficult for bonds to replicate their exceptional performance this year, we do not anticipate a bear market in fixed income. Low single-digit total returns should be the norm across major investment grade sectors.

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.

Sincerely,

Daniel C. Chung, CFA
Chief Investment Officer
Fred Alger Management, Inc.

The following positions represented the noted percentages of Alger assets under management as of December 31, 2014: Express Scripts Holding Company, 1.30%; Caterpillar, Inc., 0.00%; 3M Company, 0.00%; Comcast Corp., 1.18%; General Motors Co., 0.01%; Wal-Mart Stores, Inc., 0.01%; Microsoft Corp., 1.97%; International Business Machines Corp., 0.00%; Empirical Research Partners, 0.00%; Malaysian Airline System, 0.00%; and FactSet, 0.00%.

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

SEC Yield is computed under the SEC standardized formula applicable to the accrual of dividends.

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 for the Portfolios. The Portfolios' returns represent the fiscal twelve-month period return of Class I-2 shares. Returns include reinvestment of dividends and distributions.

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

The views and opinions of the Portfolios' 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 Portfolio and transactions in such securities, if any, may be for a variety of reasons, including without limitation, in response to cash flows, inclusion in a benchmark, and risk control. The reference to a specific security should also be understood in such context and not viewed as a statement that the security is a significant holding in a Portfolio. Please refer to the Schedule of Investments for each Portfolio which is included in this report for a complete list of Portfolio holdings as of December 31, 2014. 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.

Investing in foreign securities involves additional risk (including currency risk, risks related to political, social or economic conditions, and risks associated with foreign markets, such as increased volatility, limited liquidity, less stringent regulatory and legal system, and lack of industry and country diversification), and may not be suitable for all investors. 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 Portfolios' securities in the event of an issuer's falling credit rating or actual default. For a more detailed discussion of the risks associated with a Portfolio, please see the Portfolio's Prospectus.

Before investing, carefully consider the Fund's investment objective, risks, charges, and expenses.

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

Fred Alger & Company, Incorporated, Distributor. Member NYSE Euronext, SIPC.

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

Definitions:

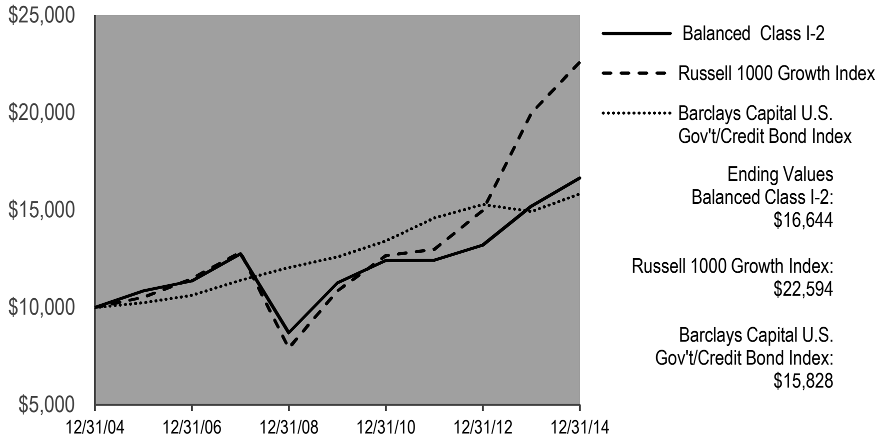
- The S&P 500 index is an unmanaged index generally representative of the U.S. stock market without regard to company size.
- The MSCI ACWI ex USA Index is a market capitalization-weighted index designed to provide a broad measure of equity market performance throughout the world, including both developed and emerging markets, but excluding the United States.
- The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.
- The NYSE Arca Biotechnology Index is an equal dollar-weighted index designed to measure the performance of a cross section of companies in the biotechnology industry that are primarily involved in the use of biological processes to develop products or provide services.
- The NASDAQ Internet Index is a modified market capitalization-weighted index designed to track the performance of the largest and most liquid U.S.-listed companies engaged in Internet-related businesses that are listed on the NASDAQ Stock Market, the New York Stock Exchange (NYSE) or NYSE Amex.
- Empirical Research Partners is a broker-dealer that provides research on a range of topics of interest to institutional investors.
- The 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 is an index de-

signed to track performance of government and corporate bonds.

- FactSet provides computer-based financial data and analysis for financial professionals, including investment managers, hedge funds and investment bankers.
- The BofA Merrill Lynch U.S. Treasury Master Index tracks the performance of U.S. dollar denominated sovereign debt publicly issued by the U.S. government in its domestic market securities.

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

— 10 years ended 12/31/14



The chart above illustrates the change in value of a hypothetical $10,000 investment made in Alger Balanced Portfolio Class I-2 shares, and 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 2014. Figures for each of the Alger Balanced Portfolio Class I-2 shares, and 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 12/31/14

AVERAGE ANNUAL TOTAL RETURNS

	1 YEAR	5 YEARS	10 YEARS	Since 9/5/1989
Class I-2 (Inception 9/5/89)	9.43%	8.14%	5.23%	7.65%
Russell 1000 Growth Index	13.05%	15.81%	8.49%	9.11%
Barclays Capital U.S. Gov't/Credit Bond Index	6.01%	4.69%	4.70%	6.60%

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.

PORTFOLIO SUMMARY†
December 31, 2014 (Unaudited)

SECTORS/SECURITY TYPES	Alger Balanced Portfolio
Consumer Discretionary	8.8%
Consumer Staples	7.0
Energy	5.4
Financials	11.5
Health Care	8.8
Industrials	7.2
Information Technology	11.9
Materials	1.1
Telecommunication Services	2.1
Utilities	0.5
Total Equity Securities	64.3
Corporate Bonds	28.5
U.S. Government & Agency Obligations (excluding Mortgage Backed)	1.0
Total Debt Securities	29.5
Short-Term Investments and Net Other Assets	6.2
	100.0%

† *Based on net assets for each Portfolio.*

COMMON STOCKS—60.8%	SHARES	VALUE
AEROSPACE & DEFENSE—2.9%		
General Dynamics Corp.	4,500	$ 619,290
Honeywell International, Inc.	12,100	1,209,032
The Boeing Co.	7,500	974,850
		2,803,172
AIR FREIGHT & LOGISTICS—0.6%		
United Parcel Service, Inc., Cl. B	4,800	**533,616**
AIRPORT SERVICES—0.5%		
Macquarie Infrastructure Co., LLC	6,200	**440,758**
APPAREL RETAIL—0.6%		
L Brands, Inc.	7,100	**614,505**
ASSET MANAGEMENT & CUSTODY BANKS—1.6%		
Ameriprise Financial, Inc.	5,100	674,475
BlackRock, Inc.	2,400	858,144
		1,532,619
AUTO PARTS & EQUIPMENT—1.1%		
Delphi Automotive PLC.	10,400	756,288
Johnson Controls, Inc.	6,000	290,040
		1,046,328
AUTOMOBILE MANUFACTURERS—0.3%		
General Motors Co.	9,400	**328,154**
BIOTECHNOLOGY—1.1%		
Amgen, Inc.	4,400	700,876
Gilead Sciences, Inc.*	4,200	395,892
		1,096,768
CABLE & SATELLITE—1.4%		
Comcast Corporation, Cl. A	16,803	974,742
Time Warner Cable, Inc.	2,600	395,356
		1,370,098
CASINOS & GAMING—0.4%		
Las Vegas Sands Corp.	6,100	**354,776**
COMMUNICATIONS EQUIPMENT—1.3%		
Cisco Systems, Inc.	25,700	714,846
QUALCOMM, Inc.	7,700	572,341
		1,287,187
CONSUMER ELECTRONICS—0.4%		
Garmin Ltd.	6,900	**364,527**
CONSUMER FINANCE—0.5%		
Discover Financial Services	7,500	**491,175**
DATA PROCESSING & OUTSOURCED SERVICES—0.5%		
Xerox Corp.	37,000	**512,820**
DIVERSIFIED BANKS—3.0%		
JPMorgan Chase & Co.	24,700	1,545,726
Wells Fargo & Co.	25,500	1,397,910
		2,943,636
DIVERSIFIED CHEMICALS—0.5%		
The Dow Chemical Co.	10,100	**460,661**
DRUG RETAIL—1.1%		
CVS Caremark Corp.	11,500	**1,107,565**

COMMON STOCKS—(CONT.)	SHARES	VALUE
FERTILIZERS & AGRICULTURAL CHEMICALS—0.3%		
Potash Corporation of Saskatchewan, Inc.	8,600	$ **303,752**
GENERAL MERCHANDISE STORES—0.8%		
Target Corp.	10,300	**781,873**
HEALTH CARE EQUIPMENT—0.5%		
St. Jude Medical, Inc.	7,500	**487,725**
HOME IMPROVEMENT RETAIL—1.4%		
The Home Depot, Inc.	12,700	**1,333,119**
HOTELS RESORTS & CRUISE LINES—0.7%		
Royal Caribbean Cruises Ltd.	8,200	**675,926**
HOUSEHOLD PRODUCTS—1.1%		
The Procter & Gamble Co.	11,600	**1,056,644**
HYPERMARKETS & SUPER CENTERS—0.8%		
Wal-Mart Stores, Inc.	9,200	**790,096**
INDUSTRIAL CONGLOMERATES—1.4%		
General Electric Co.	52,500	**1,326,675**
INTEGRATED OIL & GAS—3.1%		
Exxon Mobil Corp.	20,500	1,895,225
Royal Dutch Shell PLC.#	16,100	1,077,895
		2,973,120
INTEGRATED TELECOMMUNICATION SERVICES—2.1%		
AT&T, Inc.	19,900	668,441
Verizon Communications, Inc.	28,708	1,342,960
		2,011,401
INTERNET SOFTWARE & SERVICES—1.7%		
Facebook, Inc., Cl. A*	4,000	312,080
Google, Inc., Cl. A*	1,300	689,858
Google, Inc., Cl. C*	1,300	684,320
		1,686,258
INVESTMENT BANKING & BROKERAGE—1.2%		
Morgan Stanley	30,900	**1,198,920**
LEISURE FACILITIES—0.4%		
Six Flags Entertainment Corp.	8,300	**358,145**
LIFE & HEALTH INSURANCE—0.3%		
Prudential Financial, Inc.	3,700	**334,702**
MANAGED HEALTH CARE—1.1%		
Aetna, Inc.	6,000	532,980
UnitedHealth Group, Inc.	5,100	515,559
		1,048,539
MULTI-LINE INSURANCE—0.4%		
Hartford Financial Services Group, Inc.	8,800	**366,872**
MULTI-UTILITIES—0.5%		
Sempra Energy	4,100	**456,576**
OIL & GAS EQUIPMENT & SERVICES—0.5%		
Halliburton Company	11,700	**460,161**
OIL & GAS EXPLORATION & PRODUCTION—0.9%		
ConocoPhillips	12,600	**870,156**
OIL, GAS & CONSUMABLE FUELS—0.4%		
The Williams Cos., Inc.	7,800	**350,532**

COMMON STOCKS—(CONT.)	SHARES	VALUE
OTHER DIVERSIFIED FINANCIAL SERVICES—0.7%		
Bank of America Corp.	36,800	$ **658,352**
PACKAGED FOODS & MEATS—0.4%		
Kraft Foods Group, Inc.	5,500	**344,630**
PHARMACEUTICALS—6.1%		
AbbVie, Inc.	14,200	929,248
Eli Lilly & Co.	12,700	876,173
Johnson & Johnson	14,500	1,516,265
Merck & Co., Inc.	16,400	931,356
Pfizer, Inc.	35,789	1,114,827
Roche Holding AG#	14,800	503,052
		5,870,921
RAILROADS—1.1%		
CSX Corp.	29,000	**1,050,670**
RESTAURANTS—1.3%		
Darden Restaurants, Inc.	6,800	398,684
McDonald's Corp.	8,900	833,930
		1,232,614
SECURITY & ALARM SERVICES—0.7%		
Tyco International PLC.	16,400	**719,304**
SEMICONDUCTOR EQUIPMENT—0.5%		
Kla-Tencor Corp.	6,200	**435,984**
SEMICONDUCTORS—1.9%		
Avago Technologies Ltd.	6,600	663,894
Intel Corp.	31,100	1,128,619
		1,792,513
SOFT DRINKS—2.4%		
PepsiCo, Inc.	14,800	1,399,488
The Coca-Cola Co.	22,900	966,838
		2,366,326
SPECIALIZED FINANCE—0.8%		
CME Group, Inc.	8,400	**744,660**
SPECIALTY CHEMICALS—0.3%		
Rockwood Holdings, Inc.	4,000	**315,200**
SYSTEMS SOFTWARE—1.8%		
Microsoft Corp.	37,600	**1,746,520**
TECHNOLOGY HARDWARE STORAGE & PERIPHERALS—4.2%		
Apple, Inc.	30,000	3,311,400
Seagate Technology PLC.	11,600	771,400
		4,082,800
TOBACCO—1.2%		
Altria Group, Inc.	24,100	**1,187,407**
TOTAL COMMON STOCKS (Cost $44,827,940)		**58,707,458**

MASTER LIMITED PARTNERSHIP—1.5%	SHARES	VALUE
ASSET MANAGEMENT & CUSTODY BANKS—1.0%		
The Blackstone Group LP.	30,000	**1,014,900**

MASTER LIMITED PARTNERSHIP—(CONT.)	SHARES	VALUE
OIL & GAS STORAGE & TRANSPORTATION—0.5%		
Cheniere Energy Partners LP.	14,700	**$ 470,400**
TOTAL MASTER LIMITED PARTNERSHIP (Cost $1,174,542)		**1,485,300**

REAL ESTATE INVESTMENT TRUST—2.0%	SHARES	VALUE
HEALTH CARE—0.7%		
Health Care REIT, Inc.	8,900	**673,463**
OFFICE—0.4%		
Digital Realty Trust, Inc.	5,400	**358,020**
RETAIL—0.5%		
Simon Property Group, Inc.	2,600	**473,486**
SPECIALIZED—0.4%		
Lamar Advertising Co.	7,800	**418,392**
TOTAL REAL ESTATE INVESTMENT TRUST (Cost $1,678,710)		**1,923,361**

CORPORATE BONDS—28.5%	PRINCIPAL AMOUNT	VALUE
AGRICULTURAL PRODUCTS—1.2%		
Cargill, Inc., 7.35%, 3/6/2019[(a)]	1,000,000	**1,201,641**
COMMUNICATIONS EQUIPMENT—1.3%		
Cisco Systems, Inc., 3.63%, 3/4/2024	1,250,000	**1,304,099**
COMPUTER HARDWARE—4.0%		
Dell, Inc., 3.10%, 4/1/2016	1,750,000	1,763,125
Hewlett-Packard Co., 4.38%, 9/15/2021	2,000,000	2,098,778
		3,861,903
CONSTRUCTION & FARM MACHINERY & HEAVY TRUCKS—1.8%		
John Deere Capital Corp., 2.75%, 3/15/2022	1,750,000	**1,741,602**
DIVERSIFIED BANKS—2.1%		
Wells Fargo & Co., 3.30%, 9/9/2024*	2,000,000	**2,015,000**
HEALTH CARE EQUIPMENT—2.1%		
Baxter International, Inc., 3.20%, 6/15/2023	2,000,000	**2,018,894**
INDUSTRIAL CONGLOMERATES—2.4%		
General Electric Capital Corp., 6.00%, 8/7/2019	2,000,000	**2,328,718**
INTEGRATED OIL & GAS—2.3%		
Total Capital SA, 4.45%, 6/24/2020	2,000,000	**2,196,882**
INTEGRATED TELECOMMUNICATION SERVICES—1.5%		
Verizon Communications, Inc., 5.15%, 9/15/2023	1,300,000	**1,436,518**
INVESTMENT BANKING & BROKERAGE—1.8%		
The Goldman Sachs Group, Inc., 5.75%, 1/24/2022	1,500,000	**1,736,716**
IT CONSULTING & OTHER SERVICES—2.1%		
International Business Machines Corp., 7.00%, 10/30/2025	1,525,000	**2,015,246**
OTHER DIVERSIFIED FINANCIAL SERVICES—2.3%		
JPMorgan Chase & Co., 4.35%, 8/15/2021	2,000,000	**2,176,490**
PACKAGED FOODS & MEATS—2.0%		
Campbell Soup Co., 2.50%, 8/2/2022	2,000,000	**1,914,458**

CORPORATE BONDS—(CONT.)	PRINCIPAL AMOUNT		VALUE
SEMICONDUCTORS—1.6%			
Altera Corp., 4.10%, 11/15/2023	1,500,000	**$**	**1,555,380**
TOTAL CORPORATE BONDS			
(Cost $27,478,381)			**27,503,547**
U.S. TREASURY OBLIGATIONS—1.0%	**PRINCIPAL AMOUNT**		**VALUE**
4.50%, 2/15/16	940,000		983,622
(Cost $966,934)			**983,622**
Total Investments			
(Cost $76,126,507)(b)	93.8%		**90,603,288**
Other Assets in Excess of Liabilities	6.2%		**5,959,579**
NET ASSETS	100.0%	**$**	**96,562,867**

* *Non-income producing security.*

\# *American Depositary Receipts.*

(a) *Pursuant to Securities and Exchange Commission Rule 144A, these securities may be sold prior to their maturity only to qualified institutional buyers. These securities are however deemed to be liquid and represent 1.2% of the net assets of the Portfolio.*

(b) *At December 31, 2014, the net unrealized appreciation on investments, based on cost for federal income tax purposes of $76,052,353, amounted to $14,550,935 which consisted of aggregate gross unrealized appreciation of $14,990,648 and aggregate gross unrealized depreciation of $439,713.*

Industry classifications are unaudited.
See Notes to Financial Statements

ALGER BALANCED PORTFOLIO
Statement of Assets and Liabilities December 31, 2014

		Alger Balanced Portfolio
ASSETS:		
Investments in securities, at value (Identified cost below)* see accompanying schedules of investments	$	90,603,288
Cash and cash equivalents		5,655,893
Receivable for shares of beneficial interest sold		48,028
Dividends and interest receivable		406,248
Prepaid expenses		14,298
Total Assets		96,727,755
LIABILITIES:		
Payable for shares of beneficial interest redeemed		47,127
Accrued investment advisory fees		62,041
Accrued transfer agent fees		4,067
Accrued administrative fees		2,403
Accrued shareholder administrative fees		874
Accrued other expenses		48,376
Total Liabilities		164,888
NET ASSETS	**$**	**96,562,867**
NET ASSETS CONSIST OF:		
Paid in capital (par value of $.001 per share)		92,337,948
Undistributed net investment income		1,325,193
Undistributed net realized gain (accumulated realized loss)		(11,577,055)
Net unrealized appreciation on investments		14,476,781
NET ASSETS	**$**	**96,562,867**
* Identified cost	$	76,126,507

See Notes to Financial Statements.

ALGER BALANCED PORTFOLIO
Statement of Assets and Liabilities December 31, 2014 (Continued)

		Alger Balanced Portfolio
NET ASSETS BY CLASS:		
Class I-2	$	96,562,867
SHARES OF BENEFICIAL INTEREST OUTSTANDING — NOTE 6:		
Class I-2		6,670,792
NET ASSET VALUE PER SHARE:		
Class I-2 — Net Asset Value Per Share	$	14.48

See Notes to Financial Statements.

ALGER BALANCED PORTFOLIOS
Statement of Operations for the year ended December 31, 2014

		Alger Balanced Portfolio
INCOME:		
Dividends (net of foreign withholding taxes*)	$	2,041,013
Interest		824,662
Total Income		2,865,675
EXPENSES:		
Advisory fees — Note 3(a)		677,322
Shareholder administrative fees — Note 3(f)		9,540
Administration fees — Note 3(b)		26,234
Custodian fees		34,946
Transfer agent fees and expenses — Note 3(f)		22,225
Printing fees		19,375
Professional fees		34,110
Registration fees		7,222
Trustee fees — Note 3(g)		23,913
Fund accounting fees		10,567
Miscellaneous		11,263
Total Expenses		876,717
NET INVESTMENT INCOME		1,988,958
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, OPTIONS AND FOREIGN CURRENCY:		
Net realized gain on investments and purchased options		1,872,668
Net change in unrealized appreciation on investments, options and foreign currency		4,670,548
Net realized and unrealized gain on investments, options, and foreign currency		6,543,216
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$**	**8,532,174**
* Foreign withholding taxes	$	14,537

See Notes to Financial Statements.

ALGER BALANCED PORTFOLIO
Statements of Changes in Net Assets

	Alger Balanced Portfolio	
	For the Year Ended December 31, 2014	For the Year Ended December 31, 2013
Net investment income	$ 1,988,958	$ 1,466,267
Net realized gain on investments, options and foreign currency	1,872,668	6,760,024
Net change in unrealized appreciation on investments, options and foreign currency	4,670,548	5,229,266
Net increase in net assets resulting from operations	8,532,174	13,455,557
Dividends and distributions to shareholders from:		
Net investment income:		
Class I-2	(1,846,710)	(1,104,450)
Total dividends and distributions to shareholders	(1,846,710)	(1,104,450)
Increase (decrease) from shares of beneficial interest transactions:		
Class I-2	(5,699,198)	(9,903,212)
Net decrease from shares of beneficial interest transactions — Note 6	(5,699,198)	(9,903,212)
Total increase	986,266	2,447,895
Net Assets:		
Beginning of period	95,576,601	93,128,706
END OF PERIOD	**$ 96,562,867**	**$ 95,576,601**
Undistributed net investment income	$ 1,325,193	$ 1,389,652

See Notes to Financial Statements.

Alger Balanced Portfolio	Class I-2				
	Year ended 12/31/2014	Year ended 12/31/2013	Year ended 12/31/2012	Year ended 12/31/2011	Year ended 12/31/2010
Net asset value, beginning of period	$ 13.49	$ 11.84	$ 11.31	$ 11.61	$ 10.79
INCOME FROM INVESTMENT OPERATIONS:					
Net investment income[(i)]	0.29	0.20	0.13	0.14	0.28
Net realized and unrealized gain (loss) on investments	0.98	1.61	0.56	(0.12)	0.82
Total from investment operations	1.27	1.81	0.69	0.02	1.10
Dividends from net investment income	(0.28)	(0.16)	(0.16)	(0.32)	(0.28)
Net asset value, end of period	$ 14.48	$ 13.49	$ 11.84	$ 11.31	$ 11.61
Total return	9.43%	15.28%	6.23%	0.03%	10.33%
RATIOS/SUPPLEMENTAL DATA:					
Net assets, end of period (000's omitted)	$ 96,563	$ 95,577	$ 93,129	$ 101,811	$ 119,804
Ratio of gross expenses to average net assets	0.92%	0.95%	0.95%	0.93%	0.91%
Ratio of expense reimbursements to average net assets	–	–	–	(0.04)%	(0.04)%
Ratio of net expenses to average net assets	0.92%	0.95%	0.95%	0.89%	0.87%
Ratio of net investment income (loss) to average net assets	2.09%	1.56%	1.13%	1.20%	2.60%
Portfolio turnover rate	24.89%	71.66%	122.50%	102.79%	69.30%

See Notes to Financial Statements.

(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 qualifies as an investment company as defined in the Financial Accounting Standards Board Accounting Standards Codification 946-Financial Services – Investment Companies. 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 to investment vehicles for variable annuity contracts and variable life insurance policies offered by separate accounts of life insurance companies, as well as qualified pension and retirement plans.

The Portfolio offers Class I-2 shares.

NOTE 2 — Significant Accounting Policies:

(a) Investment Valuation: The Portfolio value its financial instruments at fair value using independent dealers or pricing services under policies approved by the Fund's Board of Trustees. Investments of the Portfolios 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 valuation information is readily available are valued at the last quoted 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 quoted sales, such securities are valued at the bid price or, in the absence of a recent bid 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. Debt 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 sixty days or less 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 invest 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 foreign 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 Fund may also fair value securities in other situations, for example, when a particular foreign market is closed but the Fund is open.

Financial Accounting Standards Board Accounting Standards Codification 820 – Fair Value Measurements and Disclosures ("ASC 820") defines fair value as the price that a 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 Portfolios. Unobservable inputs are inputs that reflect the Portfolios' 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 Portfolios' own assumptions in determining the fair value of investments)

The Portfolio's valuation techniques are generally consistent with either the market or income approach to fair value. The market approach considers prices and other relevant information generated by market transactions involving identical or comparable assets to measure fair value. The income approach converts future amounts to a current, or discounted, single amount. These fair value measurements are determined on the basis of the value indicated by current market expectations about such future events. 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, 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 a compilation of observable market information such as spreads for fixed income and preferred securities. Inputs for Level 3 include revenue multiples, earnings before interest, taxes, depreciation and amortization ("EBITDA") multiples, discount rates, and the probabilities of success of certain outcomes. Such unobservable market information may be obtained from a company's financial statements and from industry studies, market data, and market indicators such as benchmarks and indices.

Valuation processes are determined by a Valuation Committee ("Committee") established by the Fund's Board of Trustees ("Board") and comprised of representatives of the Fund's investment advisor. The Committee reports its valuation determinations to the Board which is responsible for approving valuation policy and procedures.

While the Committee meets on an as-needed basis, the Committee formally meets quarterly to review and evaluate the effectiveness of the procedures for making fair value determinations. The Committee considers, among other things, the results of quarterly back testing of the fair value model for foreign securities, pricing comparisons between primary and secondary price sources, the outcome of price challenges put to the Portfolios' pricing vendor, and variances between transactional prices and previous mark- to-markets.

The Portfolio will record a change to a security's fair value level if new inputs are available or it becomes evident that inputs previously considered for leveling have changed or are no longer relevant. Transfers between Levels 1 and 2 are recognized at the end of the reporting period, and transfers into and out of Level 3 are recognized during the reporting period.

(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 Portfolios 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 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 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 Portfolios may also purchase put and call options. Each 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) Lending of Fund Securities: The Portfolio may lend its securities to financial institutions, provided that the market value of the securities loaned will not at any time exceed one third of the Portfolio's total assets, as defined in its prospectuses. The Portfolio earns fees on the securities loaned, which are included in interest income in the accompanying Statement of Operations. In order to protect against the risk of failure by the borrower to return the securities loaned or any delay in the delivery of such securities, the loan is collateralized by cash or securities that are maintained with the Custodian in an amount equal to at least 102 percent of the current market value of U.S. loaned securities or 105 percent for non-U.S. loaned securities. The market value of the loaned securities is determined at the close of business of the Portfolio. Any required additional collateral is delivered to the Custodian and any excess collateral is returned to the borrower on the next business day. In the event the borrower fails to return the loaned securities when due, the Portfolio may take the collateral to replace the securities. If the value of the collateral is less than the purchase cost of replacement securities, the Custodian shall be responsible for any shortfall, but only to the extent that the shortfall is not due to any diminution in collateral value, as defined in the securities lending agreement. The Portfolio is required to maintain the collateral in a segregated account and determine its value each day until the loaned securities are returned. Cash collateral may be invested as determined by the Portfolio. Collateral is returned to the borrower upon settlement of the loan. There were no securities loaned as of December 31, 2014.

(g) 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 carry forward, 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, 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, passive foreign investment companies, and foreign currency transactions. The reclassifications are done annually at fiscal year end and have no impact on the net asset value of the Portfolios and are designed to present the Portfolio's capital accounts on a tax basis.

(h) Federal Income Taxes: It is the Portfolio's policy to comply with the requirements of the Internal Revenue Code Subchapter M applicable to regulated investment companies and to distribute all of its taxable income to its shareholders. Provided that the Portfolio maintains such compliance, 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 their 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 Portfolios file 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 Portfolios' tax returns remains open for the tax years 2011-2014. Management does not believe there are any uncertain tax positions that require recognition of a tax liability.

(i) Allocation Methods: The Fund accounts separately for the assets, liabilities and operations of each Portfolio. Expenses directly attributable to each Portfolio are charged to that Portfolio's operations; expenses which are applicable to all Portfolios are allocated among them based on net assets.

(j) 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 Fees: The fees incurred by the Portfolio, pursuant to the provisions of the Fund's Investment Advisory Agreement with Fred Alger Management, Inc., are payable monthly and computed based on the following rates. The actual rate paid as a percentage of average daily net assets, for the year ended December 31, 2014, is set forth below under the heading "Actual Rate."

	Tier 1	Tier 2	Actual Rate
Alger Balanced Portfolio[(a)]	0.710%	0.550%	0.710%

(a) *Tier 1 rate is paid on assets up to $1 billion and Tier 2 rate is paid on assets in excess of $1 billion.*

(b) Administration Fees: Fees incurred by the Portfolio, pursuant to the provisions of the Fund's Fund Administration Agreement with Fred Alger Management, Inc., are payable monthly and computed based on the average daily net assets of the Portfolio at the annual rate of 0.0275%.

(c) Brokerage Commissions: During the year ended December 31, 2014, the Portfolio paid Alger Inc. $10,078, in connection with securities transactions.

(d) 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 Funds. If the Portfolio has borrowed from other Funds 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 Funds. 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. There were no interfund loans outstanding for the year ended December 31, 2014.

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

(f) 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.

(g) Trustee Fees: From January 1, 2014 through March 5, 2014, each Portfolio paid each trustee who is not affiliated with Alger Management or its affiliates $880 for each meeting attended, to a maximum of $3,520 per annum, plus travel expenses incurred for attending the meeting. The Chairman of the Board received an additional annual fee of $22,500 which was paid, pro rata, by all U.S.-registered funds managed by Alger Management. Additionally, each member of the Portfolio's audit committee received $75 from the Portfolio for each audit committee meeting attended, to a maximum of $300 per annum.

Effective March 6, 2014, each Portfolio pays each trustee who is not affiliated with Alger Management or its affiliates $950 for each meeting attended, to a maximum of $3,800 per annum, plus travel expenses incurred for attending the meeting. The Chairman of the Board receives an additional annual fee of $24,300 which is paid, pro rata, by all U.S.-registered funds sponsored by Alger Management. Additionally, each member of the Portfolio's audit committee receives $81 from the Portfolio for each audit committee meeting attended, to a maximum of $324 per annum.

NOTE 4 — Securities Transactions:

Purchases and sales of securities, other than U.S. Government securities and short-term securities, for the year ended December 31, 2014, were as follows:

	PURCHASES	SALES
Alger Balanced Portfolio	$22,966,758	$28,391,492

NOTE 5 — Borrowings:

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(d). For the year ended December 31, 2014, the Portfolio had no borrowings from its custodian and other portfolios.

NOTE 6 — Share Capital:

The Portfolio has an unlimited number of authorized shares of beneficial interest of $.001 par value. During the year ended December 31, 2014 and the year ended December 31, 2013, transactions of shares of beneficial interest were as follows:

	FOR THE YEAR ENDED DECEMBER 31, 2014		FOR THE YEAR ENDED DECEMBER 31, 2013	
	SHARES	AMOUNT	SHARES	AMOUNT
Alger Balanced Portfolio				
Class I-2:				
Shares sold	499,342	$ 6,978,317	490,939	$ 6,267,348
Dividends reinvested	127,447	1,846,710	82,792	1,104,449
Shares redeemed	(1,039,539)	(14,524,225)	(1,358,736)	(17,275,009)
Net decrease	**(412,750)**	**$ (5,699,198)**	**(785,005)**	**$ (9,903,212)**

NOTE 7 — Income Tax Information:

The tax character of distributions paid during the year ended December 31, 2014 and the year ended December 31, 2013 were as follows:

	FOR THE YEAR ENDED DECEMBER 31, 2014	FOR THE YEAR ENDED DECEMBER 31, 2013
Alger Balanced Portfolio		
Distributions paid from:		
Ordinary Income	$ 1,846,710	$ 1,104,450
Long-term capital gain	—	—
Total distributions paid	**$ 1,846,710**	**$ 1,104,450**

As of December 31, 2014 the components of accumulated gains (losses) on a tax basis were as follows:

Alger Balanced Portfolio

Undistributed ordinary income	$	1,325,195
Undistributed long-term gains		—
Net accumulated earnings	$	1,325,195
Capital loss carryforwards		(11,424,346)
Late year ordinary income losses		(226,864)
Net unrealized appreciation		14,550,935
Total accumulated earnings	$	4,224,920

At December 31, 2014, 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.

Expiration Dates		Alger Balanced Portfolio
2017	$	11,424,346
Total	$	11,424,346

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 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.

During the year ended December 31, 2014 the Portfolio utilized $2,192,821 of its capital loss carryforwards.

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, 988 currency transactions, the tax treatment of partnerships investments, the realization of unrealized appreciation of Passive Foreign Investment Companies, and return of capital from Real Estate Investment Trust investments.

Permanent differences primarily from net operating losses, 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, 2014:

Alger Balanced Portfolio

Accumulated undistributed net investment income (accumulated loss)	$	(206,707)
Accumulated net realized gain (accumulated realized loss)	$	206,707
Paid-in Capital	$	–

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. Based upon the nature, characteristics, and risks associated with its investments as of December 31, 2014, the Portfolio has determined that presenting them by security type and sector is appropriate.

Alger Balanced Portfolio	TOTAL FUND	LEVEL 1	LEVEL 2	LEVEL 3
COMMON STOCKS				
Consumer Discretionary	$ 8,460,065	$ 8,460,065	$ —	—
Consumer Staples	6,852,668	6,852,668	—	—
Energy	4,653,969	4,653,969	—	—
Financials	8,270,936	8,270,936	—	—
Health Care	8,503,953	8,503,953	—	—
Industrials	6,874,195	6,874,195	—	—
Information Technology	11,544,082	11,544,082	—	—
Materials	1,079,613	1,079,613	—	—
Telecommunication Services	2,011,401	2,011,401	—	—
Utilities	456,576	456,576	—	—
TOTAL COMMON STOCKS	**$ 58,707,458**	**$ 58,707,458**	**—**	**—**
CORPORATE BONDS				
Consumer Staples	3,116,099	—	3,116,099	—
Energy	2,196,882	—	2,196,882	—
Financials	5,928,206	—	5,928,206	—
Health Care	2,018,894	—	2,018,894	—
Industrials	4,070,320	—	4,070,320	—
Information Technology	8,736,628	—	8,736,628	—
Telecommunication Services	1,436,518	—	1,436,518	—
TOTAL CORPORATE BONDS	**$ 27,503,547**	**—**	**$ 27,503,547**	**—**
MASTER LIMITED PARTNERSHIP				
Energy	470,400	470,400	—	—
Financials	1,014,900	1,014,900	—	—
TOTAL MASTER LIMITED PARTNERSHIP	**$ 1,485,300**	**$ 1,485,300**	**—**	**—**
REAL ESTATE INVESTMENT TRUST				
Financials	1,923,361	1,923,361	—	—
U.S. TREASURY OBLIGATIONS				
U.S. Government & Agency	983,622	—	983,622	—
TOTAL INVESTMENTS IN SECURITIES	**$ 90,603,288**	**$ 62,116,119**	**$ 28,487,169**	**—**

On December 31, 2014 there were no transfers of securities between Level 1 and Level 2.

Certain of the Portfolio's assets and liabilities are held at carrying amount or face value, which approximates fair value for financial statement purposes. As of December 31, 2014, such assets are categorized within the disclosure hierarchy as follows:

	TOTAL FUND	LEVEL 1	LEVEL 2	LEVEL 3
Cash and Cash equivalents:				
Alger Balanced Portfolio	$ 5,655,893	$ 5,655,893	—	—

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.

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, may also buy and sell call and put options on equities and equity indices. The Portfolio may purchase call options to increase its exposure to stock market risk and also provide diversification of risk. The Portfolio may purchase put options in order to protect from significant market declines that may occur over a short period of time. The Portfolio may 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.

There were no open derivative instruments as of December, 31, 2014.

NOTE 10 — Subsequent Events:

Management of the Portfolio has evaluated events that have occurred subsequent to December, 31, 2014 through the issuance date of the financial statements. No such events have been identified which require recognition and/or disclosure.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of the Alger Balanced Portfolio (the "Fund"), one of the portfolios comprising The Alger Portfolios, as of December 31, 2014, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of its 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, 2014, 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, 2014, 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.

Deloitte & Touche LLP
New York, New York
February 23, 2015

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, 2014 and ending December 31, 2014.

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, 2014	Ending Account Value December 31, 2014	Expenses Paid During the Six Months Ended December 31, 2014[(a)]	Annualized Expense Ratio For the Six Months Ended December 31, 2014[(b)]
Alger Balanced Portfolio					
Class					
I-2	Actual	$ 1,000.00	$ 1,039.61	$ 4.73	0.92%
	Hypothetical[(c)]	1,000.00	1,020.57	4.69	0.92

(a) *Expenses are equal to the annualized expense ratio of the respective share class, multiplied by the average account value over the period, multiple 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 Global 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 or her 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 (53)	Director of Development, Pennsylvania Ballet 2004-2013; 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. (61)	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 (69)	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
Stephen E. O'Neil (82)	Attorney. Private Investor since 1981. Formerly of Counsel to the law firm of Kohler & Barnes.	1986	25
David Rosenberg (52)	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. (77)	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

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".

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			
Hal Liebes (50) President	Executive Vice President, Chief Operating Officer, Chief Legal Officer and Secretary of Alger Management and Alger Inc.; Director since 2006 of Alger Management, Alger Inc. and Resources.	2005	N/A
Lisa A. Moss (49) Secretary	Senior Vice President since 2009, and Vice President and Assistant General Counsel of Alger Management since 2006.	2006	N/A
Michael D. Martins (49) Treasurer	Senior Vice President of Alger Management; Assistant Treasurer since 2004.	2005	N/A
Anthony S. Caputo (59) Assistant Treasurer	Employed by Alger Management since 1986, currently serving as Vice President.	2007	N/A
Sergio M. Pavone (53) Assistant Treasurer	Employed by Alger Management since 2002, currently serving as Vice President.	2007	N/A
Patrick J. Murphy (44) Chief Compliance Officer	Senior Vice President of Alger Management since 2014.	2014	N/A
Joshua M. Lindauer (27) Assistant Secretary	Employed by Alger Management since 2014.	2014	N/A

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 18, 2014, 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 Fred Alger & Company, Incorporated ("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 such economies of scale. These materials included a presentation and 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 and having no other material relationship with Alger Management or its affiliates.

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 (derived in part from periodic meetings with and presentations by investment management and Portfolio distribution personnel), 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. 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 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 noted that during the year Alger Management had increased the number of experienced investment management personnel providing services to the Portfolios by almost 30 percent, and they 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. They also noted that certain administrative, compliance, reporting and accounting services necessary for the conduct of the Fund's affairs are provided separately under an Fund Administration Agreement and a Shareholder Administrative Services Agreement with Alger Management. The Trustees also considered the control and compliance environment at Alger Management and within the Fund.

Investment Performance of the Portfolios. 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 6/30/14), second-quarter of 2014, 1-, 3-, and 5-year and longer periods to the extent available (and its year-by-year returns), together with supplemental performance data through 8/31/14, and compared them with benchmark and peer-group data for the same periods. They noted that, with the exception of the Small Cap Portfolio, all of the Portfolios surpassed or virtually matched the medians of their peers in the 2014 year to date (and for the 2014 second quarter), with some (Capital Appreciation Portfolio, Large Cap Portfolio and, to a lesser extent, Mid Cap Portfolio) continuing such performance from prior periods and others (SMid Cap Portfolio, Growth & Income Portfolio and Balanced Portfolio) showing promising improvement over prior periods. Capital Appreciation Portfolio, Large Cap Portfolio and Balanced Portfolio also surpassed or virtually met their benchmarks for the year to date and 2014 second quarter, while the other Portfolios fell short. Small Cap Portfolio virtually matched its peer medians for the 2014 second quarter but otherwise underperformed its peer medians and benchmark for the 2014 second-quarter, year-to-date and 1-, 3- and 5-year periods. Representatives of Alger Management discussed with the Trustees the recent performance of each Portfolio and the measures that the firm had instituted or was in the process of instituting to improve the performance of Portfolios that had consistently underperformed. On the basis of these discussions and their review, the Trustees determined that the performance of the Portfolios was acceptable.

Fund Fees and Expense Ratios; Profitability to Alger Management and its Affiliates. 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 the advisory fees and expense ratios of relevantly similar funds. That information indicated that the advisory fees of the Small Cap and Growth & Income Portfolios were below the median for the applicable FUSE reference groups, while those of the Mid Cap, SMid Cap and Large Cap Portfolios were just above the applicable median. Only the fees of the Capital Appreciation and Balanced Portfolios significantly exceeded the applicable median. All of the expense ratios except those of the Small Cap Portfolio exceeded their peer medians; the Trustees noted, however, that the highest expense ratios were for Portfolio classes with low asset levels that suffered thereby in comparison with their peers. 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 four other types of clients, specifically mutual funds for which Alger Management was sub-adviser, separately managed institutional accounts, "wrap programs," and collective investment trusts. The Trustees determined that in all four cases the fees were of doubtful relevance for purposes of comparison with those of the Portfolios because of the 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. The Trustees then 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, 2014. After discussing with representatives of the Adviser and FUSE the expense-allocation practices 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 in each case that, to the extent that Alger Management's and its affiliates' relationships with the Portfolio had been profitable, the profit margin 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. In that connection, they noted that the advisory fee schedules in the Agreement include fee reductions for each Portfolio at specified Portfolio asset levels ("breakpoints"); these have the effect of lowering the Portfolio's overall management fee as the Portfolio grows past a breakpoint, thus sharing with the Portfolio's shareholders economies of scale achieved by Alger Management in managing the growing Portfolio.

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, 2014, 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 Fund Administration Agreement and the Shareholder Administrative Services Agreement, as well as an accounting agency fee, and that Alger Inc. provides a considerable portion of the Portfolios' equity brokerage and receives shareholder servicing fees from the Portfolios as well. The Trustees had been provided with information regarding, and had considered, the administration fee, shareholder administrative services fee, brokerage and shareholder servicing 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 in respect of each Portfolio:

- The Board concluded that the nature, extent and quality of the services provided to the Portfolio by Alger Management are adequate and appropriate.
- The Board determined that the Portfolio's performance was acceptable.
- The Board concluded that the advisory fee paid to Alger Management by the Fund 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. In the case of the SMid Cap Portfolio, the Trustees also noted that Alger Management had voluntarily undertaken to cap the Portfolio's expenses through expense reimbursements and fee waivers, thus in effect lowering the fees it actually received from that Portfolio.
- The Board accepted Alger Management's acknowledgement that economies of scale were likely to be achieved in the management of the Portfolio and determined that the fee breakpoints in the Agreement provided a means by which Alger Management would share the benefits of such economies with Portfolio shareholders.

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

U.S. Consumer Privacy Notice Rev. 01/2011 **3/31/11**

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**

Who we are	
Who is providing this notice?	Alger includes 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 Global Growth Fund.

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 credit worthiness • 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 Global 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 Board of Trustees has adopted policies and procedures relating to disclosure of the Portfolios' securities. These policies and procedures recognize that there may be legitimate business reasons for holdings to be disclosed and seek to balance those interests to protect the proprietary nature of the trading strategies and implementation thereof by the Portfolio.

Generally, the policies prohibit the release of information concerning portfolio holdings which have not previously been made public to individual investors, institutional investors, intermediaries that distribute the Portfolios' shares and other parties which are not employed by the Manager or its affiliates except when the legitimate business purposes for selective disclosure and other conditions (designed to protect the Portfolio) are acceptable.

The Portfolio makes its full holdings available semi-annually in shareholder reports filed on Form N-CSR and after the first and third fiscal quarters in regulatory filings on Form N-Q. These shareholder reports and regulatory filings are filed with the SEC, as required by federal securities laws, and are generally available within sixty (60) days of the end of the Portfolios' fiscal quarter. The Portfolios 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.

In addition, the Portfolio makes its publicly available their respective month-end top 10 holdings with a 15 day lag and their month-end full portfolios with a 60 day lag on their website www.alger.com and through other marketing communications (including printed advertising/sales literature and/or shareholder telephone customer service centers). No compensation or other consideration is received for the non-public disclosure of portfolio holdings information.

In accordance with the foregoing, the Portfolio provides portfolio holdings information to service providers who provide necessary or beneficial services when such service providers need access to this information in the performance of their services and are subject to duties of confidentiality (1) imposed by law, including a duty not to trade on non-public information, and/or (2) pursuant to an agreement that confidential information is not to be disclosed or used (including trading on such information) other than as required by law. From time to time, the Fund will communicate with these service providers to confirm that they understand the Portfolios' policies and procedures regarding such disclosure. This agreement must be approved by the Portfolio's Chief Compliance Officer, President or Secretary.

The Board of Trustees periodically reviews a report disclosing the third parties to whom each Portfolios holdings information has been disclosed and the purpose for such disclosure, and it considers whether or not the release of information to such third parties is in the best interest of the Portfolio and its shareholders.

In addition to material the Portfolio routinely provide to shareholders, the Manager may, upon request, make additional statistical information available regarding the Portfolio. Such information will include, but not be limited to, relative weightings and characteristics of the Fund's portfolio versus its peers or an index (such as P/E ratio, alpha, beta, capture ratio, standard deviation, EPS forecasts, Sharpe ratio, information ratio, R-squared, and market cap analysis), security specific impact on overall portfolio performance, month-end top ten contributors to and detractors from performance, breakdown of High Unit Volume Growth holdings vs. Positive Lifecycle Change holdings, portfolio turnover, and requests of a similar nature. Please contact the Funds at (800) 992-3863 to obtain such information.

THE ALGER PORTFOLIOS

360 Park Avenue South
New York, NY 10010
(800) 992-3863
www.alger.com

Investment Manager

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 Alger Balanced Portfolio. It is not authorized for distribution to prospective investors unless accompanied by an effective prospectus for the Fund, which contains information concerning Fund's investment policies, fees and expenses as well as other pertinent information.

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ALGER

Inspired by Change, Driven by Growth.

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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, 2014

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ALGER CAPITAL APPRECIATION PORTFOLIO

Go Paperless With Alger Electronic Delivery Service

Alger is pleased to provide you with the ability to access regulatory materials online. When documents such as prospectuses and annual and semi-annual reports are available, we'll send you an e-mail notification with a convenient link that will take you directly to the fund information on our website. To sign up for this free service, simply enroll at **www.icsdelivery.com/alger.**

Dear Shareholders,

Earnings Growth Drives Equity Gains

Investors who downplay the powerful impact of corporate earnings on equities would be well served to analyze capital markets during the 12-month reporting period ended December 31. Indeed, concerns over equity valuations, global economic growth, geopolitical turmoil, and monetary policy drove considerable market volatility during the period. Yet strong corporate earnings and to a lesser extent U.S. economic growth later in the period supported investor sentiment, resulting in the S&P 500 index generating a 13.69% return and reaching an all-time high of 2,090.57 on December 29. Concerns about weakening global economic growth, meanwhile, resulted in foreign securities trailing the S&P 500. For the reporting period, the MSCI ACWI ex USA Index declined 3.43% and the MSCI Emerging Markets Index declined 1.82%.

Growth Scare Creates Buying Opportunity

The reporting period started with the S&P 500 having a forward price-to-earnings capitalization-weighted ratio of 15.42 compared to a 20-year average of 16.81. At Alger, we maintained that the ratio was reasonable considering corporations' potential to grow earnings as the U.S. economy was expanding. We also held to our belief that the valuations were reasonable from a historical perspective. Yet some investors and various pundits maintained that uneven economic growth would fail to support valuations. Those fears escalated when severe winter weather appeared to dampen gains in job creation and other economic indicators. By mid-February 2014, skittish investors sparked a "growth scare" or the selloff of high-growth stocks that were trading at high valuations. To illustrate the magnitude of this reaction, we noted that the NYSE Arca Biotechnology Index, which consists of high-growth biotech companies, and the NASDAQ Internet Index, which consists of high-growth Internet companies, both declined substantially. The NYSE Arca Biotechnology Index dropped 19.64% from February 25 to April 14 and the NASDAQ Internet Index declined 20.42% from March 6 to May 8. At the same time, investors flocked to defensive names such as Wal-Mart Stores, Inc. and "old" technology names such as Microsoft Corp. and International Business Machines Corp.

At that time, we urged investors to use the selloff as a buying opportunity, which we believe was a timely call.[1] From its April 14, 2014, low to the end of the reporting period, the NYSE Arca Biotechnology Index generated a 45.25% return compared to the 12.47% return of the S&P 500. Similarly, the NASDAQ Internet Index generated a 13.98% return from its May 8, 2014, low to the end of the reporting period compared to the 9.77% return of the S&P 500. In making the call, we reasoned that investors would eventually return their focus to the potential for high-growth companies to rapidly increase their earnings.

Even with the bounce-back in stock prices, we maintain that valuations are still reasonable among leading high-growth companies, especially when considering that many companies have strong potential for expanding their earnings.

[1] See Alger Market Insight, "Fear of Growth Stocks Creates Buying Opportunities," April 2014.

In the biotech industry, for example, many companies have potential to benefit from robust product development pipelines and increasing Food and Drug Administration (FDA) approvals. The increase in successful late-stage clinical trials and FDA approvals over the past three years, furthermore, points to an improvement in research and development productivity for the industry. The quality of products being developed has also improved as illustrated by the creation of new drugs that target rare diseases that have had limited treatment options. In addition, some new drugs are major advancements in treating life threatening diseases. As of the end of the reporting period, the large-cap biotech group was trading at 17 times 2016 expected earnings versus the 10-year average of 21. The average three-year per share revenue growth for the group is estimated to be 12% and the average three-year per share earnings growth is estimated to be 15%.

Falling Oil Prices Drive Volatility

Moderating demand for oil and an oil supply glut caused the commodity's price to drop approximately 46% during the year, which drove market volatility. Investors feared that declining oil prices would adversely impact energy companies' earnings and revenues and that the adverse impact on profits could spill over to other industries. At the same time, however, we believe lower energy costs, including sharp declines in gasoline prices, will support the economy by improving consumers' spending power and by cutting operating costs for U.S. businesses.

Global Economic Concerns

During the reporting period, investors also struggled with fears that weakening economic growth in China and disappointing results in Europe would curtail corporations' revenues abroad and hinder U.S. exports. In the second half of October, the People's Bank of China (PBOC) responded to concerns over moderating growth by cutting lending and deposit rates. We believe China's growth will eventually reach a sustainable rate, yet many investors have been concerned about the country's economy. Even with moderating economic growth, we believe the country's expansion is still occurring at a substantial rate with GDP growing 7.7% in 2013 and the PBOC estimating that 2014 GDP grew 7.4%. We note that the moderation is helping to curtail global inflation as the country's demand for commodities softens.

Economic growth remained weak in the eurozone with growing concerns over rapidly dropping oil prices, the decline of the Russian ruble, and economic sanctions against Russia stemming from the country's annexation of the Crimea region of Ukraine. Despite those concerns, we are encouraged to observe that the decline in the euro is making European exports more competitive. In addition, the European Central Bank (ECB) is continuing with accommodative policies that are supporting economic growth. In September, the ECB cut the rate that it charges banks for short-term loans to 0.05% from 0.15%. The 0.15% rate reflected a June rate cut.The ECB also increased the fee that it charges banks to store money to 0.2% from a 0.1% rate that it implemented in June. Shortly after announcing the September rate changes, ECB President Mario Draghi said the bank will implement unconventional monetary policy by purchasing securitized debt and covered bonds to help ease the flow of bank funding within the region. In addition to the ECB's plans for quantitative easing, we believe eurozone countries need to implement structural reforms, including changes in labor policies, business regulations, and taxation, to promote growth.

Yet we continue to find attractive investment opportunities with our bottom-up, research-driven investment strategy.

Geopolitical Turmoil Rattles Investors

Russia's annexation of Crimea also generated concerns. The Russian actions provoked strong criticism from the U.S. and the European Union. Russia quickly became subjected to targeted economic sanctions which sparked fears that the country's economy may weaken further. The actions also sparked fears that Russia would retaliate by curtailing its exports of gas to Europe, which receives more than 30% of its gas from the country. Tensions escalated in July when a Malaysia Airlines jet was shot down in eastern Ukraine. At times, U.S equities retreated in response to Russia increasing its troops along the Ukraine border, and at other times equities rallied when the conflict appeared to be moderating. The conflict continues to simmer with ongoing tension between Ukrainians who want the country to become part of Russia and others who want the country to remain independent.

Also during the reporting period, terrorist organization ISIS, or the Islamic State, launched an insurgency in Iraq, which sparked fears that oil production in the country could be disrupted. With investors already fearful that Russia may curtail its oil and gas exports in response to sanctions, the ISIS actions escalated concerns over the world's energy supply. The U.S. responded by forming an international coalition that has been launching airstrikes against ISIS. As the reporting period wound down, ISIS remained a considerable threat to political stability. At the same time, however, concerns over energy security have weakened as global oil production has continued to expand, creating a supply glut.

U.S. Monetary Policy and Economic Growth

During the reporting period, the U.S. Federal Reserve stuck with its proposed October timeframe for ending asset purchases or quantitative easing. Investors, meanwhile, began to anticipate when the central bank will start to raise interest rates from record low levels as economic growth continued. Many observers have speculated that the change will occur next year. Favorable economic news, however, occasionally caused investors to sell equities in response to fears that that the Federal Reserve may raise rates sooner than anticipated. At times, those fears were alleviated by Federal Reserve officials emphasizing that the central bank remains committed to its accommodative policy for the foreseeable future. Throughout the reporting period, we remained unconcerned about the potential for rate increases. Market interest rates remain extremely low and the economy has considerable capacity for growth.

Corporate Earnings Support Equity Markets

Broadly speaking, expectations for continuing fiscal stimulus and economic expansion supported investor sentiment. More importantly, strong corporate earnings also drove equity performance and helped reverse a considerable market decline late in the reporting period. After reaching a peak on September 19, the S&P 500 declined 9.83% as investors grew weary of weakening global economic growth and geopolitical turmoil. The downward spiral quickly reversed in mid-October, however, as corporate America started releasing strong earnings reports and the S&P 500 went on to set a new closing high on December 29. Noteworthy market movers included Caterpillar Inc. and 3M Company, both of which reported stronger-than-expected third-quarter results and raised their guidance for the remainder of 2014. Comcast Corp. and General Motors Co. also supported investor sentiment with per-share earnings that beat expectations. They were not isolated examples with third-quarter earnings for the S&P 500 climbing 8% compared to a 4.5% growth rate that analysts had expected, according to FactSet. Earlier in the reporting period, investor sentiment was supported by second-quarter S&P 500 earnings growing 6% and revenues growing 4.9%. Corporations were also able to grow earnings 3% and revenues 3.4% during the first quarter despite a decline in GDP for the time period.

Portfolio Management

Rather than quickly responding to market volatility and the frequently changing whims of investors, we continued to follow our disciplined and research-driven investment strategy that seeks companies with strong potential to grow earnings. We continued to seek leading companies with compelling products and services that have potential to benefit from large and quickly evolving trends, such as the growing use of Internet-connected devices, increasing advertising on the web, cloud computing, and medical breakthroughs. We maintain that such companies offer attractive potential for long-term performance because equity prices are typically driven by corporate earnings. We also held to our view that the U.S. economy is stronger than commonly believed.

Going Forward

We continue to believe that equities have potential for generating substantial gains in the foreseeable future as a growing economy provides fertile ground for businesses to grow their earnings. An expanding labor force is strengthening the U.S. consumer, which should help corporations grow revenues and earnings. At the same time, consumers are getting relief from pain at the gasoline pump with the average U.S. price of automobile fuel dropping from approximately $3.26 per gallon in December of 2013 to $2.22 as of the end of the reporting period. Low energy costs resulting from an ongoing U.S. renaissance in oil and gas production, meanwhile, are helping to provide a favorable business environment.

Strong corporate fundamentals should also support equity gains as corporations continue to return capital to shareholders in the form of dividends and stock buybacks. According to Standard & Poor's, dividend payments among companies monitored by the organization increased 14.3% in 2014. Stock buybacks have also increased. For the 12-month period ended September 30, 2014, S&P 500 companies repurchased $567.2 billion in stocks, which was a 27% year-over-year increase, according to FactSet.

The health of corporations is also illustrated by strong balance sheets. As of the end of the third quarter, S&P 500 non-financial companies held $1.37 trillion in cash and marketable securities, according to FactSet. In another indication of strong fundamentals, large capitalization companies excluding financials and utilities had a free-cash flow yield of 4.36% at the end of December while the average from November of 1952 through the end of the reporting period was only 3.67% according to Empirical Research Partners.

Portfolio Matters

The Alger Capital Appreciation Portfolio returned 13.75% for the fiscal 12-month period ended December 31, 2014, compared to the 13.05% return of its benchmark, the Russell 1000 Growth Index.

During the period, the largest sector weightings were Information Technology and Consumer Discretionary. The largest sector overweight was Health Care and the largest sector underweight was Consumer Staples. Relative outperformance in Information

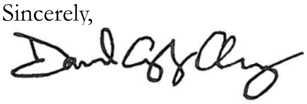
Technology and Health Care sectors was the most important contributor to performance, while Consumer Discretionary and Industrials detracted from results.

Among the most important relative contributors were NXP Semiconductors NV; HCA Holdings, Inc.; Actavis PLC.; Facebook, Inc., Cl. A; and CVS Caremark Corp. Performance of Facebook shares benefited from the company rapidly growing its advertising revenues by targeting users who access the social media website with mobile devices such as smart phones and tablets.

Conversely, detracting from overall results on a relative basis were Microsoft Corp.; SoftBank Corp.; Amazon.com, Inc.; Cimpress NV; and General Motors Co. Prior to the start of the reporting period, online retailer Amazon.com had grown its revenues and earnings at a rate that is hard to sustain. Early in the reporting period, the company announced decelerating revenue growth and earnings that fell below expectations. In addition, Amazon increased fees for its Prime membership program, which stoked fears that the company may suffer from membership churning.

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.

Sincerely,



Daniel C. Chung, CFA
Chief Investment Officer
Fred Alger Management, Inc.

The following positions represented the noted percentages of Alger assets under management as of December 31, 2014: Express Scripts Holding Company, 1.30%; Caterpillar, Inc., 0.00%; 3M Company, 0.00%; Comcast Corp., 1.18%; General Motors Co., 0.01%; Wal-Mart Stores, Inc., 0.01%; Microsoft Corp., 1.97%; International Business Machines Corp., 0.00%; Empirical Research Partners, 0.00%; Malaysian Airline System, 0.00%; and FactSet, 0.00%.

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

SEC Yield is computed under the SEC standardized formula applicable to the accrual of dividends.

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 for the Portfolios. The Portfolios' returns represent the fiscal twelve-month period return of Class I-2 shares. Returns include reinvestment of dividends and distributions.

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

The views and opinions of the Portfolios' 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 Portfolio and transactions in such securities, if any, may be for a variety of reasons, including without limitation, in response to cash flows, inclusion in a benchmark, and risk control. The reference to a specific security should also be understood in such context and not viewed as a statement that the security is a significant holding in a Portfolio. Please refer to the Schedule of Investments for each Portfolio which is included in this report for a complete list of Portfolio holdings as of December 31, 2014. 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. Investing in foreign securities involves additional risk (including currency risk, risks related to political, social or economic conditions, and risks associated with foreign markets, such as increased volatility, limited liquidity, less stringent regulatory and legal system, and lack of industry and country diversification), and may not be suitable for all investors. Portfolios that participate in leveraging, such as Alger Capital Appreciation 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, Portfolio net asset values can decrease more quickly than if a 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 the Fund's investment objective, risks, charges, and expenses.

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

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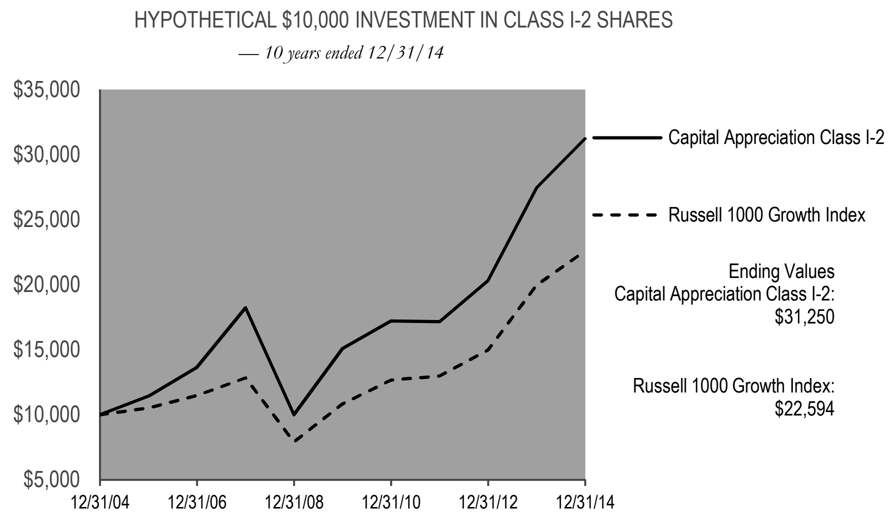
NOT FDIC INSURED. NOT BANK GUARANTEED. MAY LOSE VALUE.

Definitions:

- The S&P 500 index is an unmanaged index generally representative of the U.S. stock market without regard to company size.
- The MSCI ACWI ex USA Index is a market capitalization-weighted index designed to provide a broad measure of equity market performance throughout the world, including both developed and emerging markets, but excluding the United States.
- The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.
- The NYSE Arca Biotechnology Index is an equal dollar-weighted index designed to measure the performance of a cross section of companies in the biotechnology industry that are primarily involved in the use of biological processes to develop products or provide services.
- The NASDAQ Internet Index is a modified market capitalization-weighted index designed to track the performance of the largest and most liquid U.S.-listed companies engaged in Internet-related businesses that are listed on the NASDAQ Stock Market, the New York Stock Exchange (NYSE) or NYSE Amex.
- Empirical Research Partners is a broker-dealer that provides research on a range of topics of interest to institutional investors.
- The 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.
- FactSet provides computer-based financial data and analysis for financial professionals, including investment managers, hedge funds and investment bankers.



The chart above illustrates the change in value of a hypothetical $10,000 investment made in Alger Capital Appreciation Portfolio Class I-2 shares, and the Russell 1000 Growth Index (unmanaged index of common stocks) for the ten years ended December 31, 2014. Figures for the Alger Capital Appreciation Portfolio Class I-2 shares and the Russell 1000 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 12/31/14

AVERAGE ANNUAL TOTAL RETURNS

	1 YEAR	5 YEARS	10 YEARS	Since 1/25/1995
Class I-2 (Inception 1/25/95)	13.75%	15.64%	12.07%	13.51%
Class S (Inception 5/1/02)[(i)]	13.45%	15.27%	11.75%	13.23%
Russell 1000 Growth Index	13.05%	15.81%	8.49%	9.02%

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 those of Class I-2 shares adjusted to reflect the higher expenses of Class S shares.*

PORTFOLIO SUMMARY†
December 31, 2014 (Unaudited)

SECTORS/SECURITY TYPES	Alger Capital Appreciation Portfolio
Consumer Discretionary	15.9%
Consumer Staples	5.0
Energy	3.5
Financials	7.8
Health Care	17.9
Industrials	11.4
Information Technology	31.8
Materials	1.6
Telecommunication Services	0.7
Utilities	0.4
Short-Term Investments and Net Other Assets	4.0
	100.0%

† *Based on net assets for each Portfolio.*

COMMON STOCKS—92.7%	SHARES	VALUE
ADVERTISING—0.0%		
Choicestream, Inc.*,@,(a)	23,166	$ **17,374**
AEROSPACE & DEFENSE—4.7%		
Honeywell International, Inc.	116,561	11,646,775
Lockheed Martin Corp.	10,600	2,041,242
Precision Castparts Corp.	31,696	7,634,932
The Boeing Co.	26,215	3,407,426
		24,730,375
AIR FREIGHT & LOGISTICS—0.5%		
United Parcel Service, Inc., Cl. B	22,000	**2,445,740**
AIRLINES—0.9%		
United Continental Holdings, Inc.*	74,693	**4,996,215**
ALTERNATIVE CARRIERS—0.2%		
Level 3 Communications, Inc.*	26,076	**1,287,633**
APPAREL ACCESSORIES & LUXURY GOODS—1.0%		
Michael Kors Holdings Ltd.*	8,035	603,428
PVH Corp.	8,948	1,146,865
Ralph Lauren Corp.	20,417	3,780,412
		5,530,705
APPLICATION SOFTWARE—2.8%		
Adobe Systems, Inc.*	68,928	5,011,066
Palantir Technologies, Inc., Cl. A*,@	41,286	249,780
salesforce.com, inc.*	119,480	7,086,359
SAP SE#	37,697	2,625,596
		14,972,801
ASSET MANAGEMENT & CUSTODY BANKS—0.3%		
Affiliated Managers Group, Inc.*	6,399	**1,358,124**
AUTO PARTS & EQUIPMENT—1.3%		
Delphi Automotive PLC.	66,010	4,800,247
WABCO Holdings, Inc.*	17,794	1,864,456
		6,664,703
AUTOMOBILE MANUFACTURERS—0.3%		
Tesla Motors, Inc.*	8,000	**1,779,280**
BIOTECHNOLOGY—5.3%		
Amgen, Inc.	21,120	3,364,205
Biogen Idec, Inc.*	16,293	5,530,659
Celgene Corp.*	32,971	3,688,136
Gilead Sciences, Inc.*	115,528	10,889,669
Intercept Pharmaceuticals, Inc.*	3,983	621,348
Pharmacyclics, Inc.*	23,399	2,860,762
Puma Biotechnology, Inc.*	3,100	586,737
Vertex Pharmaceuticals, Inc.*	4,823	572,972
		28,114,488
BREWERS—0.7%		
Anheuser-Busch InBev NV#	8,531	958,202
Molson Coors Brewing Co., Cl. B	38,184	2,845,472
		3,803,674
BUILDING PRODUCTS—0.5%		
Fortune Brands Home & Security, Inc.	25,196	1,140,623

COMMON STOCKS—(CONT.)	SHARES	VALUE
BUILDING PRODUCTS—(CONT.)		
Lennox International, Inc.	18,200	$ 1,730,274
		2,870,897
CABLE & SATELLITE—1.7%		
Comcast Corporation, Cl. A	139,118	8,070,235
DISH Network Corp., Cl. A*	10,854	791,148
		8,861,383
CASINOS & GAMING—0.3%		
MGM Resorts International*	81,100	**1,733,918**
COMMUNICATIONS EQUIPMENT—0.1%		
Arista Networks, Inc.*	8,600	**522,536**
COMPUTER STORAGE & PERIPHERALS—0.6%		
SanDisk Corp.	31,506	**3,086,958**
CONSTRUCTION MATERIALS—0.2%		
Martin Marietta Materials, Inc.	10,078	**1,111,805**
CONSUMER FINANCE—1.2%		
American Express Co.	53,621	4,988,898
Discover Financial Services	22,998	1,506,139
		6,495,037
DATA PROCESSING & OUTSOURCED SERVICES—3.6%		
Alliance Data Systems Corp.*	19,507	5,579,977
Fiserv, Inc.*	29,800	2,114,906
Visa, Inc., Cl. A	42,350	11,104,170
		18,799,053
DRUG RETAIL—2.2%		
CVS Caremark Corp.	90,686	8,733,969
Walgreens Boots Alliance, Inc.	36,227	2,760,497
		11,494,466
FOOD RETAIL—0.6%		
The Kroger Co.	50,100	**3,216,921**
FOOTWEAR—0.7%		
NIKE, Inc., Cl. B	36,815	**3,539,762**
GENERAL MERCHANDISE STORES—0.7%		
Dollar General Corp.*	27,372	1,935,200
Dollar Tree, Inc.*	25,600	1,801,728
		3,736,928
HEALTH CARE EQUIPMENT—1.0%		
Insulet Corp.*	22,816	1,050,905
St. Jude Medical, Inc.	63,067	4,101,247
		5,152,152
HEALTH CARE FACILITIES—1.2%		
HCA Holdings, Inc.*	86,256	**6,330,328**
HOME ENTERTAINMENT SOFTWARE—0.5%		
Activision Blizzard, Inc.	131,095	**2,641,564**
HOME IMPROVEMENT RETAIL—2.4%		
Lowe's Companies, Inc.	84,214	5,793,923
The Home Depot, Inc.	64,086	6,727,108
		12,521,031

COMMON STOCKS—(CONT.)	SHARES	VALUE
HOMEBUILDING—0.0%		
Toll Brothers, Inc.*	7,900	**$ 270,733**
HOTELS RESORTS & CRUISE LINES—2.6%		
Ctrip.com International Ltd.#*	12,065	548,957
Hilton Worldwide Holdings, Inc.*	286,090	7,464,088
Royal Caribbean Cruises Ltd.	67,348	5,551,496
		13,564,541
HOUSEHOLD PRODUCTS—0.4%		
The Procter & Gamble Co.	20,788	**1,893,579**
HOUSEWARES & SPECIALTIES—0.3%		
Jarden Corp.*	35,434	**1,696,580**
INDUSTRIAL CONGLOMERATES—0.8%		
Danaher Corp.	48,615	**4,166,792**
INDUSTRIAL GASES—0.7%		
Air Products & Chemicals, Inc.	26,708	**3,852,095**
INDUSTRIAL MACHINERY—0.5%		
Ingersoll-Rand PLC.	43,156	**2,735,659**
INTERNET RETAIL—2.1%		
Amazon.com, Inc.*	14,391	4,466,247
The Priceline Group, Inc.*	3,200	3,648,672
TripAdvisor, Inc.*	35,519	2,651,848
Wayfair, Inc., Cl. A*	6,300	125,055
		10,891,822
INTERNET SOFTWARE & SERVICES—10.2%		
Alibaba Group Holding Ltd.#*	3,619	376,159
Demandware, Inc.*	12,598	724,889
Facebook, Inc., Cl. A*	300,627	23,454,919
Google, Inc., Cl. A*	7,031	3,731,070
Google, Inc., Cl. C*	28,656	15,084,518
GrubHub, Inc.*	29,600	1,075,072
LinkedIn Corp., Cl. A*	12,910	2,965,556
Yahoo! Inc.*	124,549	6,290,970
		53,703,153
INVESTMENT BANKING & BROKERAGE—0.8%		
Morgan Stanley	108,835	**4,222,798**
IT CONSULTING & OTHER SERVICES—0.7%		
Cognizant Technology Solutions Corp., Cl. A*	69,938	**3,682,935**
LIFE SCIENCES TOOLS & SERVICES—1.6%		
Thermo Fisher Scientific, Inc.	66,004	**8,269,641**
MANAGED HEALTH CARE—1.7%		
Aetna, Inc.	25,715	2,284,263
Cigna Corp.	34,082	3,507,379
Humana, Inc.	9,200	1,321,396
UnitedHealth Group, Inc.	18,400	1,860,056
		8,973,094
MOVIES & ENTERTAINMENT—0.6%		
The Walt Disney Co.	31,500	**2,966,985**
MULTI-LINE INSURANCE—1.1%		
American International Group, Inc.	25,196	1,411,228

COMMON STOCKS—(CONT.)	SHARES	VALUE
MULTI-LINE INSURANCE—(CONT.)		
Hartford Financial Services Group, Inc.	101,613	$ 4,236,246
		5,647,474
MULTI-UTILITIES—0.2%		
Sempra Energy	9,821	**1,093,667**
OIL & GAS EQUIPMENT & SERVICES—1.4%		
Baker Hughes, Inc.	26,800	1,502,676
Halliburton Company	30,988	1,218,758
National Oilwell Varco, Inc.	27,004	1,769,572
Schlumberger Ltd.	12,700	1,084,707
Weatherford International PLC.*	139,956	1,602,496
		7,178,209
OIL & GAS EXPLORATION & PRODUCTION—1.6%		
Anadarko Petroleum Corp.	43,593	3,596,422
Devon Energy Corp.	66,392	4,063,854
Pioneer Natural Resources Co.	3,670	546,280
		8,206,556
OIL & GAS STORAGE & TRANSPORTATION—0.5%		
Cheniere Energy, Inc.*	36,249	**2,551,930**
OTHER DIVERSIFIED FINANCIAL SERVICES—1.4%		
Bank of America Corp.	369,100	6,603,199
Citigroup, Inc.	19,601	1,060,610
		7,663,809
PACKAGED FOODS & MEATS—0.4%		
Mead Johnson Nutrition Co., Cl. A	23,300	**2,342,582**
PHARMACEUTICALS—6.9%		
AbbVie, Inc.	117,177	7,668,063
Actavis PLC.*	78,211	20,132,294
Salix Pharmaceuticals Ltd.*	7,233	831,361
Shire PLC.	66,800	4,735,515
Teva Pharmaceutical Industries Ltd.#	50,900	2,927,259
		36,294,492
RAILROADS—1.1%		
Union Pacific Corp.	50,072	**5,965,077**
RENEWABLE ELECTRICITY—0.2%		
TerraForm Power, Inc., Cl. A	29,900	**923,312**
RESEARCH & CONSULTING SERVICES—0.3%		
CoStar Group, Inc.*	7,800	**1,432,314**
RESTAURANTS—1.0%		
Starbucks Corp.	45,600	3,741,480
Yum! Brands, Inc.	20,200	1,471,570
		5,213,050
SECURITY & ALARM SERVICES—0.8%		
Tyco International PLC.	100,582	**4,411,527**
SEMICONDUCTOR EQUIPMENT—0.9%		
Lam Research Corp.	10,232	811,807
SunEdison, Inc.*	213,938	4,173,930
		4,985,737

COMMON STOCKS—(CONT.)	SHARES	VALUE
SEMICONDUCTORS—3.4%		
Avago Technologies Ltd.	42,770	$ 4,302,234
Micron Technology, Inc.*	227,417	7,961,869
NXP Semiconductors NV*	77,572	5,926,501
		18,190,604
SOFT DRINKS—0.7%		
PepsiCo, Inc.	39,888	**3,771,809**
SPECIALIZED FINANCE—0.2%		
McGraw Hill Financial, Inc.	9,802	**872,182**
SPECIALTY CHEMICALS—0.7%		
PPG Industries, Inc.	15,100	**3,490,365**
SPECIALTY STORES—0.8%		
Signet Jewelers Ltd.	31,275	**4,114,852**
SYSTEMS SOFTWARE—2.4%		
Microsoft Corp.	269,970	**12,540,107**
TECHNOLOGY HARDWARE STORAGE & PERIPHERALS—6.4%		
Apple, Inc.	293,470	32,393,218
Western Digital Corp.	12,921	1,430,355
		33,823,573
TRADING COMPANIES & DISTRIBUTORS—1.3%		
HD Supply Holdings, Inc.*	233,763	**6,893,671**
WIRELESS TELECOMMUNICATION SERVICES—0.5%		
SBA Communications Corp., Cl. A*	23,300	**2,580,708**
TOTAL COMMON STOCKS		
(Cost $411,232,011)		**488,893,865**

PREFERRED STOCKS—0.5%	SHARES	VALUE
ADVERTISING—0.1%		
Choicestream, Inc., Cl. A*,@,(a)	199,768	149,826
Choicestream, Inc., Cl. B*,@,(a)	445,303	333,977
		483,803
APPLICATION SOFTWARE—0.2%		
Palantir Technologies, Inc., Cl. B*,@	168,373	1,032,127
Palantir Technologies, Inc., Cl. D*,@	21,936	134,906
		1,167,033
PHARMACEUTICALS—0.2%		
Intarcia Therapeutics, Inc.*,@	20,889	**919,116**
TOTAL PREFERRED STOCKS		
(Cost $2,360,207)		**2,569,952**

MASTER LIMITED PARTNERSHIP—2.1%	SHARES	VALUE
ASSET MANAGEMENT & CUSTODY BANKS—2.1%		
The Blackstone Group LP.	244,810	8,281,923
The Carlyle Group LP.	98,324	2,703,910
		10,985,833
TOTAL MASTER LIMITED PARTNERSHIP		
(Cost $11,064,109)		**10,985,833**

REAL ESTATE INVESTMENT TRUST—0.7%	SHARES	VALUE
RESIDENTIAL—0.5%		
AvalonBay Communities, Inc.	16,800	**2,744,952**

REAL ESTATE INVESTMENT TRUST—(CONT.)	SHARES	VALUE
SPECIALIZED—0.2%		
Lamar Advertising Co.	16,321	$ 875,458
Outfront Media, Inc.	2,396	64,309
		939,767
TOTAL REAL ESTATE INVESTMENT TRUST		
(Cost $3,329,082)		**3,684,719**
Total Investments		
(Cost $427,985,409)[(b)]	96.0%	**506,134,369**
Other Assets in Excess of Liabilities	4.0%	**20,975,945**
NET ASSETS	100.0%	**$ 527,110,314**

American Depositary Receipts.

(a) *Deemed an affiliate of the Alger fund complex during the year for purposes of Section 2(a)(3) of the Investment Company Act of 1940. See Affiliated Securities in Notes to Financial Statements.*

(b) *At December 31, 2014, the net unrealized appreciation on investments, based on cost for federal income tax purposes of $433,093,922, amounted to $73,040,447 which consisted of aggregate gross unrealized appreciation of $83,325,760 and aggregate gross unrealized depreciation of $10,285,313.*

* *Non-income producing security.*

@ *Restricted security - Investment in security not registered under the Securities Act of 1933. The investment is deemed to not be liquid and may be sold only to qualified buyers.*

Security	Acquisition Date(s)	Cost	Market Value	% of net assets
Choicestream, Inc.	*3/14/2014*	*$6,718*	*$17,374*	*0.00%*
Choicestream, Inc., Cl. A	*12/17/2013*	*159,751*	*149,826*	*0.03%*
Choicestream, Inc., Cl. B	*7/10/2014*	*267,182*	*333,977*	*0.06%*
Intarcia Therapeutics, Inc.	*3/27/2014*	*676,595*	*919,116*	*0.18%*
Palantir Technologies, Inc., Cl. A	*10/7/2014*	*268,648*	*249,780*	*0.05%*
Palantir Technologies, Inc., Cl. B	*10/17/2014*	*1,111,840*	*1,032,127*	*0.20%*
Palantir Technologies, Inc., Cl. D	*10/14/2014*	*144,839*	*134,906*	*0.02%*
Total			$2,837,106	0.54%

Industry classifications are unaudited.

See Notes to Financial Statements

ALGER CAPITAL APPRECIATION PORTFOLIO
Statement of Assets and Liabilities December 31, 2014

		Alger Capital Appreciation Portfolio
ASSETS:		
Investments in securities, at value (Identified cost below)* see accompanying schedules of investments	$	505,633,191
Investments in affiliated securities, at value (Identified cost below)** see accompanying schedules of investments		501,178
Cash and cash equivalents		19,640,429
Receivable for investment securities sold		8,401,542
Receivable for shares of beneficial interest sold		312,043
Dividends and interest receivable		274,718
Prepaid expenses		21,692
Total Assets		534,784,793
LIABILITIES:		
Payable for investment securities purchased		6,177,304
Payable for shares of beneficial interest redeemed		965,376
Accrued investment advisory fees		384,954
Accrued transfer agent fees		13,500
Accrued distribution fees		6,185
Accrued administrative fees		13,069
Accrued shareholder administrative fees		4,752
Accrued other expenses		109,339
Total Liabilities		7,674,479
NET ASSETS	**$**	**527,110,314**
NET ASSETS CONSIST OF:		
Paid in capital (par value of $.001 per share)		441,745,466
Undistributed net investment income		438,579
Undistributed net realized gain		6,777,565
Net unrealized appreciation on investments		78,148,704
NET ASSETS	**$**	**527,110,314**
* Identified cost	$	427,551,758
** Identified cost	$	433,651

See Notes to Financial Statements.

		Alger Capital Appreciation Portfolio
NET ASSETS BY CLASS:		
Class I-2	$	499,123,265
Class S	$	27,987,049
SHARES OF BENEFICIAL INTEREST OUTSTANDING — NOTE 6:		
Class I-2		6,995,767
Class S		405,156
NET ASSET VALUE PER SHARE:		
Class I-2 — Net Asset Value Per Share	$	71.35
Class S — Net Asset Value Per Share	$	69.08

See Notes to Financial Statements.

ALGER CAPITAL APPRECIATION PORTFOLIO
Statement of Operations for the year ended December 31, 2014

		Alger Capital Appreciation Portfolio
INCOME:		
Dividends (net of foreign withholding taxes*)	$	5,459,128
Interest		11,289
Total Income		5,470,417
EXPENSES:		
Advisory fees — Note 3(a)		4,017,322
Distribution fees — Note 3(c)		
Class S		58,243
Shareholder administrative fees — Note 3(f)		49,597
Administration fees — Note 3(b)		136,391
Custodian fees		84,387
Interest expenses		261
Transfer agent fees and expenses — Note 3(f)		90,900
Printing fees		97,150
Professional fees		58,300
Registration fees		3,544
Trustee fees — Note 3(g)		24,616
Fund accounting fees		69,742
Miscellaneous		39,942
Total Expenses		4,730,395
NET INVESTMENT INCOME		740,022
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, OPTIONS AND FOREIGN CURRENCY:		
Net realized gain on investments and purchased options		73,444,421
Net realized gain on redemption-in-kind		659,438
Net realized gain on foreign currency transactions		2,677
Net change in unrealized (depreciation) on investments, options and foreign currency		(11,214,033)
Net realized and unrealized gain on investments, options, and foreign currency		62,892,503
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$**	**63,632,525**
* Foreign withholding taxes	$	19,842

See Notes to Financial Statements.

ALGER CAPITAL APPRECIATION PORTFOLIO
Statement of Changes in Net Assets

	Alger Capital Appreciation Portfolio	
	For the Year Ended December 31, 2014	For the Year Ended December 31, 2013
Net investment income	$ 740,022	$ 1,378,641
Net realized gain on investments, options, redemption in kind and foreign currency	74,106,536	57,504,583
Net change in unrealized appreciation (depreciation) on investments, options and foreign currency	(11,214,033)	66,928,235
Net increase in net assets resulting from operations	63,632,525	125,811,459
Dividends and distributions to shareholders from:		
Net investment income:		
Class I-2	(455,057)	(1,514,306)
Class S	—	(19,207)
Net realized gains:		
Class I-2	(72,756,420)	(47,300,426)
Class S	(4,146,950)	(2,030,390)
Total dividends and distributions to shareholders	(77,358,427)	(50,864,329)
Increase (decrease) from shares of beneficial interest transactions:		
Class I-2	47,268,624	44,223,287
Class S	9,352,955	3,200,309
Net increase from shares of beneficial interest transactions — Note 6	56,621,579	47,423,596
Total increase	42,895,677	122,370,726
Net Assets:		
Beginning of period	484,214,637	361,843,911
END OF PERIOD	**$ 527,110,314**	**$ 484,214,637**
Undistributed net investment income	$ 438,579	$ 803,310

See Notes to Financial Statements.

Alger Capital Appreciation Portfolio

	Class I-2				
	Year ended 12/31/2014	Year ended 12/31/2013	Year ended 12/31/2012	Year ended 12/31/2011	Year ended 12/31/2010
Net asset value, beginning of period	$ 73.41	$ 60.81	$ 51.96	$ 52.16	$ 45.92
INCOME FROM INVESTMENT OPERATIONS:					
Net investment income(i)	0.12	0.24	0.69	0.15	0.08
Net realized and unrealized gain (loss) on investments	10.04	20.99	8.80	(0.29)	6.34
Total from investment operations	10.16	21.23	9.49	(0.14)	6.42
Dividends from net investment income	(0.08)	(0.27)	(0.62)	(0.06)	(0.18)
Distributions from net realized gains	(12.14)	(8.36)	(0.02)	–	–
Net asset value, end of period	$ 71.35	$ 73.41	$ 60.81	$ 51.96	$ 52.16
Total return	13.75%	35.19%	18.30%	(0.30)%	14.03%
RATIOS/SUPPLEMENTAL DATA:					
Net assets, end of period (000's omitted)	$ 499,123	$ 464,465	$ 348,152	$ 296,320	$ 284,225
Ratio of gross expenses to average net assets	0.94%	0.96%	0.96%	0.97%	0.98%
Ratio of expense reimbursements to average net assets	–	–	–	(0.03)%	(0.04)%
Ratio of net expenses to average net assets	0.94%	0.96%	0.96%	0.94%	0.94%
Ratio of net investment income (loss) to average net assets	0.16%	0.34%	1.18%	0.28%	0.17%
Portfolio turnover rate	143.20%(ii)	117.15%	139.19%	156.27%	203.56%

See Notes to Financial Statements.

(i) *Amount was computed based on average shares outstanding during the period.*
(ii) *Amount excludes redemption in kind of $3,842,231. See note 6 to the financial statements.*

THE ALGER PORTFOLIOS
Financial Highlights for a share outstanding throughout the period

Alger Capital Appreciation Portfolio

	Class S				
	Year ended 12/31/2014	Year ended 12/31/2013	Year ended 12/31/2012	Year ended 12/31/2011	Year ended 12/31/2010
Net asset value, beginning of period	$ 71.54	$ 59.46	$ 50.72	$ 51.04	$ 45.01
INCOME FROM INVESTMENT OPERATIONS:					
Net investment income (loss)(i)	(0.08)	0.03	0.48	(0.04)	(0.08)
Net realized and unrealized gain (loss) on investments	9.76	20.49	8.60	(0.28)	6.20
Total from investment operations	9.68	20.52	9.08	(0.32)	6.12
Dividends from net investment income	–	(0.08)	(0.32)	–	(0.09)
Distributions from net realized gains	(12.14)	(8.36)	(0.02)	–	–
Net asset value, end of period	$ 69.08	$ 71.54	$ 59.46	$ 50.72	$ 51.04
Total return	13.45%	34.79%	17.89%	(0.63)%	13.63%
RATIOS/SUPPLEMENTAL DATA:					
Net assets, end of period (000's omitted)	$ 27,987	$ 19,750	$ 13,692	$ 12,038	$ 12,760
Ratio of gross expenses to average net assets	1.21%	1.26%	1.30%	1.31%	1.34%
Ratio of expense reimbursements to average net assets	–	–	–	(0.03)%	(0.04)%
Ratio of net expenses to average net assets	1.21%	1.26%	1.30%	1.28%	1.30%
Ratio of net investment income (loss) to average net assets	(0.11)%	0.04%	0.83%	(0.07)%	(0.18)%
Portfolio turnover rate	143.20%(ii)	117.15%	139.19%	156.27%	203.56%

See Notes to Financial Statements.

(i) *Amount was computed based on average shares outstanding during the period.*
(ii) *Amount excludes redemption in kind of $3,842,231. See note 6 to the 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 qualifies as an investment company as defined in the Financial Accounting Standards Board Accounting Standards Codification 946-Financial Services – Investment Companies. 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 to investment vehicles for variable annuity contracts and variable life insurance policies offered by separate accounts of life insurance companies, as well as qualified pension and retirement plans.

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 valuation information is readily available are valued at the last quoted 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 quoted sales, such securities are valued at the bid price or, in the absence of a recent bid 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. Debt 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 sixty days or less 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 foreign 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 generally consistent with either the market or income approach to fair value. The market approach considers prices and other relevant information generated by market transactions involving identical or comparable assets to measure fair value. The income approach converts future amounts to a current, or discounted, single amount. These fair value measurements are determined on the basis of the value indicated by current market expectations about such future events. 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, 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 a compilation of observable market information such as spreads for fixed income and preferred securities. Inputs for Level 3 include revenue multiples, earnings before interest, taxes, depreciation and amortization ("EBITDA") multiples, discount rates, and the probabilities of success of certain outcomes. Such unobservable market information may be obtained from a company's financial statements and from industry studies, market data, and market indicators such as benchmarks and indices.

Valuation processes are determined by a Valuation Committee ("Committee") established by the Fund's Board of Trustees ("Board") and comprised of representatives of the Fund's investment advisor. The Committee reports its valuation determinations to the Board which is responsible for approving valuation policy and procedures.

While the Committee meets on an as-needed basis, the Committee formally meets quarterly to review and evaluate the effectiveness of the procedures for making fair value determinations. The Committee considers, among other things, the results of quarterly back testing of the fair value model for foreign securities, pricing comparisons between primary and secondary price sources, the outcome of price challenges put to the Portfolios' pricing vendor, and variances between transactional prices and previous mark- to-markets.

The Portfolio will record a change to a security's fair value level if new inputs are available or it becomes evident that inputs previously considered for leveling have changed or are no longer relevant. Transfers between Levels 1 and 2 are recognized at the end of the reporting period, and transfers into and out of Level 3 are recognized during the reporting period.

(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 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 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) Lending of Fund Securities: The Portfolio may lend its securities to financial institutions, provided that the market value of the securities loaned will not at any time exceed one third of the Portfolio's total assets, as defined in its prospectuses. The Portfolio earns fees on the securities loaned, which are included in interest income in the accompanying Statement of Operations. In order to protect against the risk of failure by the borrower to return the securities loaned or any delay in the delivery of such securities, the loan is collateralized by cash or securities that are maintained with the Custodian in an amount equal to at least 102 percent of the current market value of U.S. loaned securities or 105 percent for non-U.S. loaned securities. The market value of the loaned securities is determined at the close of business of the Portfolio. Any required additional collateral is delivered to the Custodian and any excess collateral is returned to the borrower on the next business day. In the event the borrower fails to return the loaned securities when due, the Portfolio may take the collateral to replace the securities. If the value of the collateral is less than the purchase cost of replacement securities, the Custodian shall be responsible for any shortfall, but only to the extent that the shortfall is not due to any diminution in collateral value, as defined in the securities lending agreement. The Portfolio is required to maintain the collateral in a segregated account and determine its value each day until the loaned securities are returned. Cash collateral may be invested as determined by the Portfolio. Collateral is returned to the borrower upon settlement of the loan. There were no securities loaned as of December 31, 2014.

(g) 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, 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, passive foreign investment companies, and foreign currency transactions. The reclassifications are done annually at fiscal year end and have no impact on the net asset value of the Portfolios and are designed to present the Portfolio's capital accounts on a tax basis.

(h) Federal Income Taxes: It is the Portfolio's policy to comply with the requirements of the Internal Revenue Code Subchapter M applicable to regulated investment companies and to distribute all of its taxable income to its shareholders. Provided that the Portfolio maintains such compliance, 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 2011-2014. Management does not believe there are any uncertain tax positions that require recognition of a tax liability.

(i) Allocation Methods: The Fund accounts separately for the assets, liabilities and operations of the Portfolio. Expenses directly attributable to the 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 the Portfolio are allocated among the Portfolio's classes based on relative net assets, with the exception of distribution fees and transfer agency fees.

(j) 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 Fees: The fees incurred by the Portfolio, pursuant to the provisions of the Fund's Investment Advisory Agreement with Fred Alger Management, Inc., are payable monthly and computed based on the following rates. The actual rate paid as a percentage of average daily net assets, for the year ended December 31, 2014, is set forth below under

the heading "Actual Rate."

	Tier 1	Tier 2	Tier 3	Actual Rate
Alger Capital Appreciation Portfolio[(a)]	0.810%	0.650%	0.600%	0.810%

[(a)] *Tier 1 rate is paid on assets up to $2 billion, Tier 2 rate is paid on assets between $2 to $4 billion, and Tier 3 rate is paid on assets in excess of $4 billion.*

(b) Administration Fees: Fees incurred by the Portfolio, pursuant to the provisions of the Fund's Fund Administration Agreement with Fred Alger Management, Inc., are payable monthly and computed based on the average daily net assets of the Portfolio at the annual rate of 0.0275%.

(c) Distribution Fees: Class S shares—The Fund has adopted a Distribution Plan pursuant to which Class S shares of the Portfolio pays 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.

(d) Brokerage Commissions: During the year ended December 31, 2014, the Portfolio paid the Alger Inc. $223,712, in connection with securities transactions.

(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, each Portfolio may lend uninvested cash in an amount up to 15% of its net assets to other Funds. If the Portfolio has borrowed from other funds and has aggregate borrowings from all sources that exceed 10% of the Portfolio's total assets, such Portfolio will secure all of its loans from other funds. 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 Portfolio. During the year ended December 31, 2014, the Portfolio incurred interest expense of $25 in connection with interfund loans which is included in interest expenses in the Statement of Operations. During the year ended December 31, 2014, the Portfolio earned interfund loan interest income of $1,594 which is included in interest income in the Statement of Operations. There were no interfund loans outstanding for the year ended December 31, 2014.

(f) 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

(g) Trustee Fees: From January 1, 2014 through March 5, 2014, each Portfolio paid each trustee who is not affiliated with Alger Management or its affiliates $880 for each meeting attended, to a maximum of $3,520 per annum, plus travel expenses incurred for attending the meeting. The Chairman of the Board received an additional annual fee of $22,500 which was paid, pro rata, by all U.S.-registered funds managed by Alger Management. Additionally, each member of the Portfolio's audit committee received $75 from the Portfolio for each

audit committee meeting attended, to a maximum of $300 per annum.

Effective March 6, 2014, each Portfolio pays each trustee who is not affiliated with Alger Management or its affiliates $950 for each meeting attended, to a maximum of $3,800 per annum, plus travel expenses incurred for attending the meeting. The Chairman of the Board receives an additional annual fee of $24,300 which is paid, pro rata, by all U.S.-registered funds sponsored by Alger Management. Additionally, each member of the Portfolio's audit committee receives $81 from the Portfolio for each audit committee meeting attended, to a maximum of $324 per annum.

(h) 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 securities and short-term securities, for the year ended December 31, 2014, were as follows:

	PURCHASES	SALES
Alger Capital Appreciation Portfolio	$694,167,580	$717,270,192

NOTE 5 — Borrowings:

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, 2014, the Portfolio had the following borrowings from its custodian and other portfolios.

	AVERAGE DAILY BORROWING	WEIGHTED AVERAGE INTEREST RATE
Alger Capital Appreciation Portfolio	$ 13,110	1.99%

The highest amount borrowed from its custodian and other portfolios during the year ended December 31, 2014 for the Portfolio was as follows:

	HIGHEST BORROWING
Alger Capital Appreciation Portfolio	$ 3,940,171

NOTE 6 — Share Capital:

The Portfolio has an unlimited number of authorized shares of beneficial interest of $.001 par value for each share class. During the year ended December 31, 2014 and the year ended December 31, 2013, transactions of shares of beneficial interest were as follows:

	FOR THE YEAR ENDED DECEMBER 31, 2014		FOR THE YEAR ENDED DECEMBER 31, 2013	
	SHARES	AMOUNT	SHARES	AMOUNT
Alger Capital Appreciation Portfolio				
Class I-2:				
Shares sold	940,779	$ 72,613,814	1,008,017	$ 71,145,326
Dividends reinvested	990,568	70,993,981	666,501	47,988,079
Shares redeemed	(1,262,854)	(96,339,171)	(1,072,360)	(74,910,118)
Net increase	**668,493**	**$ 47,268,624**	**602,158**	**$ 44,223,287**
Class S:				
Shares sold	134,186	$ 10,066,864	92,849	$ 6,366,862
Dividends reinvested	59,754	4,146,950	29,209	2,049,597
Shares redeemed	(64,868)	(4,860,859)	(76,245)	(5,216,150)
Net increase	**129,072**	**$ 9,352,955**	**45,813**	**$ 3,200,309**

During the year ended December 31, 2014, shares redeemed for the Class I-2 shares of Alger Capital Appreciation Portfolio include redemption-in-kind transactions of 51,493 valued at $4,087,535. The Portfolio had realized gains on these transactions of $659,438 recorded in the Statement of Operations.

NOTE 7 — Income Tax Information:

The tax character of distributions paid during the year ended December 31, 2014 and the year ended December 31, 2013 were as follows:

	FOR THE YEAR ENDED DECEMBER 31, 2014	FOR THE YEAR ENDED DECEMBER 31, 2013
Alger Capital Appreciation Portfolio		
Distributions paid from:		
Ordinary Income	$ 16,094,670	$ 25,810,141
Long-term capital gain	61,263,757	25,054,188
Total distributions paid	**$ 77,358,427**	**$ 50,864,329**

As of December 31, 2014 the components of accumulated gains (losses) on a tax basis were as follows:

Alger Capital Appreciation Portfolio	
Undistributed ordinary income	$ 2,738,709
Undistributed long-term gains	9,585,948
Net accumulated earnings	12,324,657
Capital loss carryforwards	—
Net unrealized appreciation	73,040,191
Total accumulated earnings	$ 85,364,848

At December 31, 2014, the Portfolio, for federal income tax purposes, had no capital loss carryforwards and no capital loss carryforwards were utilized in 2014.

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 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, 988 currency transactions, the tax treatment of partnerships investments, the realization of unrealized appreciation of Passive Foreign Investment Companies, and return of capital from Real Estate Investment Trust investments.

Permanent differences primarily from net operating losses, real estate investment trusts and partnership investments sold by the Portfolios, resulted in the following reclassifications among the Portfolio's components of net assets at December 31, 2014:

Alger Capital Appreciation Portfolio

Accumulated undistributed net investment income (accumulated loss)	$	(649,696)
Accumulated net realized gain (accumulated realized loss)	$	2,043
Paid-in Capital	$	647,653

NOTE 8 — Fair Value Measurements:

The major categories of securities and their respective fair value inputs are detailed in the Portfolio's Schedule of Investments. Based upon the nature, characteristics, and risks associated with its investments as of December 31, 2014, the Portfolio has determined that presenting them by security type and sector is appropriate.

Alger Capital Appreciation Portfolio	TOTAL FUND	LEVEL 1	LEVEL 2	LEVEL 3
COMMON STOCKS				
Consumer Discretionary	$ 83,103,647	$ 83,086,273	$ —	$ 17,374
Consumer Staples	26,523,031	26,523,031	—	—
Energy	17,936,695	17,936,695	—	—
Financials	26,259,424	26,259,424	—	—
Health Care	93,134,195	88,398,680	4,735,515	—
Industrials	60,648,267	60,648,267	—	—
Information Technology	166,949,021	166,699,241	—	249,780
Materials	8,454,265	8,454,265	—	—
Telecommunication Services	3,868,341	3,868,341	—	—
Utilities	2,016,979	2,016,979	—	—
TOTAL COMMON STOCKS	**$ 488,893,865**	**$ 483,891,196**	**$ 4,735,515**	**$ 267,154**
MASTER LIMITED PARTNERSHIP				
Financials	10,985,833	10,985,833	—	—
PREFERRED STOCKS				
Consumer Discretionary	483,803	—	—	483,803
Health Care	919,116	—	—	919,116
Information Technology	1,167,033	—	—	1,167,033
TOTAL PREFERRED STOCKS	**$ 2,569,952**	**—**	**—**	**$ 2,569,952**

Alger Capital Appreciation Portfolio	TOTAL FUND	LEVEL 1	LEVEL 2	LEVEL 3
REAL ESTATE INVESTMENT TRUST				
Financials	3,684,719	3,684,719	—	—
TOTAL INVESTMENTS IN SECURITIES	**$ 506,134,369**	**$ 498,561,748**	**$ 4,735,515**	**$ 2,837,106**

Alger Capital Appreciation Portfolio	FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) Common Stocks
Opening balance at January 1, 2014	$ —
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	(8,211)
Purchases and sales	
Purchases	275,366
Sales	–
Closing balance at December 31, 2014	267,154
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 12/31/2014	$ (8,211)

Alger Capital Appreciation Portfolio	Convertible Note
Opening balance at January 1, 2014	$ 153,177
Transfers into Level 3	—
Transfers out of Level 3	—
Total gains or losses	
Included in net realized gain (loss) on investments	6,574
Included in net unrealized gain (loss) on investments	–
Purchases, sales, and conversions	
Purchases	–
Sales	–
Conversions	(159,751)
Closing balance at December 31, 2014	–
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 12/31/2014	$ –

Alger Capital Appreciation Portfolio		FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) Preferred Stocks
Opening balance at January 1, 2014	$	—
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		209,745
Purchases, sales, and conversions		
Purchases		2,200,456
Sales		–
Conversions		159,751
Closing balance at December 31, 2014		2,569,952
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 12/31/2014	$	209,745

The following table provides quantitative information about our Level 3 fair value measurements of our investments as of December 31, 2014. In addition to the techniques and inputs noted in the table below, according to our valuation policy we may also use other valuation techniques and methodologies when determining our fair value measurements. The table below is not intended to be all-inclusive, but rather provides information on the Level 3 inputs as they relate to our fair value measurements.

		Fair Value December 31, 2014	Valuation Methodology	Unobservable Input	Range
Alger Capital Appreciation Portfolio					
Common Stock	$	17,374	Market Approach	Revenue Multiple EBITDA Multiple	2.7x to 4.3x 15.6x to 46.4x
Common Stock	$	249,780	Income Approach	Discount Rate	10%
Preferred Stocks	$	483,803	Market Approach	Revenue Multiple EBITDA Multiple	2.7x to 4.3x 15.6x to 46.4x
Preferred Stocks	$	2,086,149	Income Approach	Discount Rate	10%

The significant unobservable inputs used in the fair value measurement of the company's securities are revenue and EBITDA multiples, discount rates, and the probabilities of success of certain outcomes. Significant increases and decreases in these inputs in isolation and interrelationships between those inputs could result in significantly higher or lower fair value measurements as noted in the table above.

On December 31, 2014 there were no transfers of securities between Level 1 and Level 2.

Certain of the Portfolio's assets and liabilities are held at carrying amount or face value, which approximates fair value for financial statement purposes. As of December 31, 2014, such assets are categorized within the disclosure hierarchy as follows:

	TOTAL FUND	LEVEL 1	LEVEL 2	LEVEL 3
Cash and Cash equivalents:				
Alger Capital Appreciation Portfolio	$ 19,640,429	$ 19,640,429	—	—

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.

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, may also buy and sell call and put options on equities and equity indices. The Portfolio may purchase call options to increase its exposure to stock market risk and also provide diversification of risk. The Portfolio may purchase put options in order to protect from significant market declines that may occur over a short period of time. The Portfolio may 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.

There were no open derivative instruments as of December, 31, 2014.

NOTE 10 — Affiliated Securities:

The securities listed below are deemed to be affiliates of the Portfolio because the Portfolio or its affiliates owned 5% or more of the company's voting securities during all or part of the year ended December 31, 2014. Purchase and sale transactions and dividend income earned during the period were as follows:

Security	Shares/Par at December 31, 2013	Purchases/ Conversion	Sales/ Conversion	Shares/Par at December 31, 2014	Dividend Income	Realized Gain (Loss)	Value at December 31, 2014
Alger Capital Appreciation Portfolio							
Common Stocks							
Choicestream, Inc.*	–	23,166	–	23,166	–	–	17,374
Preferred Stocks							
Choicestream, Inc. Class A & Class B*	–	645,071	–	645,071	–	–	483,803
Convertible Notes							
Choicestream, Inc.*	153,177	–	(159,751)	–	–	6,574	–

* *Non-income producing security.*

NOTE 11 — Subsequent Events:

Management of the Portfolio has evaluated events that have occurred subsequent to December 31, 2014 through the issuance date of the financial statements. No such events have been identified which require recognition and/or disclosure.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees of The Alger Portfolios and Shareholders of the Alger Capital Appreciation Portfolio:

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of the Alger Capital Appreciation Portfolio (the "Fund"), one of the portfolios comprising The Alger Portfolios, as of December 31, 2014, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of its 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, 2014, 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, 2014, 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.

Deloitte & Touche LLP
New York, New York
February 23, 2015

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, 2014 and ending December 31, 2014.

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, 2014	Ending Account Value December 31, 2014	Expenses Paid During the Six Months Ended December 31, 2014[(a)]	Annualized Expense Ratio For the Six Months Ended December 31, 2014[(b)]
Alger Capital Appreciation Portfolio					
Class I-2	Actual	$ 1,000.00	$ 1,068.00	$ 4.90	0.94%
	Hypothetical[(c)]	1,000.00	1,020.47	4.79	0.94
Class S	Actual	1,000.00	1,066.48	6.30	1.21
	Hypothetical[(c)]	1,000.00	1,019.11	6.16	1.21

(a) *Expenses are equal to the annualized expense ratio of the respective share class, multiplied by the average account value over the period, multiple 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 Global 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 or her 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 (53)	Director of Development, Pennsylvania Ballet 2004-2013; 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. (61)	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 (69)	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
Stephen E. O'Neil (82)	Attorney. Private Investor since 1981. Formerly of Counsel to the law firm of Kohler & Barnes.	1986	25
David Rosenberg (52)	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. (77)	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

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".

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			
Hal Liebes (50) President	Executive Vice President, Chief Operating Officer, Chief Legal Officer and Secretary of Alger Management and Alger Inc.; Director since 2006 of Alger Management, Alger Inc. and Resources.	2005	N/A
Lisa A. Moss (49) Secretary	Senior Vice President since 2009, and Vice President and Assistant General Counsel of Alger Management since 2006.	2006	N/A
Michael D. Martins (49) Treasurer	Senior Vice President of Alger Management; Assistant Treasurer since 2004.	2005	N/A
Anthony S. Caputo (59) Assistant Treasurer	Employed by Alger Management since 1986, currently serving as Vice President.	2007	N/A
Sergio M. Pavone (53) Assistant Treasurer	Employed by Alger Management since 2002, currently serving as Vice President.	2007	N/A
Patrick J. Murphy (44) Chief Compliance Officer	Senior Vice President of Alger Management since 2014.	2014	N/A
Joshua M. Lindauer (27) Assistant Secretary	Employed by Alger Management since 2014.	2014	N/A

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 18, 2014, 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 Fred Alger & Company, Incorporated ("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 such economies of scale. These materials included a presentation and 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 and having no other material relationship with Alger Management or its affiliates.

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 (derived in part from periodic meetings with and presentations by investment management and Portfolio distribution personnel), 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. 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 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 noted that during the year Alger Management had increased the number of experienced investment management personnel providing services to the Portfolios by almost 30 percent, and they 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. They also noted that certain administrative, compliance, reporting and accounting services necessary for the conduct of the Fund's affairs are provided separately under an Fund Administration Agreement and a Shareholder Administrative Services Agreement with Alger Management. The Trustees also considered the control and compliance environment at Alger Management and within the Fund.

Investment Performance of the Portfolios. 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 6/30/14), second-quarter of 2014, 1-, 3-, and 5-year and longer periods to the extent available (and its year-by-year returns), together with supplemental performance data through 8/31/14, and compared them with benchmark and peer-group data for the same periods. They noted that, with the exception of the Small Cap Portfolio, all of the Portfolios surpassed or virtually matched the medians of their peers in the 2014 year to date (and for the 2014 second quarter), with some (Capital Appreciation Portfolio, Large Cap Portfolio and, to a lesser extent, Mid Cap Portfolio) continuing such performance from prior periods and others (SMid Cap Portfolio, Growth & Income Portfolio and Balanced Portfolio) showing promising improvement over prior periods. Capital Appreciation Portfolio, Large Cap Portfolio and Balanced Portfolio also surpassed or virtually met their benchmarks for the year to date and 2014 second quarter, while the other Portfolios fell short. Small Cap Portfolio virtually matched its peer medians for the 2014 second quarter but otherwise underperformed its peer medians and benchmark for the 2014 second-quarter, year-to-date and 1-, 3- and 5-year periods. Representatives of Alger Management discussed with the Trustees the recent performance of each Portfolio and the measures that the firm had instituted or was in the process of instituting to improve the performance of Portfolios that had consistently underperformed. On the basis of these discussions and their review, the Trustees determined that the performance of the Portfolios was acceptable.

Fund Fees and Expense Ratios; Profitability to Alger Management and its Affiliates. 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 the advisory fees and expense ratios of relevantly similar funds. That information indicated that the advisory fees of the Small Cap and Growth & Income Portfolios were below the median for the applicable FUSE reference groups, while those of the Mid Cap, SMid Cap and Large Cap Portfolios were just above the applicable median. Only the fees of the Capital Appreciation and Balanced Portfolios significantly exceeded the applicable median. All of the expense ratios except those of the Small Cap Portfolio exceeded their peer medians; the Trustees noted, however, that the highest expense ratios were for Portfolio classes with low asset levels that suffered thereby in comparison with their peers. 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 four other types of clients, specifically mutual funds for which Alger Management was sub-adviser, separately managed institutional accounts, "wrap programs," and collective investment trusts. The Trustees determined that in all four cases the fees were of doubtful relevance for purposes of comparison with those of the Portfolios because of the 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. The Trustees then 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, 2014. After discussing with representatives of the Adviser and FUSE the expense-allocation practices 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 in each case that, to the extent that Alger Management's and its affiliates' relationships with the Portfolio had been profitable, the profit margin 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. In that connection, they noted that the advisory fee schedules in the Agreement include fee reductions for each Portfolio at specified Portfolio asset levels ("breakpoints"); these have the effect of lowering the Portfolio's overall management fee as the Portfolio grows past a breakpoint, thus sharing with the Portfolio's shareholders economies of scale achieved by Alger Management in managing the growing Portfolio.

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, 2014, 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 Fund Administration Agreement and the Shareholder Administrative Services Agreement, as well as an accounting agency fee, and that Alger Inc. provides a considerable portion of the Portfolios' equity brokerage and receives shareholder servicing fees from the Portfolios as well. The Trustees had been provided with information regarding, and had considered, the administration fee, shareholder administrative services fee, brokerage and shareholder servicing 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 in respect of each Portfolio:

- The Board concluded that the nature, extent and quality of the services provided to the Portfolio by Alger Management are adequate and appropriate.
- The Board determined that the Portfolio's performance was acceptable.
- The Board concluded that the advisory fee paid to Alger Management by the Fund 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. In the case of the SMid Cap Portfolio, the Trustees also noted that Alger Management had voluntarily undertaken to cap the Portfolio's expenses through expense reimbursements and fee waivers, thus in effect lowering the fees it actually received from that Portfolio.
- The Board accepted Alger Management's acknowledgement that economies of scale were likely to be achieved in the management of the Portfolio and determined that the fee breakpoints in the Agreement provided a means by which Alger Management would share the benefits of such economies with Portfolio shareholders.

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

U.S. Consumer Privacy Notice Rev. 01/2011 3/31/11

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**

Who we are	
Who is providing this notice?	Alger includes 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 Global Growth Fund.

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 credit worthiness • 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 Global 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 Board of Trustees has adopted policies and procedures relating to disclosure of the Portfolios' securities. These policies and procedures recognize that there may be legitimate business reasons for holdings to be disclosed and seek to balance those interests to protect the proprietary nature of the trading strategies and implementation thereof by the Portfolio.

Generally, the policies prohibit the release of information concerning portfolio holdings which have not previously been made public to individual investors, institutional investors, intermediaries that distribute the Portfolios' shares and other parties which are not employed by the Manager or its affiliates except when the legitimate business purposes for selective disclosure and other conditions (designed to protect the Portfolio) are acceptable.

The Portfolio makes its full holdings available semi-annually in shareholder reports filed on Form N-CSR and after the first and third fiscal quarters in regulatory filings on Form N-Q. These shareholder reports and regulatory filings are filed with the SEC, as required by federal securities laws, and are generally available within sixty (60) days of the end of the Portfolios' fiscal quarter. The Portfolios 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.

In addition, the Portfolio makes its publicly available their respective month-end top 10 holdings with a 15 day lag and their month-end full portfolios with a 60 day lag on their website www.alger.com and through other marketing communications (including printed advertising/sales literature and/or shareholder telephone customer service centers). No compensation or other consideration is received for the non-public disclosure of portfolio holdings information.

In accordance with the foregoing, the Portfolio provides portfolio holdings information to service providers who provide necessary or beneficial services when such service providers need access to this information in the performance of their services and are subject to duties of confidentiality (1) imposed by law, including a duty not to trade on non-public information, and/or (2) pursuant to an agreement that confidential information is not to be disclosed or used (including trading on such information) other than as required by law. From time to time, the Fund will communicate with these service providers to confirm that they understand the Portfolios' policies and procedures regarding such disclosure. This agreement must be approved by the Portfolio's Chief Compliance Officer, President or Secretary.

The Board of Trustees periodically reviews a report disclosing the third parties to whom each Portfolios holdings information has been disclosed and the purpose for such disclosure, and it considers whether or not the release of information to such third parties is in the best interest of the Portfolio and its shareholders.

In addition to material the Portfolio routinely provide to shareholders, the Manager may, upon request, make additional statistical information available regarding the Portfolio. Such information will include, but not be limited to, relative weightings and characteristics of the Fund's portfolio versus its peers or an index (such as P/E ratio, alpha, beta, capture ratio, standard deviation, EPS forecasts, Sharpe ratio, information ratio, R-squared, and market cap analysis), security specific impact on overall portfolio performance, month-end top ten contributors to and detractors from performance, breakdown of High Unit Volume Growth holdings vs. Positive Lifecycle Change holdings, portfolio turnover, and requests of a similar nature. Please contact the Funds at (800) 992-3863 to obtain such information.

THE ALGER PORTFOLIOS

360 Park Avenue South
New York, NY 10010
(800) 992-3863
www.alger.com

Investment Manager

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 Alger Capital Appreciation Portfolio. It is not authorized for distribution to prospective investors unless accompanied by an effective prospectus for the Fund, which contains information concerning the Fund's investment policies, fees and expenses as well as other pertinent information.

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ALGER

Inspired by Change, Driven by Growth.

Deutsche Asset
& Wealth Management

December 31, 2014

Annual Report

Deutsche Variable Series I

(formerly DWS Variable Series I)

Deutsche Bond VIP

(formerly DWS Bond VIP)

Contents

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, credit, liquidity and market risks to varying degrees. 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 ("junk bonds") 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.

Deutsche Asset & Wealth Management represents the asset management and wealth management activities conducted by Deutsche Bank AG or any of its subsidiaries, including the Advisor and DeAWM Distributors, Inc.

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

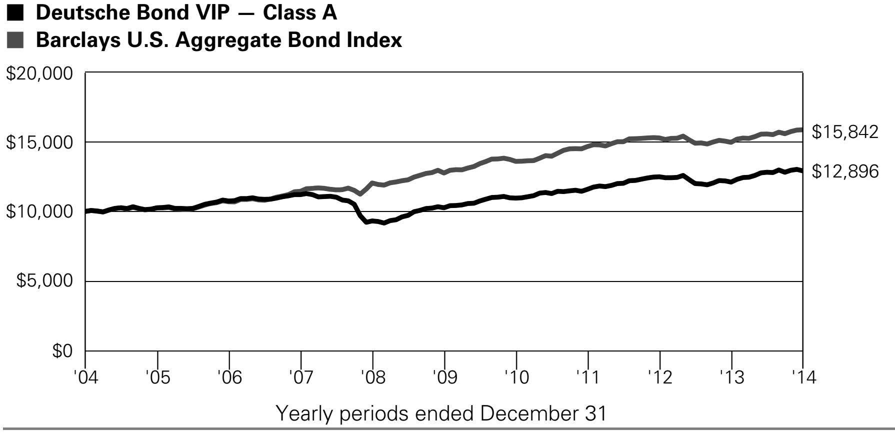
Performance Summary

December 31, 2014 (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, 2014 is 0.65% 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 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

Deutsche Bond VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,663	$11,144	$12,577	$12,896
	Average annual total return	6.63%	3.68%	4.69%	2.58%
Barclays U.S. Aggregate Bond Index	Growth of $10,000	$10,597	$10,820	$12,431	$15,842
	Average annual total return	5.97%	2.66%	4.45%	4.71%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2014 (Unaudited)

During the 12-month period ended December 31, 2014, the Fund provided a total return of 6.63% (Class A shares, unadjusted for contract charges), compared with the 5.97% return of its benchmark, the Barclays U.S. Aggregate Bond Index.[1]

During the period, the U.S. Federal Reserve Board (the Fed) continued to maintain its benchmark short-term rate at or near zero levels, while feeling free to wind down its bond purchases designed to lower longer-term interest rates in view of a gradually improving U.S. economy. Nonetheless, longer-term U.S. Treasury yields declined substantially over the 12-month period, as markets remained comfortable with the pace of the Fed's inevitable unwinding of its extraordinary monetary support. For much of 2014, U.S. assets generally were supported by geopolitical tensions abroad and concern over possible deflation in other major economies. In addition, a sharp decline in energy prices over the second half of 2014 provided a boost to the U.S. consumer and to the economy. Credit-oriented sectors performed well for most of the period, as investors continued to seek higher yields than those available on U.S. Treasuries. However, markets saw an increase in risk aversion and a weakening in credit sentiment late in the period, on heightened fears of deflation globally and the negative impact on Russia and other emerging economies from the slide in oil prices, among other factors.

The Fund's performance vs. the benchmark was driven principally by exposure to more credit-sensitive fixed-income sectors. This included our exposure to investment-grade corporate bonds, as well as to high-yield corporate and emerging-market-bonds, at the expense of agency mortgage-backed and U.S. Treasury securities. However, some of this performance advantage was reversed in the fourth quarter as credit sentiment softened. The Fund's exposures to collateralized mortgage obligations, commercial mortgage-backed securities and asset backed securities benefited from our focus on issues structured to perform relatively well in a falling rate environment. Finally, for much of the period, the Fund was positioned with a higher overall duration and corresponding interest-rate sensitivity than the benchmark, which helped relative returns as rates fell. We remain comfortable with our overall emphasis on earning the higher yields available in credit sectors. With U.S. inflation remaining below target, there would not appear to be any urgency on the part of the Fed to raise rates. That said, there is more room for rates to rise than fall, and we are maintaining a relatively neutral stance with respect to interest-rate sensitivity. Given the heightened geopolitical risks, we expect there could be opportunities to add value in security selection on volatility. We remain cautious with respect to investment-grade corporates given current valuations and company leverage levels, and continue to look for opportunities to rotate into other sectors.

William Chepolis, CFA
John D. Ryan
Gary Russell, CFA
Portfolio Managers

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.

1 The Barclays 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.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Total Net Assets)	**12/31/14**	**12/31/13**
Government & Agency Obligations	31%	24%
Corporate Bonds	31%	40%
Mortgage-Backed Securities Pass-Throughs	18%	27%
Collateralized Mortgage Obligations	6%	6%
Commercial Mortgage-Backed Securities	4%	6%
Cash Equivalents and other Assets and Liabilities, net	4%	–12%
Municipal Bonds and Notes	4%	7%
Asset-Backed	2%	2%
	100%	100%

Quality (Excludes Cash Equivalents and Securities Lending Collateral)	**12/31/14**	**12/31/13**
AAA	53%	49%
AA	7%	9%
A	5%	9%
BBB	17%	18%
BB or Below	17%	12%
Not Rated	1%	3%
	100%	100%

Interest Rate Sensitivity	**12/31/14**	**12/31/13**
Effective Maturity	6.7 years	7.7 years
Effective Duration	4.7 years	6.2 years

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.

Portfolio holdings and characteristics 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 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 deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

Investment Portfolio

December 31, 2014

	Principal Amount ($)(a)	Value ($)
Corporate Bonds 30.9%		
Consumer Discretionary 1.5%		
AMC Entertainment, Inc., 5.875%, 2/15/2022	15,000	15,225
AmeriGas Finance LLC:		
6.75%, 5/20/2020	15,000	15,450
7.0%, 5/20/2022	10,000	10,350
Apex Tool Group LLC, 144A, 7.0%, 2/1/2021	15,000	12,825
APX Group, Inc., 6.375%, 12/1/2019	15,000	14,363
Ashton Woods U.S.A. LLC, 144A, 6.875%, 2/15/2021	25,000	23,812
Avis Budget Car Rental LLC, 5.5%, 4/1/2023 (b)	15,000	15,300
Bed Bath & Beyond, Inc.:		
4.915%, 8/1/2034	130,000	134,144
5.165%, 8/1/2044	150,000	156,943
Cablevision Systems Corp., 5.875%, 9/15/2022	5,000	5,063
Cequel Communications Holdings I LLC:		
144A, 5.125%, 12/15/2021	5,000	4,850
144A, 6.375%, 9/15/2020	80,000	82,800
Clear Channel Worldwide Holdings, Inc.:		
Series A, 6.5%, 11/15/2022	15,000	15,263
Series B, 6.5%, 11/15/2022	25,000	25,750
Series B, 7.625%, 3/15/2020	75,000	78,937
Columbus International, Inc., 144A, 7.375%, 3/30/2021	200,000	208,000
Delphi Corp., 5.0%, 2/15/2023	20,000	21,350
DISH DBS Corp.:		
4.25%, 4/1/2018	15,000	15,319
5.0%, 3/15/2023	20,000	19,350
7.875%, 9/1/2019	90,000	102,150
Hot Topic, Inc., 144A, 9.25%, 6/15/2021	10,000	10,700
Live Nation Entertainment, Inc., 144A, 7.0%, 9/1/2020	20,000	21,100
MDC Partners, Inc., 144A, 6.75%, 4/1/2020	20,000	20,600
Mediacom Broadband LLC:		
5.5%, 4/15/2021	5,000	5,025
6.375%, 4/1/2023	10,000	10,250
MGM Resorts International:		
6.625%, 12/15/2021	40,000	42,000
6.75%, 10/1/2020	42,000	44,100
8.625%, 2/1/2019	60,000	68,025
Numericable-SFR, 144A, 4.875%, 5/15/2019	30,000	29,737
Pinnacle Entertainment, Inc., 6.375%, 8/1/2021	10,000	10,300
Quebecor Media, Inc., 5.75%, 1/15/2023	15,000	15,337
Sirius XM Radio, Inc., 144A, 5.875%, 10/1/2020	10,000	10,300
Springs Industries, Inc., 6.25%, 6/1/2021	10,000	9,950
Starz LLC, 5.0%, 9/15/2019	10,000	10,075
Taylor Morrison Communities, Inc., 144A, 5.25%, 4/15/2021	15,000	14,775
Time Warner Cable, Inc., 7.3%, 7/1/2038	165,000	227,511
Viking Cruises Ltd., 144A, 8.5%, 10/15/2022	15,000	16,237
		1,543,266
Consumer Staples 1.3%		
Cencosud SA, 144A, 4.875%, 1/20/2023	200,000	196,614
Chiquita Brands International, Inc., 7.875%, 2/1/2021	9,000	9,675
JBS Investments GmbH:		
144A, 7.25%, 4/3/2024	30,000	29,475
144A, 7.75%, 10/28/2020	200,000	207,100
JBS U.S.A. LLC:		
144A, 7.25%, 6/1/2021	30,000	30,900
144A, 8.25%, 2/1/2020	115,000	121,037
Marfrig Overseas Ltd., 144A, 9.5%, 5/4/2020	100,000	101,000
Minerva Luxembourg SA, 144A, 7.75%, 1/31/2023	250,000	245,000
Post Holdings, Inc., 144A, 6.75%, 12/1/2021	5,000	4,850
Reynolds Group Issuer, Inc., 5.75%, 10/15/2020	325,000	333,125
Roundy's Supermarkets, Inc., 144A, 10.25%, 12/15/2020	5,000	4,350
Smithfield Foods, Inc., 6.625%, 8/15/2022	20,000	20,900
		1,304,026
Energy 5.5%		
Afren PLC, 144A, 10.25%, 4/8/2019	500,000	325,000
Antero Resources Finance Corp., 5.375%, 11/1/2021	5,000	4,838
Berry Petroleum Co., LLC:		
6.375%, 9/15/2022	15,000	11,400
6.75%, 11/1/2020	25,000	20,000
BreitBurn Energy Partners LP, 7.875%, 4/15/2022	15,000	11,587
Chaparral Energy, Inc., 7.625%, 11/15/2022	25,000	16,375
Crestwood Midstream Partners LP, 6.125%, 3/1/2022	10,000	9,550
DCP Midstream LLC, 144A, 9.75%, 3/15/2019	760,000	950,613
Delek & Avner Tamar Bond Ltd., 144A, 5.082%, 12/30/2023	500,000	498,907
Ecopetrol SA, 5.875%, 5/28/2045	450,000	416,250
Endeavor Energy Resources LP, 144A, 7.0%, 8/15/2021	35,000	30,975
GeoPark Latin America Ltd. Agencia en Chile, 144A, 7.5%, 2/11/2020	200,000	175,000
Halcon Resources Corp., 8.875%, 5/15/2021	25,000	18,812
Inkia Energy Ltd., 144A, 8.375%, 4/4/2021	250,000	265,000
Kinder Morgan, Inc.:		
3.05%, 12/1/2019	240,000	238,092
5.55%, 6/1/2045	160,000	163,877
Linn Energy LLC, 6.25%, 11/1/2019	45,000	38,025
MEG Energy Corp., 144A, 7.0%, 3/31/2024	30,000	27,150
Midstates Petroleum Co., Inc., 10.75%, 10/1/2020	20,000	10,600

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	Principal Amount ($)(a)	Value ($)
Murphy Oil U.S.A., Inc., 6.0%, 8/15/2023	20,000	20,900
Nostrum Oil & Gas Finance BV, 144A, 6.375%, 2/14/2019	200,000	172,000
Offshore Drilling Holding SA, 144A, 8.625%, 9/20/2020	200,000	174,000
Pacific Rubiales Energy Corp., 144A, 5.625%, 1/19/2025	226,000	173,455
Petroleos de Venezuela SA:		
144A, 9.0%, 11/17/2021	200,000	87,500
144A, 9.75%, 5/17/2035	200,000	89,000
Petroleos Mexicanos, 2.251%*, 7/18/2018	250,000	252,750
PT Pertamina Persero, 144A, 5.625%, 5/20/2043	1,000,000	940,000
Transocean, Inc., 3.8%, 10/15/2022 (b)	555,000	449,730
		5,591,386
Financials 10.2%		
Aflac, Inc., 3.625%, 11/15/2024 (b)	230,000	234,511
Banco Continental SAECA, 144A, 8.875%, 10/15/2017	200,000	210,000
Banco do Brasil SA, 144A, 9.0%, 6/29/2049	200,000	186,000
Bank of China Ltd., 144A, 5.0%, 11/13/2024	200,000	205,514
Barclays Bank PLC, 7.625%, 11/21/2022	1,090,000	1,191,833
BBVA Bancomer SA, 144A, 6.75%, 9/30/2022	150,000	165,000
CBL & Associates LP, (REIT), 4.6%, 10/15/2024	410,000	415,233
China Overseas Finance Cayman II Ltd., REG S, 5.5%, 11/10/2020	250,000	270,229
CIT Group, Inc., 3.875%, 2/19/2019	65,000	64,838
Country Garden Holdings Co., Ltd., 144A, 11.125%, 2/23/2018	200,000	212,102
Credit Agricole SA, 144A, 7.875%, 1/29/2049	200,000	203,507
Credito Real SAB de CV, 144A, 7.5%, 3/13/2019	200,000	202,500
Development Bank of Kazakhstan JSC, Series 3, REG S, 6.5%, 6/3/2020	500,000	508,750
E*TRADE Financial Corp., 6.375%, 11/15/2019	40,000	42,400
Everest Reinsurance Holdings, Inc., 4.868%, 6/1/2044	170,000	178,043
Hospitality Properties Trust, (REIT), 5.0%, 8/15/2022	380,000	400,436
HSBC Holdings PLC:		
5.625%, 12/29/2049	410,000	411,435
6.375%, 12/29/2049	460,000	464,600
International Lease Finance Corp., 6.25%, 5/15/2019	5,000	5,463
Macquarie Group Ltd., 144A, 6.0%, 1/14/2020	825,000	934,456
Morgan Stanley, Series H, 5.45%, 7/29/2049	10,000	10,018
Nationwide Financial Services, Inc., 144A, 5.3%, 11/18/2044	220,000	232,090
Navient Corp., 5.5%, 1/25/2023	630,000	603,225
Neuberger Berman Group LLC, 144A, 5.875%, 3/15/2022	155,000	163,137
Omega Healthcare Investors, Inc., (REIT), 4.95%, 4/1/2024	505,000	525,523
QBE Insurance Group Ltd., 144A, 2.4%, 5/1/2018	260,000	260,027
Royal Bank of Scotland Group PLC, 6.1%, 6/10/2023	100,000	108,459
Scentre Group Trust 1, 144A, 3.5%, 2/12/2025	535,000	537,093
Schahin II Finance Co. SPV Ltd., 144A, 5.875%, 9/25/2022 (b)	179,867	144,568
Societe Generale SA, 144A, 7.875%, 12/29/2049	20,000	19,375
The Goldman Sachs Group, Inc., Series L, 5.7%, 12/29/2049 (b)	15,000	15,173
TIAA Asset Management Finance Co., LLC:		
144A, 2.95%, 11/1/2019	405,000	405,784
144A, 4.125%, 11/1/2024	335,000	343,179
Trust F/1401, (REIT), 144A, 5.25%, 12/15/2024	500,000	515,050
		10,389,551
Health Care 1.1%		
Aviv Healthcare Properties LP, 6.0%, 10/15/2021	5,000	5,200
Biomet, Inc.:		
6.5%, 8/1/2020	25,000	26,750
6.5%, 10/1/2020	5,000	5,275
Community Health Systems, Inc.:		
5.125%, 8/1/2021	5,000	5,188
6.875%, 2/1/2022 (b)	10,000	10,594
7.125%, 7/15/2020	125,000	133,281
Endo Finance LLC, 144A, 5.75%, 1/15/2022	15,000	15,000
HCA, Inc.:		
6.5%, 2/15/2020	235,000	263,317
7.5%, 2/15/2022	190,000	217,075
IMS Health, Inc., 144A, 6.0%, 11/1/2020	15,000	15,450
LifePoint Hospitals, Inc, 5.5%, 12/1/2021	15,000	15,338
Mallinckrodt International Finance SA, 4.75%, 4/15/2023	110,000	105,600
Medtronic, Inc., 144A, 4.625%, 3/15/2045	150,000	162,598
Par Pharmaceutical Companies, Inc., 7.375%, 10/15/2020	20,000	20,900
Tenet Healthcare Corp., 6.25%, 11/1/2018	60,000	65,100
		1,066,666
Industrials 1.6%		
ADT Corp.:		
4.125%, 4/15/2019	5,000	4,950
6.25%, 10/15/2021	10,000	10,275
Artesyn Embedded Technologies, Inc., 144A, 9.75%, 10/15/2020	15,000	14,213
Belden, Inc., 144A, 5.5%, 9/1/2022	25,000	24,812
Bombardier, Inc.:		
144A, 4.75%, 4/15/2019	10,000	10,038
144A, 5.75%, 3/15/2022	90,000	91,125
144A, 6.0%, 10/15/2022	15,000	15,150
Covanta Holding Corp., 5.875%, 3/1/2024	10,000	10,175
CTP Transportation Products LLC, 144A, 8.25%, 12/15/2019	15,000	15,825
DigitalGlobe, Inc., 144A, 5.25%, 2/1/2021	10,000	9,500
Empresas ICA SAB de CV, 144A, 8.875%, 5/29/2024	200,000	183,000

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	Principal Amount ($)(a)	Value ($)
Florida East Coast Holdings Corp., 144A, 6.75%, 5/1/2019	5,000	4,950
FTI Consulting, Inc., 6.0%, 11/15/2022	15,000	15,338
Garda World Security Corp., 144A, 7.25%, 11/15/2021	15,000	14,850
GenCorp, Inc., 7.125%, 3/15/2021	35,000	36,655
Grupo KUO SAB de CV, 144A, 6.25%, 12/4/2022	200,000	196,900
Kenan Advantage Group, Inc., 144A, 8.375%, 12/15/2018	35,000	36,050
Meritor, Inc.:		
6.25%, 2/15/2024	10,000	10,150
6.75%, 6/15/2021	15,000	15,675
Navios Maritime Holdings, Inc., 144A, 7.375%, 1/15/2022	45,000	41,175
Noble Group Ltd., 144A, 6.625%, 8/5/2020	250,000	256,250
Odebrecht Offshore Drilling Finance Ltd., 144A, 6.75%, 10/1/2022	188,500	172,477
Oshkosh Corp., 5.375%, 3/1/2022	8,000	8,160
SBA Communications Corp., 5.625%, 10/1/2019	15,000	15,338
Spirit AeroSystems, Inc., 5.25%, 3/15/2022	15,000	15,263
Titan International, Inc., 6.875%, 10/1/2020	35,000	30,800
TransDigm, Inc., 7.5%, 7/15/2021	20,000	21,300
United Rentals North America, Inc.:		
6.125%, 6/15/2023	5,000	5,250
7.625%, 4/15/2022	85,000	93,457
Votorantim Cimentos SA, 144A, 7.25%, 4/5/2041	200,000	206,000
		1,585,101
Information Technology 2.0%		
ACI Worldwide, Inc., 144A, 6.375%, 8/15/2020	5,000	5,225
Activision Blizzard, Inc., 144A, 5.625%, 9/15/2021	50,000	52,500
Audatex North America, Inc., 144A, 6.0%, 6/15/2021	10,000	10,300
BMC Software Finance, Inc., 144A, 8.125%, 7/15/2021	5,000	4,700
CDW LLC, 8.5%, 4/1/2019	64,000	67,440
CyrusOne LP, 6.375%, 11/15/2022	5,000	5,337
Entegris, Inc., 144A, 6.0%, 4/1/2022	10,000	10,125
Equinix, Inc., 5.375%, 4/1/2023	45,000	45,000
First Data Corp.:		
144A, 6.75%, 11/1/2020	68,000	72,590
144A, 7.375%, 6/15/2019	190,000	199,975
144A, 8.75%, 1/15/2022 (PIK)	30,000	32,250
Freescale Semiconductor, Inc., 144A, 6.0%, 1/15/2022	15,000	15,675
Hughes Satellite Systems Corp.:		
6.5%, 6/15/2019	15,000	16,087
7.625%, 6/15/2021	50,000	55,000
KLA-Tencor Corp., 4.65%, 11/1/2024	575,000	595,267
NCR Corp.:		
5.875%, 12/15/2021	5,000	5,138
6.375%, 12/15/2023	10,000	10,400
Seagate HDD Cayman, 144A, 5.75%, 12/1/2034	410,000	432,400

	Principal Amount ($)(a)	Value ($)
Tencent Holdings Ltd., 144A, 3.375%, 5/2/2019	400,000	406,575
		2,041,984
Materials 4.6%		
Anglo American Capital PLC:		
144A, 4.125%, 4/15/2021	350,000	351,176
144A, 4.125%, 9/27/2022 (b)	750,000	742,672
ArcelorMittal, 6.125%, 6/1/2018	500,000	533,125
Berry Plastics Corp., 5.5%, 5/15/2022	25,000	25,375
Evraz Group SA, 144A, 6.75%, 4/27/2018	400,000	333,500
First Quantum Minerals Ltd.:		
144A, 6.75%, 2/15/2020	36,000	32,580
144A, 7.0%, 2/15/2021	31,000	27,900
FMG Resources (August 2006) Pty Ltd., 144A, 6.0%, 4/1/2017 (b)	375,000	358,594
Fresnillo PLC, 144A, 5.5%, 11/13/2023	200,000	196,000
Glencore Funding LLC, 144A, 4.125%, 5/30/2023	50,000	48,788
GTL Trade Finance, Inc., 144A, 5.893%, 4/29/2024	1,000,000	965,000
Hexion U.S. Finance Corp.:		
6.625%, 4/15/2020	100,000	98,000
8.875%, 2/1/2018	20,000	17,800
Novelis, Inc., 8.75%, 12/15/2020	265,000	280,900
Plastipak Holdings, Inc., 144A, 6.5%, 10/1/2021	15,000	14,925
Polymer Group, Inc., 7.75%, 2/1/2019	58,000	60,102
Turkiye Sise ve Cam Fabrikalari AS, 144A, 4.25%, 5/9/2020	200,000	195,189
Yamana Gold, Inc., 4.95%, 7/15/2024	405,000	395,271
		4,676,897
Telecommunication Services 2.9%		
B Communications Ltd., 144A, 7.375%, 2/15/2021	15,000	15,863
Bharti Airtel International Netherlands BV, 144A, 5.125%, 3/11/2023	400,000	426,912
CenturyLink, Inc.:		
Series V, 5.625%, 4/1/2020	5,000	5,188
Series W, 6.75%, 12/1/2023 (b)	10,000	10,950
Cincinnati Bell, Inc., 8.375%, 10/15/2020	235,000	246,750
Digicel Group Ltd., 144A, 8.25%, 9/30/2020	42,000	40,740
Digicel Ltd., 144A, 8.25%, 9/1/2017	195,000	197,437
Frontier Communications Corp.:		
7.125%, 1/15/2023	110,000	111,925
8.5%, 4/15/2020	55,000	61,325
Intelsat Jackson Holdings SA:		
5.5%, 8/1/2023	30,000	29,817
7.5%, 4/1/2021	270,000	288,900
Level 3 Communications, Inc., 8.875%, 6/1/2019	80,000	84,816
Level 3 Financing, Inc.:		
6.125%, 1/15/2021	10,000	10,350
7.0%, 6/1/2020	100,000	105,375
Millicom International Cellular SA, 144A, 4.75%, 5/22/2020	200,000	188,500
MTN Mauritius Investments Ltd., 144A, 4.755%, 11/11/2024	250,000	245,000

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	Principal Amount ($)(a)	Value ($)
Sprint Communications, Inc.:		
6.0%, 11/15/2022	25,000	23,000
144A, 9.0%, 11/15/2018	30,000	34,122
Sprint Corp., 7.125%, 6/15/2024	15,000	13,950
T-Mobile U.S.A., Inc.:		
6.125%, 1/15/2022	5,000	5,075
6.625%, 11/15/2020	175,000	178,062
Turk Telekomunikasyon AS, 144A, 3.75%, 6/19/2019	250,000	250,750
Windstream Corp.:		
6.375%, 8/1/2023	15,000	14,025
7.5%, 4/1/2023	5,000	4,975
7.75%, 10/15/2020	325,000	334,750
7.75%, 10/1/2021	40,000	40,800
		2,969,357
Utilities 0.2%		
AES Corp., 8.0%, 10/15/2017	3,000	3,368
Majapahit Holding BV, REG S, 7.75%, 10/17/2016	100,000	109,625
NRG Energy, Inc., 144A, 6.25%, 5/1/2024	45,000	45,787
		158,780
Total Corporate Bonds (Cost $31,900,498)		**31,327,014**

Mortgage-Backed Securities Pass-Throughs 18.2%

	Principal Amount ($)(a)	Value ($)
Federal Home Loan Mortgage Corp.:		
4.0%, 8/1/2039	686,154	736,597
5.5%, with various maturities from 10/1/2023 until 6/1/2035	1,664,437	1,870,202
6.5%, 3/1/2026	249,894	279,372
Federal National Mortgage Association:		
2.25%*, 9/1/2038	48,538	52,026
4.0%, 3/1/2042 (c)	10,300,000	10,996,859
5.0%, with various maturities from 10/1/2033 until 8/1/2040	1,454,338	1,611,464
5.5%, with various maturities from 12/1/2032 until 8/1/2037	1,642,250	1,840,004
6.0%, with various maturities from 4/1/2024 until 3/1/2025	465,795	527,095
6.5%, with various maturities from 3/1/2017 until 12/1/2037	491,748	556,305
Total Mortgage-Backed Securities Pass-Throughs (Cost $18,008,880)		**18,469,924**

Asset-Backed 2.0%

Automobile Receivables 1.7%

	Principal Amount ($)(a)	Value ($)
AmeriCredit Automobile Receivables Trust, "E", Series 2011-2, 144A, 5.48%, 9/10/2018	1,680,575	**1,720,563**
Miscellaneous 0.3%		
Hilton Grand Vacations Trust, "B", Series 2014-AA, 144A, 2.07%, 11/25/2026	355,017	**349,222**
Total Asset-Backed (Cost $2,128,522)		**2,069,785**

Commercial Mortgage-Backed Securities 4.1%

	Principal Amount ($)(a)	Value ($)
Banc of America Merrill Lynch Commercial Mortgage, Inc., "A2", Series 2007-2, 5.622%*, 4/10/2049	18,844	18,847
BLCP Hotel Trust, "C", Series 2014-CLRN, 144A, 2.111%*, 8/15/2029	500,000	500,502
Del Coronado Trust, "M", Series 2013-HDMZ, 144A, 5.161%*, 3/15/2018	125,000	125,100
JPMorgan Chase Commercial Mortgage Securities Corp.:		
"C", Series 2012-HSBC, 144A, 4.021%, 7/5/2032	230,000	240,519
"A4", Series 2007-C1, 5.716%, 2/15/2051	956,036	1,028,201
"F", Series 2007-LD11, 5.787%*, 6/15/2049	650,000	32,500
"G", Series 2007-LD11, 144A, 5.787%*, 6/15/2049	415,019	8,300
LB-UBS Commercial Mortgage Trust, "A4", Series 2007-C6, 5.858%, 7/15/2040	1,232,161	1,300,183
Merrill Lynch Mortgage Trust, "ASB", Series 2007-C1, 5.835%*, 6/12/2050	788,946	826,425
Wachovia Bank Commercial Mortgage Trust, "H", Series 2007-C32, 144A, 5.716%*, 6/15/2049	770,000	83,260
Total Commercial Mortgage-Backed Securities (Cost $5,705,320)		**4,163,837**

Collateralized Mortgage Obligations 6.0%

	Principal Amount ($)(a)	Value ($)
Countrywide Home Loans, "A2", Series 2006-1, 6.0%, 3/25/2036	350,118	330,674
CS First Boston Mortgage Securities Corp., "10A3", Series 2005-10, 6.0%, 11/25/2035	115,341	81,853
Federal Home Loan Mortgage Corp.:		
"ZG", Series 4213, 3.5%, 6/15/2043	1,214,947	1,217,361
"JS", Series 3572, Interest Only, 6.639%**, 9/15/2039	617,635	95,892
Federal National Mortgage Association:		
"QD", Series 2005-29, 5.0%, 8/25/2033	33,478	33,724
"SI", Series 2007-23, Interest Only, 6.601%**, 3/25/2037	244,244	33,523
Freddie Mac Structured Agency Credit Risk Debt Notes:		
"M3", Series 2014-DN2, 3.755%*, 4/25/2024	500,000	460,398
"M3", Series 2014-DN4, 4.705%*, 10/25/2024	240,000	235,017
Government National Mortgage Association:		
"PL", Series 2013-19, 2.5%, 2/20/2043	684,500	642,598
"HX", Series 2012-91, 3.0%, 9/20/2040	394,649	411,465
"KZ", Series 2014-102, 3.5%, 7/16/2044	1,869,242	1,918,534
"EI", Series 2011-162, Interest Only, 4.5%, 5/20/2040	1,354,755	150,748
"DI", Series 2011-40, Interest Only, 4.5%, 12/20/2040	2,874,804	224,796

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		Principal Amount ($)(a)	Value ($)
"IM", Series 2010-87, Interest Only, 4.75%, 3/20/2036		496,484	10,507
"IN", Series 2009-69, Interest Only, 5.5%, 8/20/2039		162,284	26,841
"IV", Series 2009-69, Interest Only, 5.5%, 8/20/2039		319,645	55,187
"IJ", Series 2009-75, Interest Only, 6.0%, 8/16/2039		134,757	24,219
"AI", Series 2007-38, Interest Only, 6.299%**, 6/16/2037		83,386	13,382
MASTR Alternative Loans Trust:			
"5A1", Series 2005-1, 5.5%, 1/25/2020		98,054	102,391
"8A1", Series 2004-3, 7.0%, 4/25/2034		8,778	9,053
Total Collateralized Mortgage Obligations (Cost $5,945,392)			**6,078,163**

Government & Agency Obligations 31.4%

Other Government Related (d) 1.8%

Banco de Costa Rica, 144A, 5.25%, 8/12/2018		500,000	503,750
New Zealand Local Government Funding Agency, 5.5%, 4/15/2023	NZD	1,410,000	1,180,997
TMK OAO, 144A, 6.75%, 4/3/2020		250,000	140,000
			1,824,747

Sovereign Bonds 5.3%

Republic of Belarus, REG S, 8.75%, 8/3/2015		500,000	470,850
Republic of Costa Rica, 144A, 4.25%, 1/26/2023		200,000	183,000
Republic of Croatia, 144A, 6.75%, 11/5/2019		640,000	700,800
Republic of El Salvador:			
144A, 6.375%, 1/18/2027		100,000	100,250
144A, 7.65%, 6/15/2035		200,000	212,000
REG S, 8.25%, 4/10/2032		40,000	45,600
Republic of Hungary:			
4.0%, 3/25/2019		200,000	205,500
Series 19/A, 6.5%, 6/24/2019	HUF	11,600,000	50,664
Republic of Italy, REG S, 144A, 4.75%, 9/1/2044	EUR	850,000	1,332,107
Republic of New Zealand, Series 0427, REG S, 4.5%, 4/15/2027	NZD	1,130,000	940,206
Republic of Peru, 144A, 5.7%, 8/12/2024	PEN	300,000	100,461
Republic of Slovenia, 144A, 5.5%, 10/26/2022		200,000	221,750
Republic of South Africa:			
5.875%, 9/16/2025 (b)		100,000	112,625
Series R204, 8.0%, 12/21/2018	ZAR	1,050,000	93,003
Republic of Sri Lanka, 144A, 5.125%, 4/11/2019		200,000	201,500
Republic of Turkey, 5.625%, 3/30/2021		250,000	274,687
United Mexican States:			
Series M, 4.75%, 6/14/2018	MXN	1,300,000	87,917
Series M 20, 8.5%, 5/31/2029	MXN	650,000	53,235
			5,386,155

	Principal Amount ($)(a)	Value ($)
U.S. Treasury Obligations 24.3%		
U.S. Treasury Bills:		
0.035%***, 2/12/2015 (e)	623,000	622,988
0.085%***, 6/11/2015 (e)	181,000	180,948
U.S. Treasury Bonds:		
3.125%, 8/15/2044	110,000	118,422
3.625%, 2/15/2044	261,000	307,144
U.S. Treasury Notes:		
0.375%, 4/30/2016	1,000,000	999,844
1.0%, 8/31/2016 (f) (g)	12,650,000	12,744,875
1.0%, 9/30/2016	1,000,000	1,007,344
1.625%, 4/30/2019	6,640,000	6,662,828
2.25%, 11/15/2024	657,000	661,414
2.5%, 5/15/2024	1,238,000	1,275,333
		24,581,140
Total Government & Agency Obligations (Cost $31,718,201)		**31,792,042**

Municipal Bonds and Notes 3.4%

Gwinnett County, GA, Development Authority Revenue, Gwinnett Stadium Project, 6.4%, 1/1/2028	655,000	720,513
Kentucky, Asset/Liability Commission, General Fund Revenue, 3.165%, 4/1/2018	1,343,606	1,384,492
Port Authority New York & New Jersey, One Hundred Fiftieth Series, 4.75%, 9/15/2016	930,000	985,521
Washington, Central Puget Sound Regional Transit Authority, Sales & Use Tax Revenue, Series A, 5.0%, 11/1/2036	285,000	311,673
Total Municipal Bonds and Notes (Cost $3,204,620)		**3,402,199**

	Shares	Value ($)
Preferred Stock 0.0%		
Financials		
Ally Financial, Inc., Series G, 144A, 7.0% (Cost $27,480)	28	**28,129**
Securities Lending Collateral 2.1%		
Daily Assets Fund Institutional, 0.10% (h) (i) (Cost $2,108,927)	2,108,927	**2,108,927**
Cash Equivalents 14.8%		
Central Cash Management Fund, 0.06% (h) (Cost $15,021,340)	15,021,340	**15,021,340**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $115,769,180)†	112.9	**114,461,360**
Other Assets and Liabilities, Net	(12.9)	**(13,061,238)**
Net Assets	100.0	**101,400,122**

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

* 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, 2014.

** These securities are shown at their current rate as of December 31, 2014.

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

† The cost for federal income tax purposes was $115,768,500. At December 31, 2014, net unrealized depreciation for all securities based on tax cost was $1,307,140. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $1,990,639 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $3,297,779.

(a) Principal amount stated in U.S. dollars unless otherwise noted.

(b) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at December 31, 2014 amounted to $2,025,780, which is 2.0% of net assets.

(c) When-issued or delayed delivery security included.

(d) Government-backed debt issued by financial companies or government sponsored enterprises.

(e) At December 31, 2014, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

(f) At December 31, 2014, this security has been pledged, in whole or in part, as collateral for open centrally cleared swap contracts.

(g) At December 31, 2014, this security has been pledged, in whole or in part, as collateral for open over-the-counter derivatives.

(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.

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

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 and issues which have similar coupon rates have been aggregated for presentation purposes in this investment portfolio.

At December 31, 2014, open futures contracts purchased were as follows:

Futures	**Currency**	**Expiration Date**	**Contracts**	**Notional Value ($)**	**Unrealized Appreciation ($)**
10 Year U.S. Treasury Note	USD	3/20/2015	35	4,437,891	11,234
United Kingdom Long Gilt Bond	GBP	3/27/2015	5	931,498	21,441
Total unrealized appreciation					**32,675**

At December 31, 2014, open futures contracts sold were as follows:

Futures	**Currency**	**Expiration Date**	**Contracts**	**Notional Value ($)**	**Unrealized Depreciation ($)**
10 Year Australian Bond	AUD	3/16/2015	9	941,558	(14,149)
Euro-BTP Italian Government Bond	EUR	3/6/2015	18	2,953,491	(20,154)
Total unrealized depreciation					**(34,303)**

At December 31, 2014, open written options contracts were as follows:

Options on Interest Rate Swap Contracts

	Swap Effective/ Expiration Date	**Contract Amount**	**Option Expiration Date**	**Premiums Received ($)**	**Value ($) (j)**
Call Options Receive Fixed — 4.48% – Pay Floating — LIBOR	5/9/2016 5/11/2026	2,000,000[1]	5/5/2016	**22,450**	**(3,456)**
Put Options Pay Fixed — 2.48% – Receive Floating — LIBOR	5/9/2016 5/11/2026	2,000,000[1]	5/5/2016	22,450	(51,774)
Pay Fixed — 2.615% – Receive Floating — LIBOR	12/4/2015 12/4/2045	2,000,000[2]	12/2/2015	43,400	(75,484)
Pay Fixed — 2.64% – Receive Floating — LIBOR	8/10/2015 8/10/2045	1,800,000[1]	8/6/2015	16,830	(59,255)
Pay Fixed — 2.675% – Receive Floating — LIBOR	11/9/2015 11/12/2045	2,000,000[2]	11/9/2015	40,100	(85,510)
Pay Fixed — 2.796% – Receive Floating — LIBOR	6/5/2015 6/5/2045	1,800,000[3]	6/3/2015	19,260	(73,534)
Pay Fixed — 2.88% – Receive Floating — LIBOR	9/30/2015 9/30/2045	2,000,000[4]	9/28/2015	41,846	(121,982)

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

Options on Interest Rate Swap Contracts

	Swap Effective/ Expiration Date	Contract Amount	Option Expiration Date	Premiums Received ($)	Value ($) (j)
Pay Fixed — 3.005% – Receive Floating — LIBOR	3/6/2015 3/6/2045	1,800,000[1]	3/4/2015	18,900	(111,186)
Pay Fixed — 3.035% – Receive Floating — LIBOR	2/15/2015 2/3/2045	1,800,000[3]	1/30/2015	22,230	(122,775)
Pay Fixed — 3.088% – Receive Floating — LIBOR	1/28/2015 1/28/2045	2,000,000[5]	1/26/2015	20,175	(154,427)
Total Put Options				**245,191**	**(855,927)**
Total				**267,641**	**(859,383)**

(j) Unrealized depreciation on written options on interest rate swap contracts at December 31, 2014 was $591,742.

At December 31, 2014, open interest rate swap contracts were as follows:

Centrally Cleared Swaps

Effective/ Expiration Dates	Notional Amount ($)	Cash Flows Paid by the Fund	Cash Flows Received by the Fund	Value ($)	Unrealized Appreciation/ (Depreciation) ($)
12/16/2015 9/16/2025	500,000	Floating — LIBOR	Fixed — 2.64%	3,498	5
12/16/2015 9/18/2017	13,600,000	Fixed — 1.557%	Floating — LIBOR	16,731	101
12/16/2015 9/16/2020	8,900,000	Floating — LIBOR	Fixed — 2.214%	(4,754)	(14)
12/16/2015 9/18/2045	3,600,000	Floating — LIBOR	Fixed — 2.998%	125,351	67
12/16/2015 9/17/2035	9,700,000	Floating — LIBOR	Fixed — 2.938%	222,717	177
Total net unrealized appreciation					**336**

At December 31, 2014, open credit default swap contracts sold were as follows:

Bilateral Swaps

Effective/ Expiration Dates	Notional Amount ($) (k)	Fixed Cash Flows Received	Underlying Debt Obligation/ Quality Rating (l)	Value ($)	Upfront Payments Paid/ (Received) ($)	Unrealized Appreciation ($)
6/20/2013 9/20/2018	15,000[6]	5.0%	DISH DBS Corp., 6.75%, 6/1/2021, BB–	1,834	997	**837**

(k) 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, if any.

(l) 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.

Counterparties:

1 Nomura International PLC

2 Citigroup, Inc.

3 BNP Paribas

4 Morgan Stanley

5 Barclays Bank PLC

6 Credit Suisse

LIBOR: London Interbank Offered Rate

At December 31, 2014, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
AUD	1,800,000	NZD	1,917,212	1/5/2015	25,722	BNP Paribas
CAD	2,349,451	GBP	1,300,000	1/5/2015	4,072	Societe Generale
EUR	1,700,000	JPY	251,807,400	1/5/2015	45,142	Barclays Bank PLC
EUR	1,600,000	USD	2,003,478	1/5/2015	67,291	Barclays Bank PLC
USD	19,771	JPY	2,369,800	1/5/2015	15	Societe Generale
USD	2,569,843	NZD	3,300,000	1/5/2015	2,888	Australia & New Zealand Banking Group Ltd.

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

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
MXN	10,050,000	USD	728,777	1/15/2015	48,234	JPMorgan Chase Securities, Inc.
CAD	1,552,000	USD	1,374,839	1/20/2015	39,571	Societe Generale
CAD	1,404,760	USD	1,243,067	1/20/2015	34,477	Australia & New Zealand Banking Group Ltd.
EUR	1,038,000	USD	1,289,725	1/20/2015	33,416	Societe Generale
SGD	1,749,000	USD	1,375,763	1/20/2015	56,144	Australia & New Zealand Banking Group Ltd.
NZD	1,987,400	AUD	1,900,000	2/5/2015	2,667	Australia & New Zealand Banking Group Ltd.
NZD	2,000,000	USD	1,560,786	2/5/2015	6,520	Australia & New Zealand Banking Group Ltd.
USD	12,246	RUB	818,040	2/17/2015	940	Barclays Bank PLC
Total unrealized appreciation					**367,099**	

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
AUD	1,900,000	NZD	1,985,741	1/5/2015	(2,461)	Australia & New Zealand Banking Group Ltd.
GBP	1,300,000	CAD	2,331,251	1/5/2015	(19,735)	UBS AG
JPY	254,177,200	EUR	1,700,000	1/5/2015	(64,927)	Barclays Bank PLC
NZD	1,952,631	AUD	1,800,000	1/5/2015	(53,335)	Australia & New Zealand Banking Group Ltd.
NZD	2,005,526	AUD	1,900,000	1/5/2015	(12,963)	Morgan Stanley
NZD	3,300,000	USD	2,532,800	1/5/2015	(39,931)	Australia & New Zealand Banking Group Ltd.
USD	15,710	CAD	18,200	1/5/2015	(46)	Citigroup, Inc.
USD	1,949,880	EUR	1,600,000	1/5/2015	(13,693)	Societe Generale
USD	2,013,325	JPY	240,000,000	1/5/2015	(9,564)	UBS AG
USD	15,462	NZD	19,785	1/5/2015	(38)	Citigroup, Inc.
USD	1,476,525	MXN	20,100,000	1/15/2015	(115,440)	JPMorgan Chase Securities, Inc.
USD	42,357	ZAR	480,000	1/15/2015	(965)	Commonwealth Bank of Australia
USD	534,543	ZAR	6,080,000	1/15/2015	(10,243)	UBS AG
USD	492,037	ZAR	5,600,000	1/15/2015	(9,128)	Citigroup, Inc.
USD	736,507	ZAR	8,400,000	1/15/2015	(12,145)	BNP Paribas
NZD	2,679,000	USD	2,074,898	1/20/2015	(10,208)	Australia & New Zealand Banking Group Ltd.
USD	1,240,146	CAD	1,404,760	1/20/2015	(31,556)	Societe Generale
USD	1,336,056	SGD	1,749,000	1/20/2015	(16,438)	BNP Paribas
GBP	1,300,000	CAD	2,350,438	2/5/2015	(4,069)	Societe Generale
USD	34,474	ZAR	400,000	2/10/2015	(119)	Citigroup, Inc.
RUB	818,040	USD	12,708	2/17/2015	(478)	Barclays Bank PLC
Total unrealized depreciation					**(427,482)**	

Currency Abbreviations

AUD	Australian Dollar	NZD	New Zealand Dollar
CAD	Canadian Dollar	PEN	Peruvian Nuevo Sol
EUR	Euro	RUB	Russian Ruble
GBP	British Pound	SGD	Singapore Dollar
HUF	Hungarian Forint	USD	United States Dollar
JPY	Japanese Yen	ZAR	South African Rand
MXN	Mexican Peso		

For information on the Fund's policy and additional disclosures regarding futures contracts, written options, credit default swap contracts, interest rate swap contracts and forward foreign currency exchange contracts, please refer to Note B in the accompanying Notes to Financial Statements.

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 level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

The following is a summary of the inputs used as of December 31, 2014 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 (m)				
Corporate Bonds	$ —	$ 31,327,014	$ —	$ 31,327,014
Mortgage-Backed Securities Pass-Throughs	—	18,469,924	—	18,469,924
Asset-Backed	—	2,069,785	—	2,069,785
Commercial Mortgage-Backed Securities	—	4,163,837	—	4,163,837
Collateralized Mortgage Obligations	—	6,078,163	—	6,078,163
Government & Agency Obligations	—	31,792,042	—	31,792,042
Municipal Bonds and Notes	—	3,402,199	—	3,402,199
Preferred Stock	—	28,129	—	28,129
Short-Term Investments (m)	17,130,267	—	—	17,130,267
Derivatives (n)				
Futures Contracts	32,675	—	—	32,675
Credit Default Swap Contracts	—	837	—	837
Interest Rate Swap Contracts	—	350	—	350
Forward Foreign Currency Exchange Contracts	—	367,099	—	367,099
Total	**$ 17,162,942**	**$ 97,699,379**	**$ —**	**$114,862,321**

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Level 2**
Derivatives (n)				
Futures Contracts	$ (34,303)	$ —	$ —	$ (34,303)
Written Options	—	(859,383)	—	(859,383)
Interest Rate Swap Contracts	—	(14)	—	(14)
Forward Foreign Currency Exchange Contracts	—	(427,482)	—	(427,482)
Total	**$ (34,303)**	**$ (1,286,879)**	**$ —**	**$ (1,321,182)**

There have been no transfers between fair value measurement levels during the year ended December 31, 2014.

(m) See Investment Portfolio for additional detailed categorizations.

(n) Derivatives include unrealized appreciation (depreciation) on open futures contracts, credit default swap contracts, interest rate swap contracts, forward foreign currency exchange contracts and written options, at value.

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

Statement of Assets and Liabilities

as of December 31, 2014

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $98,638,913) — including $2,025,780 of securities loaned	$	97,331,093
Investment in Daily Assets Fund Institutional (cost $2,108,927)*		2,108,927
Investment in Central Cash Management Fund (cost $15,021,340)		15,021,340
Total investments in securities, at value (cost $115,769,180)		114,461,360
Cash		291,737
Foreign currency, at value (cost $159,362)		139,167
Receivable for investments sold		6,647
Receivable for investments sold — when-issued/delayed delivery securities		4,900,550
Receivable for Fund shares sold		92,477
Interest receivable		781,678
Unrealized appreciation on bilateral swap contracts		837
Unrealized appreciation on forward foreign currency exchange contracts		367,099
Upfront payments paid on bilateral swap contracts		997
Foreign taxes recoverable		1,245
Other assets		2,238
Total assets		121,046,032
Liabilities		
Payable upon return of securities loaned		2,108,927
Payable for investments purchased		203,629
Payable for investment purchased — when–issued/delayed delivery securities		15,848,342
Payable for Fund shares redeemed		6,563
Payable for variation margin on futures contracts		18,639
Payable for variation margin on centrally cleared swaps		34,515
Options written, at value (premiums received $267,641)		859,383
Unrealized depreciation on forward foreign currency exchange contracts		427,482
Accrued management fee		14,927
Accrued Trustees' fees		1,564
Other accrued expenses and payables		121,939
Total liabilities		19,645,910
Net assets, at value	**$**	**101,400,122**
Net Assets Consist of		
Undistributed net investment income		2,890,836
Net unrealized appreciation (depreciation) on:		
Investments		(1,307,820)
Swap contracts		1,173
Futures		(1,628)
Foreign currency		(81,266)
Written options		(591,742)
Accumulated net realized gain (loss)		(14,114,537)
Paid-in capital		114,605,106
Net assets, at value	**$**	**101,400,122**
Class A		
Net Asset Value, offering and redemption price per share ($101,400,122 ÷ 17,886,425 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**5.67**

* Represents collateral on securities loaned.

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

Statement of Operations

for the year ended December 31, 2014

Investment Income	
Income:	
Interest	$ 3,725,661
Income distributions — Central Cash Management Fund	4,903
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	15,896
Total income	3,746,460
Expenses:	
Management fee	405,684
Administration fee	104,022
Services to shareholders	2,253
Custodian fee	44,077
Professional fees	98,202
Reports to shareholders	44,180
Trustees' fees and expenses	5,946
Other	14,774
Total expenses before expense reductions	719,138
Expense reductions	(84,123)
Total expenses after expense reductions	635,015
Net investment income	**3,111,445**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	1,207,687
Swap contracts	1,057,263
Futures	764,133
Written options	138,600
Foreign currency	436,709
	3,604,392
Change in net unrealized appreciation (depreciation) on:	
Investments	906,580
Swap contracts	18,010
Futures	5,151
Written options	(670,276)
Foreign currency	(279,550)
	(20,085)
Net gain (loss)	**3,584,307**
Net increase (decrease) in net assets resulting from operations	**$ 6,695,752**

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, 2014	2013
Operations:		
Net investment income	$ 3,111,445	$ 3,746,885
Net realized gain (loss)	3,604,392	(1,091,805)
Change in net unrealized appreciation (depreciation)	(20,085)	(6,522,025)
Net increase (decrease) in net assets resulting from operations	6,695,752	(3,866,945)
Distributions to shareholders from:		
Net investment income:		
Class A	(3,659,417)	(4,386,055)
Fund share transactions:		
Class A		
Proceeds from shares sold	11,004,710	5,651,619
Reinvestment of distributions	3,659,417	4,386,055
Payments for shares redeemed	(21,178,745)	(87,153,230)
Net increase (decrease) in net assets from Class A share transactions	(6,514,618)	(77,115,556)
Increase (decrease) in net assets	(3,478,283)	(85,368,556)
Net assets at beginning of period	104,878,405	190,246,961
Net assets at end of period (including undistributed net investment income of $2,890,836 and $3,120,319, respectively)	**$ 101,400,122**	**$ 104,878,405**

Other Information		
Class A		
Shares outstanding at beginning of period	19,030,134	32,324,964
Shares sold	1,948,624	1,003,776
Shares issued to shareholders in reinvestment of distributions	662,938	768,136
Shares redeemed	(3,755,271)	(15,066,742)
Net increase (decrease) in Class A shares	(1,143,709)	(13,294,830)
Shares outstanding at end of period	**17,886,425**	**19,030,134**

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

Financial Highlights

Class A	2014	2013	2012	2011	2010
	Years Ended December 31,				
Selected Per Share Data					
Net asset value, beginning of period	**$ 5.51**	**$ 5.89**	**$ 5.72**	**$ 5.66**	**$ 5.54**
Income (loss) from investment operations:					
Net investment income[a]	.17	.16	.16	.22	.19
Net realized and unrealized gain (loss)	.19	(.33)	.27	.09	.18
Total from investment operations	.36	(.17)	.43	.31	.37
Less distributions from:					
Net investment income	(.20)	(.21)	(.26)	(.25)	(.25)
Net asset value, end of period	**$ 5.67**	**$ 5.51**	**$ 5.89**	**$ 5.72**	**$ 5.66**
Total Return (%)	6.63[b]	(3.03)[b]	7.77	5.68	6.79
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	101	105	190	112	155
Ratio of expenses before expense reductions (%)	.69	.65	.58	.62	.59
Ratio of expenses after expense reductions (%)	.61	.56	.58	.62	.59
Ratio of net investment income (%)	2.99	2.88	2.81	3.86	3.42
Portfolio turnover rate (%)	273	418	115	219	357

[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

Deutsche Variable Series I (formerly 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: Deutsche Bond VIP, Deutsche Core Equity VIP, Deutsche Capital Growth VIP, Deutsche Global Small Cap VIP and Deutsche International VIP (individually or collectively hereinafter referred to as a "Fund" or the "Funds" and formerly known as DWS Bond VIP, DWS Core Equity VIP, DWS Capital Growth VIP, DWS Global Small Cap Growth VIP and DWS International VIP, respectively). These financial statements report on Deutsche 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 level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

Debt securities are valued at prices supplied by independent pricing services approved by the Trustees of the Series. 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, prepayment speeds and other data, as well as broker quotes. If the pricing services are unable to provide valuations, debt securities are valued at the average of the most recent reliable bid quotations or evaluated prices, as applicable, obtained from broker-dealers. 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.

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 generally categorized as Level 1. Over-the-counter written or purchased options are valued at prices supplied by a Board approved pricing vendor, if available, and otherwise are valued at the price provided by the broker-dealer with which the option was traded. Over-the-counter written or purchased options 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 Trustees and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors considered 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.

Securities Lending. Deutsche Bank AG, as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains the benefits of owning the securities it has loaned and continues to receive interest and dividends generated by the 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. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. 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.

As of December 31, 2014, the Fund had securities on loan. The value of the related collateral exceeded the value of the securities loaned at period end.

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.

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. Additionally, the Fund may be required to post securities and/or cash collateral in accordance with the terms 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 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, the Fund may be subject to taxes imposed by the governments of countries in which it invests and are generally based on income and/or capital gains earned or repatriated. Estimated tax liabilities on certain foreign securities are recorded on an accrual basis and are reflected as components of interest income or net change in unrealized gain/loss on investments. Tax liabilities realized as a result of security sales are reflected as a component of net realized gain/loss on investments.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses incurred post-enactment 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, 2014, the Fund had a net tax basis capital loss carryforward of approximately $14,056,000 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, and which may be subject to certain limitations under Section 381–384 of the Internal Revenue Code.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2014 and has determined that no provision for income tax and/or uncertain tax provisions 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 from net investment income of the Fund, if any, are 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 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, 2014, the Fund's components of distributable earnings (accumulated losses) on a tax basis are as follows:

Undistributed ordinary income*	$ 2,869,066
Capital loss carryforwards	$ (14,056,000)
Net unrealized appreciation (depreciation) on investments	$ (1,307,140)

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

	Years Ended December 31, 2014	2013
Distributions from ordinary income*	$ 3,659,417	$ 4,386,055

* 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 based upon the relative net assets or other appropriate measures.

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. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments. 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, 2014, 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 interest rate 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 disclosed in the Statement of Assets and Liabilities.

A summary of the open futures contracts as of December 31, 2014, is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2014, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $5,369,000 to $31,610,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from approximately $3,895,000 to $21,371,000.

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. The Fund may write or purchase interest rate swaption agreements which are options to enter into a pre-defined swap agreement. The interest rate swaption agreement will specify whether the buyer of the swaption will be a fixed-rate receiver or a fixed-rate payer upon exercise. Certain options, including options on indices, will require cash settlement by the Fund if exercised. For the year ended December 31, 2014, the Fund entered into options interest rate swaps in order to hedge 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.

There are no open purchased option contracts as of December 31, 2014. A summary of open written option contracts is included in the table following the Fund's Investment Portfolio. For the year ended December 31, 2014, the investment in written options contracts had a total value generally indicative of a range from approximately $60,000 to $859,000.

Swaps. A swap is a contract between two parties to exchange future cash flows at periodic intervals based on the notional amount of the swap. A bilateral swap is a transaction between the fund and a counterparty where cash flows are exchanged between the two parties. A centrally cleared swap is a transaction executed between the fund and a counterparty, then cleared by a clearing member through a central clearinghouse. The central clearinghouse serves as the counterparty, with whom the fund exchanges cash flows.

The value of a 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. Gains or losses are realized when the swap expires or is closed. Certain risks may arise when entering into swap transactions including counterparty default; liquidity; or unfavorable changes in interest rates or the value of the underlying reference security, commodity or index. In connection with bilateral swaps, securities and/or cash may be identified as collateral in accordance with the terms of the swap agreement 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 swap, 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. Upon entering into a centrally cleared swap, 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 notional amount of the swap. Subsequent payments ("variation margin") are made or received by the Fund dependent upon the daily fluctuations in the value of the swap. In a cleared swap transaction, counterparty risk is minimized as the central clearinghouse acts as the counterparty.

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.

Credit Default Swaps. Credit default swaps are agreements between a buyer and a seller of protection against predefined credit events for the reference entity. The Fund may enter into credit default swaps to gain exposure to an underlying issuer's credit quality characteristics without directly investing in that issuer or to hedge against the risk of a credit event on debt securities. As a seller of a credit default swap, 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 swap 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 swaps, in which case the Fund functions as the counterparty referenced above. This involves the risk that the swap 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, 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 swaps sold by the Fund. For the year ended December 31, 2014, the Fund entered into credit default swap agreements to gain exposure to the underlying issuer's credit quality characteristics.

Under the terms of a credit default swap, the Fund receives or makes periodic 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 swap 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, 2014 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2014, the investment in credit default swap contracts sold had a total notional value generally indicative of a range from $15,000 to $65,000.

Interest Rate Swaps. Interest rate swaps are agreements in which the Fund agrees to pay to 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. For the year ended December 31, 2014, the Fund entered into interest rate swap agreements to gain exposure to different parts of the yield curve while managing overall duration.

A summary of the open interest rate swap contracts as of December 31, 2014 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2014, the investment in interest rate swap contracts had a total notional amount generally indicative of a range from $26,100,000 to $36,300,000.

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, 2014, 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, 2014, is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2014, the investment in forward currency contracts U.S. dollars purchased had a total contract value generally indicative of a range from approximately $8,635,000 to $35,842,000, and the investment in forward currency contracts U.S. dollars sold had a total contract value generally indicative of a range from approximately $4,843,000 to $34,885,000.

The investment in forward currency contracts long vs. other foreign currencies sold had a total contract value generally indicative of a range from $0 to approximately $17,983,000.

The following tables summarize the value of the Fund's derivative instruments held as of December 31, 2014 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivatives	Forward Contracts	Swap Contracts	Futures Contracts	Total
Interest Rate Contracts (a)	$ —	$ 350	$ 32,675	$ 33,025
Credit Contracts (b)	—	837	—	837
Foreign Exchange Contracts (c)	367,099	—	—	367,099
	$ 367,099	**$ 1,187**	**$ 32,675**	**$ 400,961**

Each of the above derivatives is located in the following Statement of Assets and Liabilities accounts:

(a) Includes cumulative appreciation of futures contracts and centrally cleared swaps as disclosed in the Investment Portfolio. Unsettled variation margin is disclosed separately within the Statement of Assets and Liabilities.

(b) Unrealized appreciation on bilateral 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)	$ (859,383)	$ —	$ (14)	$ (34,303)	$ (893,700)
Foreign Exchange Contracts (c)	—	(427,482)	—	—	(427,482)
	$ (859,383)	**$ (427,482)**	**$ (14)**	**$ (34,303)**	**$ (1,321,182)**

Each of the above derivatives is located in the following Statement of Assets and Liabilities accounts:

(a) Options written, at value

(b) Includes cumulative depreciation of futures contracts and centrally cleared swaps as disclosed in the Investment Portfolio. Unsettled variation margin is disclosed separately within the Statement of Assets and Liabilities.

(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, 2014 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	Written Options	Forward Contracts	Swap Contracts	Futures Contracts	Total
Interest Rate Contract (a)	$ 138,600	$ —	$ 1,051,406	$ 764,133	$ 1,954,139
Credit Contracts (b)	—	—	5,857	—	5,857
Foreign Exchange Contracts (c)	—	491,102	—	—	491,102
	$ 138,600	**$ 491,102**	**$ 1,057,263**	**$ 764,133**	**$ 2,451,098**

Each of the above derivatives is located in the following Statement of Operations accounts:

(a) Net realized gain (loss) from written options, swap contracts and futures, respectively

(b) Net realized gain (loss) on swap contracts

(c) 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)	Written Options	Forward Contracts	Swap Contracts	Futures Contracts	Total
Interest Rate Contracts (a)	$ (670,276)	$ —	$ 22,376	$ 5,151	$ (642,749)
Credit Contracts (b)	—	—	(4,366)	—	(4,366)
Foreign Exchange Contracts (c)	—	(274,953)	—	—	(274,953)
	$ (670,276)	**$ (274,953)**	**$ 18,010**	**$ 5,151**	**$ (922,068)**

Each of the above derivatives is located in the following Statement of Operations accounts:

(a) Change in net unrealized appreciation (depreciation) on written options, swaps contracts and futures, respectively

(b) Change in net unrealized appreciation (depreciation) on swap contracts

(c) Change in net unrealized appreciation (depreciation) on foreign currency (Statement of Operations includes both forward currency contracts and foreign currency transactions)

As of December 31, 2014, the Fund has transactions subject to enforceable master netting agreements. A reconciliation of the gross amounts on the Statement of Assets and Liabilities to the net amounts by counterparty, including any collateral exposure, is included in the following tables:

Counterparty	Gross Amounts of Assets Presented in the Statement of Assets and Liabilities	Financial Instruments and Derivatives Available for Offset	Cash Collateral Received	Non-Cash Collateral Received (a)	Net Amount of Derivative Assets
Australia & New Zealand Banking Group Ltd.	$ 102,696	$ (102,696)	$ —	$ —	$ —
Barclays Bank PLC	113,373	(113,373)	—	—	—
BNP Paribas	25,722	(25,722)	—	—	—
Credit Suisse	837	—	—	—	837
JPMorgan Chase Securities, Inc.	48,234	(48,234)	—	—	—
Societe Generale	77,074	(49,318)	—	—	27,756
	$ 367,936	**$ (339,343)**	**$ —**	**$ —**	**$ 28,593**

Counterparty	Gross Amounts of Liabilities Presented in the Statement of Assets and Liabilities	Financial Instruments and Derivatives Available for Offset	Cash Collateral Pledged	Non-Cash Collateral Pledged (a)	Net Amount of Derivative Liabilities
Australia & New Zealand Banking Group Ltd.	$ 105,935	$ (102,696)	$ —	$ —	$ 3,239
Barclays Bank PLC	219,832	(113,373)	—	—	106,459
BNP Paribas	224,892	(25,722)	—	—	199,170
Citigroup, Inc	170,325	—	—	—	170,325
Commonwealth Bank of Australia	965	—	—	—	965
JPMorgan Chase Securities, Inc.	115,440	(48,234)	—	—	67,206
Morgan Stanley	134,945	—	—	—	134,945
Nomura International PLC	225,671	—	—	(225,671)	—
Societe Generale	49,318	(49,318)	—	—	—
UBS AG	39,542	—	—	—	39,542
	$ 1,286,865	**$ (339,343)**	**$ —**	**$ (225,671)**	**$ 721,851**

(a) The actual collateral pledged may be more than the amount shown.

C. Purchases and Sales of Securities

During the year ended December 31, 2014, purchases and sales of investment securities (excluding short-term investments and U.S. Treasury obligations) aggregated $253,155,011 and $281,087,896, respectively. Purchases and sales of U.S. Treasury obligations aggregated $29,014,283 and $22,935,755, respectively.

For the year ended December 31, 2014, transactions for written options on interest rate swap contracts were as follows:

	Contract Amount	Premiums
Outstanding, beginning of period	12,000,000	$ 138,600
Options written	19,200,000	267,641
Options closed	(10,000,000)	(123,850)
Options expired	(2,000,000)	(14,750)
Outstanding, end of period	**19,200,000**	**$ 267,641**

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, 2014, the fee pursuant to the Investment Management Agreement was equivalent to an annual rate (exclusive of any applicable waivers/reimbursements) of 0.39% of the Fund's average daily net assets.

For the period from January 1, 2014 through April 30, 2015, the Advisor has contractually agreed to waive its fees and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of Class A at 0.61%.

For the year ended December 31, 2014, fees waived and/or expenses reimbursed were $84,123.

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, 2014, the Administration Fee was $104,022, of which $8,657 is unpaid.

Service Provider Fees. DeAWM Service Company ("DSC"), 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 DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it receives from the Fund. For the year ended December 31, 2014, the amounts charged to the Fund by DSC aggregated $550, of which $93 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, 2014, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $17,021, of which $6,310 is unpaid.

Trustees' Fees and Expenses. The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and Vice Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicles. The Fund may invest uninvested cash balances in Central Cash Management Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. Each affiliated money market fund seeks to provide a high level of current income consistent with liquidity and the preservation of capital. Each affiliated money market fund is managed in accordance with Rule 2a-7 under the Investment Company Act of 1940, which governs the quality, maturity, diversity and liquidity of instruments in which a money market fund may invest. Central Cash Management Fund seeks to maintain a stable net asset value, and Deutsche Variable NAV Money Fund maintains a floating net asset value. The Fund indirectly bears its proportionate share of the expenses of each affiliated money market fund in which it invests. Central Cash Management Fund does not pay the Advisor an investment management fee. To the extent that Deutsche Variable NAV Money Fund pays an investment management fee to the Advisor, the Advisor will waive an amount of the investment management fee payable to the Advisor by the Fund equal to the amount of the investment management fee payable on the Fund's assets invested in Deutsche Variable NAV Money Fund.

Securities Lending Agent Fees. Deutsche Bank AG serves as securities lending agent for the Fund. For the year ended December 31, 2014, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $1,390.

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

At December 31, 2014, three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, owning 47%, 25% and 11%, respectively.

G. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 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, 2014.

Report of Independent Registered Public Accounting Firm

To the Trustees of Deutsche Variable Series I and the Shareholders of Deutsche 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 Deutsche Bond VIP (formerly DWS Bond VIP) (the "Fund") at December 31, 2014 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, 2014 by correspondence with the custodian, brokers and transfer agent, and the application of alternative auditing procedures where such confirmations had not been received, provide a reasonable basis for our opinion.

Boston, Massachusetts
February 13, 2015

PricewaterhouseCoopers LLP

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, 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, 2014 to December 31, 2014).

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, 2014

Actual Fund Return	**Class A**
Beginning Account Value 7/1/14	$1,000.00
Ending Account Value 12/31/14	$1,007.10
Expenses Paid per $1,000*	$ 3.09

Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 7/1/14	$1,000.00
Ending Account Value 12/31/14	$1,022.13
Expenses Paid per $1,000*	$ 3.11

* Expenses are equal to the Fund's annualized expense ratio, multiplied by the average account value over the period, multiplied by 184 (the number of days in the most recent six-month period), then divided by 365.

Annualized Expense Ratio	**Class A**
Deutsche Variable Series I — Deutsche Bond VIP	.61%

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.

For an analysis of the fees associated with an investment in the fund or similar funds, please refer to the current and hypothetical expense calculators for Variable Insurance Products which can be found at deutschefunds.com/EN/resources/calculators.jsp.

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 — deutschefunds.com (click on "proxy voting"at the bottom of the page) — or on the SEC's Web site — 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.

Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of Deutsche Bond VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2014.

In terms of the process that the Board followed prior to approving the Agreement, shareholders should know that:

— In September 2014, all of the Fund's Trustees were independent of DIMA 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 Asset Allocation Oversight Committee, reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly meet privately with counsel to discuss contract review and other matters. In addition, the Independent Trustees were advised by the Fee Consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the Fee Consultant in connection with their deliberations.

— 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 DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG ("DB"), a major global banking institution that is engaged in a wide range of financial services. The Board believes that there are 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.

As part of the contract review process, the Board carefully considered the fees and expenses of each Deutsche fund overseen by the Board in light of the fund's performance. In many cases, this led to the negotiation and implementation of expense caps. As part of these negotiations, the Board indicated that it would consider relaxing these caps in future years following sustained improvements in performance, among other considerations.

In 2012, DB combined its Asset Management (of which DIMA was a part) and Wealth Management divisions into a new Asset and Wealth Management ("AWM") division. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that DB will continue to invest in AWM a significant portion of the savings it has realized by combining its Asset and Wealth Management divisions, including ongoing enhancements to AWM's investment capabilities. DB also has confirmed its commitment to maintaining strong legal and compliance groups within the AWM division.

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

Nature, Quality and Extent of Services. The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including a market index and a peer universe compiled by the Fee Consultant using information supplied by Morningstar Direct ("Morningstar"), an independent fund data service. The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing

poorly relative to a peer universe), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's 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, 2013, the Fund's performance (Class A shares) was in the 4th quartile, 3rd quartile and 3rd quartile, respectively, of the applicable Morningstar 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- and five-year periods and has underperformed its benchmark in the one-year period ended December 31, 2013. The Board noted the disappointing investment performance of the Fund in recent periods and continued to discuss with senior management of DIMA the factors contributing to such underperformance and actions being taken to improve performance. The Board observed that the Fund had experienced improved relative performance during the first seven months of 2014. The Board recognized the efforts by DIMA in recent years to enhance its investment platform and improve long-term performance across the Deutsche fund complex.

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 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 DIMA under the Fund's administrative services agreement, were higher than the median (3rd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2013). 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, 2013) ("Lipper Universe Expenses"). The Board also considered how the Fund's total (net) operating expenses compared to the total (net) operating expenses of a more customized peer group selected by Lipper (based on such factors as asset size). The Board also noted that the expense limitation agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable funds and considered differences between the Fund and the comparable funds.

The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts and funds offered primarily to European investors ("Deutsche Europe funds") managed by DIMA and its affiliates. The Board noted that DIMA indicated that it manages an institutional account comparable to the Fund, but does not manage any comparable Deutsche Europe funds. The Board took note of the differences in services provided to Deutsche U.S. mutual funds ("Deutsche Funds") as compared to institutional accounts and that such differences made comparison difficult.

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

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the Deutsche 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 DIMA and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable.

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

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to Deutsche Funds advertising and cross-selling opportunities among DIMA products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of DIMA's and the Fund's chief compliance officer; (ii) the large number of DIMA compliance personnel; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.

Based on all of the information considered and the conclusions reached, the Board 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 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.

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund. 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 Kenneth C. Froewiss, Chairman, Deutsche Mutual Funds, P.O. Box 390601, Cambridge, MA 02139. 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.

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 Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Kenneth C. Froewiss (1945) Chairperson since 2013, and 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)	105	—
William McClayton (1944) Vice Chairperson since 2013, and 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	105	—
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); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (provider of disease and care management services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International	105	Portland General Electric[2] (utility company) (2003–present)
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); North Bennett Street School (Boston); former Directorships: Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College	105	Lead Director, Becton Dickinson and Company[2] (medical technology company)
Dawn-Marie Driscoll (1946) Board Member since 1987	Emeritus Executive Fellow, Center for Business Ethics, Bentley University; formerly: President, Driscoll Associates (consulting firm); Partner, Palmer & Dodge (law firm) (1988–1990); Vice President of Corporate Affairs and General Counsel, Filene's (retail) (1978–1988). Directorships: Director of ICI Mutual Insurance Company (since 2007); Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	105	—
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); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies; former Directorships: BoxTop Media Inc. (advertising); Sun Capital Advisers Trust (mutual funds) (2011–2012)	105	—

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 Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Paul K. Freeman (1950) Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Chair, Independent Directors Council; Investment Company Institute (executive and nominating committees); formerly, Chairman of Education Committee of Independent Directors Council; Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998); Directorships: Denver Zoo Foundation (December 2012–present); former Directorships: Prisma Energy International	105	—
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; 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)	105	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
Rebecca W. Rimel (1951) Board Member since 1995	President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 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); Director, Viasys Health Care[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	105	Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc.[2] (health care) (2009–present)
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); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	105	—
Jean Gleason Stromberg (1943) Board Member since 1997	Retired. Formerly, Consultant (1997–2001); Director, Financial Markets U.S. Government Accountability Office (1996–1997); Partner, Norton Rose Fulbright, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation (charitable organization); former Directorships: Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	105	—
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	105	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Brian E. Binder[8] (1972) President and Chief Executive Officer, 2013–present	Managing Director[3] and Head of Fund Administration, Deutsche Asset & Wealth Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012); Chief Administrative Officer, Van Kampen Funds Inc. (2008–2010); and Chief Administrative Officer, Morgan Stanley Investment Management Americas Distribution (2003–2008)
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset & Wealth Management
Melinda Morrow[6] (1970) Vice President, 2012–present	Director,[3] Deutsche Asset & Wealth Management

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset & Wealth 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 & Wealth Management; formerly: Assistant Secretary for DWS family of funds (1997–2010)
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director,[3] Deutsche Asset & Wealth Management
Wayne Salit[6] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset & Wealth Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Hepsen Uzcan[7] (1974) Assistant Secretary, 2013–present	Director,[3] Deutsche Asset & Wealth Management
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management

1 The length of time served represents the year in which the Board Member joined the board of one or more Deutsche 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 Deutsche funds.

6 Address: 60 Wall Street, New York, NY 10005.

7 Address: One Beacon Street, Boston, MA 02108.

8 Address: 222 South Riverside Plaza, Chicago, IL 60606.

* Robert H. Wadsworth retired from the Board effective December 31, 2014.

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.

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Deutsche Asset
& Wealth Management

DeAWM Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS1bond-2 (R-025819-4 2/15)

Deutsche Asset
& Wealth Management

December 31, 2014

Annual Report

Deutsche Variable Series I

(formerly DWS Variable Series I)

Deutsche Capital Growth VIP

(formerly DWS Capital Growth VIP)

Contents

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.

The Fund may lend securities to approved institutions. Stocks may decline in value. See the prospectus for details.

Deutsche Asset & Wealth Management represents the asset management and wealth management activities conducted by Deutsche Bank AG or any of its subsidiaries, including the Advisor and DeAWM Distributors, Inc.

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

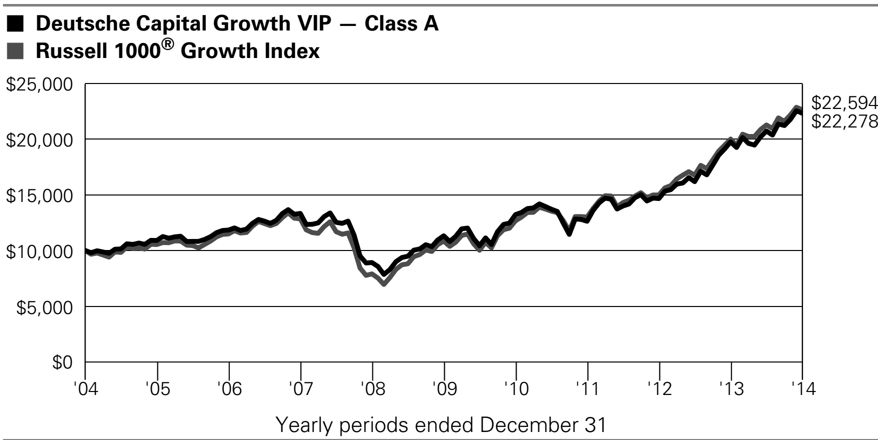
Performance Summary

December 31, 2014 (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, 2014 are 0.50% and 0.83% 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

Deutsche Capital Growth VIP		**1-Year**	**3-Year**	**5-Year**	**10-Year**
Class A	Growth of $10,000	$11,297	$17,652	$19,680	$22,278
	Average annual total return	12.97%	20.86%	14.50%	8.34%
Russell 1000 Growth Index	Growth of $10,000	$11,305	$17,393	$20,836	$22,594
	Average annual total return	13.05%	20.26%	15.81%	8.49%

Deutsche Capital Growth VIP		**1-Year**	**3-Year**	**5-Year**	**10-Year**
Class B	Growth of $10,000	$11,267	$17,479	$19,367	$21,544
	Average annual total return	12.67%	20.46%	14.13%	7.98%
Russell 1000 Growth Index	Growth of $10,000	$11,305	$17,393	$20,836	$22,594
	Average annual total return	13.05%	20.26%	15.81%	8.49%

The growth of $10,000 is cumulative.

Management Summary

For the 12 months ended December 31, 2014, the Fund returned 12.97% (Class A shares, unadjusted for contract charges), underperforming the 13.05% return of the Russell 1000® Growth Index.[1]

The Fund's performance was helped by our overweight in the health care sector, which comfortably outperformed the broader market during the period, as well as our underweight in energy.[2] In terms of stock selection, we delivered the largest margin of outperformance in the consumer staples and consumer discretionary sectors, while we lagged in industrials, energy and financials.[3,4]

Two of the leading contributors to the Fund's performance in consumer staples were the food company Hillshire Brands Co.* and the spirits producer Beam, Inc.,* both of which acquired for a premium during the first half of the year. We also benefited from the strong returns of the health care stocks CareFusion Corp.,* Medivation, Inc. and Celgene Corp. Our investments in health care have targeted companies with robust underlying fundamentals and exciting product stories, an approach that has paid off in the past 12 months. Another notable contributor was the technology stock Palo Alto Networks, Inc., an enterprise-security provider that benefited from increased demand amid the growing concerns about cyber security.

Whole Foods Market, Inc. was the largest individual detractor from performance. We have found numerous opportunities in the "healthy living" theme, which seeks to capitalize on Americans' efforts to eat better and exercise more. Whole Foods, while well-positioned to capitalize on this theme, nonetheless saw its shares decline due to rising competition in the organic-foods space. Splunk, Inc.,* Las Vegas Sands Corp. and Dick's Sporting Goods, Inc. were also among the Fund's notable detractors for the year.

We continued to emphasize sectors where we are finding the largest representation of companies positioned to benefit from positive product stories and longer-term, secular growth themes. We found many such opportunities among companies in the health care, consumer discretionary and technology sectors. In technology, for instance, a number of our holdings reflected longer-term growth themes such as data storage, data security and virtualization — all of which should gain an increasing share of enterprise spending as corporations seek to streamline their technology budgets. In health care, we found the most compelling opportunities in biotechnology companies with robust product cycles. At the same time, we maintained underweights in slower-growth sectors — including consumer staples, utilities and telecommunications — where we found valuations to be less compelling.

Owen Fitzpatrick, CFA
Lead Portfolio Manager

Thomas M. Hynes, Jr., CFA
Brendan O'Neill, CFA
Portfolio Managers

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.

1 The Russell 1000 Growth Index is an unmanaged index that consists of those stocks in the Russell 1000® Index that have 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.

2 "Overweight" means that the Fund holds a higher weighting in a given sector or stock compared with its benchmark index. "Underweight" means that the Fund holds a lower weighting in a given sector or stock.

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.

* Not held in the portfolio as of December 31, 2014.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/14**	**12/31/13**
Common Stocks	99%	100%
Convertible Bonds	1%	—
Cash Equivalents	0%	0%
	100%	100%

Sector Diversification (As a % of Common Stocks and Convertible Bonds)	**12/31/14**	**12/31/13**
Information Technology	28%	26%
Consumer Discretionary	19%	21%
Health Care	16%	15%
Industrials	12%	13%
Consumer Staples	10%	10%
Financials	6%	5%
Energy	4%	4%
Materials	3%	5%
Telecommunication Services	1%	1%
Utilities	1%	0%
	100%	100%

Portfolio holdings and characteristics 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 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 deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

Investment Portfolio

December 31, 2014

	Shares	Value ($)
Common Stocks 99.2%		
Consumer Discretionary 18.9%		
Auto Components 0.7%		
BorgWarner, Inc.	115,775	**6,361,836**
Hotels, Restaurants & Leisure 3.0%		
Brinker International, Inc. (a)	164,377	9,647,286
Las Vegas Sands Corp.	126,297	7,345,434
Starwood Hotels & Resorts Worldwide, Inc.	120,033	9,731,075
		26,723,795
Internet & Catalog Retail 2.0%		
Amazon.com, Inc.* (a)	44,685	13,867,990
Expedia, Inc.	52,270	4,461,767
		18,329,757
Media 3.5%		
Twenty-First Century Fox, Inc. "A"	394,234	15,140,557
Walt Disney Co. (a)	168,547	15,875,442
		31,015,999
Specialty Retail 5.5%		
Dick's Sporting Goods, Inc. (a)	165,599	8,221,991
GNC Holdings, Inc. "A"	84,772	3,980,893
Home Depot, Inc.	200,869	21,085,219
L Brands, Inc. (a)	183,100	15,847,305
		49,135,408
Textiles, Apparel & Luxury Goods 4.2%		
NIKE, Inc. "B"	226,318	21,760,475
VF Corp.	206,143	15,440,111
		37,200,586
Consumer Staples 10.3%		
Beverages 2.2%		
PepsiCo, Inc.	203,547	**19,247,404**
Food & Staples Retailing 3.1%		
Costco Wholesale Corp.	114,280	16,199,190
Whole Foods Market, Inc. (a)	222,807	11,233,929
		27,433,119
Food Products 3.8%		
Mead Johnson Nutrition Co.	127,620	12,830,915
Mondelez International, Inc. "A"	233,445	8,479,889
The WhiteWave Foods Co.*	365,797	12,799,237
		34,110,041
Personal Products 1.2%		
Estee Lauder Companies, Inc. "A"	145,053	**11,053,039**
Energy 3.7%		
Energy Equipment & Services 1.2%		
Schlumberger Ltd.	121,550	**10,381,586**
Oil, Gas & Consumable Fuels 2.5%		
Antero Resources Corp.* (a)	80,133	3,251,797
Continental Resources, Inc.* (a)	85,660	3,285,918
EOG Resources, Inc.	85,183	7,842,799
Pioneer Natural Resources Co.	55,843	8,312,230
		22,692,744
Financials 5.7%		
Capital Markets 2.8%		
Affiliated Managers Group, Inc.*	50,503	10,718,757
Ameriprise Financial, Inc.	57,562	7,612,574
The Charles Schwab Corp.	209,816	6,334,345
		24,665,676
Consumer Finance 1.2%		
Capital One Financial Corp.	134,273	**11,084,236**
Diversified Financial Services 0.9%		
Intercontinental Exchange, Inc.	36,120	**7,920,755**
Real Estate Investment Trusts 0.8%		
Crown Castle International Corp. (REIT)	91,268	**7,182,792**
Health Care 16.4%		
Biotechnology 7.0%		
Celgene Corp.* (a)	190,933	21,357,765
Cepheid, Inc.* (a)	134,890	7,302,945
Gilead Sciences, Inc.*	145,433	13,708,514
Medivation, Inc.*	98,429	9,804,513
NPS Pharmaceuticals, Inc.* (a)	296,253	10,596,970
		62,770,707
Health Care Equipment & Supplies 1.2%		
St. Jude Medical, Inc.	161,526	**10,504,036**
Health Care Providers & Services 3.8%		
Express Scripts Holding Co.*	104,050	8,809,913
McKesson Corp.	63,904	13,265,192
Omnicare, Inc. (a)	166,921	12,173,549
		34,248,654
Life Sciences Tools & Services 1.7%		
Thermo Fisher Scientific, Inc.	118,713	**14,873,552**
Pharmaceuticals 2.7%		
Allergan, Inc.	65,530	13,931,023
Bristol-Myers Squibb Co.	114,431	6,754,862
Shire PLC (ADR)	17,208	3,657,388
		24,343,273
Industrials 11.8%		
Aerospace & Defense 3.0%		
BE Aerospace, Inc.*	87,314	5,065,958
Boeing Co. (a)	97,281	12,644,585
KLX, Inc.*	43,657	1,800,851
TransDigm Group, Inc.	38,760	7,610,526
		27,121,920
Commercial Services & Supplies 0.7%		
Stericycle, Inc.* (a)	49,208	**6,450,185**
Electrical Equipment 1.4%		
AMETEK, Inc. (a)	236,920	**12,469,099**
Industrial Conglomerates 1.8%		
General Electric Co.	179,839	4,544,532
Roper Industries, Inc.	70,732	11,058,948
		15,603,480
Machinery 3.6%		
Dover Corp. (a)	71,514	5,128,984
Pall Corp.	109,131	11,045,149
Parker-Hannifin Corp.	119,911	15,462,523
		31,636,656
Road & Rail 1.3%		
Norfolk Southern Corp.	108,980	**11,945,298**
Information Technology 27.8%		
Communications Equipment 1.1%		
Palo Alto Networks, Inc.* (a)	79,093	**9,694,429**
Internet Software & Services 6.5%		
Alibaba Group Holding Ltd. (ADR)*	53,245	5,534,285
Facebook, Inc. "A"*	192,923	15,051,853

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

	Shares	Value ($)
Google, Inc. "A"*	29,806	15,816,852
Google, Inc. "C"*	29,955	15,768,312
LinkedIn Corp. "A"*	26,424	6,069,857
		58,241,159
IT Services 3.4%		
Cognizant Technology Solutions Corp. "A"*	143,946	7,580,196
Visa, Inc. "A" (a)	86,893	22,783,345
		30,363,541
Semiconductors & Semiconductor Equipment 3.5%		
Analog Devices, Inc.	168,574	9,359,228
Avago Technologies Ltd.	76,095	7,654,396
Intel Corp.	201,424	7,309,677
NXP Semiconductors NV*	89,383	6,828,861
		31,152,162
Software 6.8%		
Adobe Systems, Inc.*	127,838	9,293,823
Microsoft Corp.	533,722	24,791,387
Oracle Corp.	370,352	16,654,729
Salesforce.com, Inc.* (a)	170,788	10,129,436
		60,869,375
Technology Hardware, Storage & Peripherals 6.5%		
Apple, Inc.	441,085	48,686,962
Western Digital Corp.	83,422	9,234,816
		57,921,778
Materials 3.5%		
Chemicals 2.7%		
Dow Chemical Co.	175,745	8,015,729
Ecolab, Inc.	114,524	11,970,049
PPG Industries, Inc.	17,014	3,932,786
		23,918,564
Containers & Packaging 0.8%		
Ball Corp.	108,849	**7,420,236**

	Shares	Value ($)
Telecommunication Services 0.6%		
Diversified Telecommunication Services		
Level 3 Communications, Inc.*	96,391	4,759,787
Zayo Group Holdings, Inc.* (a)	22,945	701,429
		5,461,216
Utilities 0.5%		
Water Utilities		
American Water Works Co., Inc. (a)	92,500	**4,930,250**
Total Common Stocks (Cost $558,502,162)		**886,478,343**

	Principal Amount ($)	Value ($)
Convertible Bonds 0.4%		
Information Technology		
Twitter, Inc., 144A, 0.25%, 9/15/2019	2,098,000	1,822,637
Workday, Inc., 1.5%, 7/15/2020	1,903,278	2,318,431
Total Convertible Bonds (Cost $4,366,999)		**4,141,068**

	Shares	Value ($)
Securities Lending Collateral 14.9%		
Daily Assets Fund Institutional, 0.10% (b) (c) (Cost $133,354,054)	133,354,054	**133,354,054**
Cash Equivalents 0.4%		
Central Cash Management Fund, 0.06% (b) (Cost $3,306,422)	3,306,422	**3,306,422**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $699,529,637)†	114.9	**1,027,279,887**
Other Assets and Liabilities, Net	(14.9)	**(133,538,375)**
Net Assets	100.0	**893,741,512**

* Non-income producing security.

† The cost for federal income tax purposes was $699,999,348. At December 31, 2014, net unrealized appreciation for all securities based on tax cost was $327,280,539. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $335,740,331 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $8,459,792.

(a) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at December 31, 2014 amounted to $129,779,373, which is 14.5% 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.

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

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 level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

The following is a summary of the inputs used as of December 31, 2014 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)	$ 886,478,343	$ —	$ —	$ 886,478,343
Convertible Bonds	—	4,141,068	—	4,141,068
Short-Term Investments (d)	136,660,476	—	—	136,660,476
Total	**$1,023,138,819**	**$ 4,141,068**	**$ —**	**$ 1,027,279,887**

There have been no transfers between fair value measurement levels during the year ended December 31, 2014.

(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, 2014

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $562,869,161) — including $129,779,373 of securities loaned	$	890,619,411
Investment in Daily Assets Fund Institutional (cost $133,354,054)*		133,354,054
Investment in Central Cash Management Fund (cost $3,306,422)		3,306,422
Total investments in securities, at value (cost $699,529,637)		1,027,279,887
Cash		10,000
Receivable for Fund shares sold		293,377
Dividends receivable		825,290
Interest receivable		27,740
Other assets		14,495
Total assets		1,028,450,789
Liabilities		
Payable upon return of securities loaned		133,354,054
Payable for Fund shares redeemed		869,652
Accrued management fee		281,972
Accrued Trustees' fees		11,162
Other accrued expenses and payables		192,437
Total liabilities		134,709,277
Net assets, at value	**$**	**893,741,512**
Net Assets Consist of		
Undistributed net investment income		6,242,357
Net unrealized appreciation (depreciation) on Investments		327,750,250
Accumulated net realized gain (loss)		101,606,458
Paid-in capital		458,142,447
Net assets, at value	**$**	**893,741,512**
Class A		
Net Asset Value, offering and redemption price per share ($890,358,124 ÷ 29,731,475 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**29.95**
Class B		
Net Asset Value, offering and redemption price per share ($3,383,388 ÷ 113,396 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**29.84**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2014

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $14,055)	$	10,582,219
Income distributions — Central Cash Management Fund		2,581
Interest		36,689
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		67,802
Total income		10,689,291
Expenses:		
Management fee		3,162,834
Administration fee		849,407
Services to shareholders		3,617
Record keeping fee (Class B)		3,358
Distribution and service fees (Class B)		16,247
Custodian fee		24,755
Professional fees		93,369
Reports to shareholders		53,783
Trustees' fees and expenses		36,729
Other		26,992
Total expenses		4,271,091
Net investment income (loss)		**6,418,200**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from Investments		126,077,955
Change in net unrealized appreciation (depreciation) on:		
Investments		(29,237,278)
Foreign currency		(4,925)
		(29,242,203)
Net gain (loss)		**96,835,752**
Net increase (decrease) in net assets resulting from operations	**$**	**103,253,952**

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

Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2014	2013
Operations:		
Net investment income (loss)	$ 6,418,200	$ 6,538,509
Net realized gain (loss)	126,077,955	111,903,826
Change in net unrealized appreciation (depreciation)	(29,242,203)	112,661,284
Net increase (decrease) in net assets resulting from operations	103,253,952	231,103,619
Distributions to shareholders from:		
Net investment income:		
Class A	(5,280,971)	(9,616,234)
Class B	(41,098)	(131,767)
Net realized gains:		
Class A	(48,279,027)	—
Class B	(767,015)	—
Total distributions	(54,368,111)	(9,748,001)
Fund share transactions:		
Class A		
Proceeds from shares sold	51,156,495	14,066,914
Reinvestment of distributions	53,559,998	9,616,234
Payments for shares redeemed	(101,225,789)	(105,034,979)
Net increase (decrease) in net assets from Class A share transactions	3,490,704	(81,351,831)
Class B		
Proceeds from shares sold	1,318,640	760,162
Reinvestment of distributions	808,113	131,767
Payments for shares redeemed	(11,748,491)	(3,806,721)
Net increase (decrease) in net assets from Class B share transactions	(9,621,738)	(2,914,792)
Increase (decrease) in net assets	42,754,807	137,088,995
Net assets at beginning of period	850,986,705	713,897,710
Net assets at end of period (including undistributed net investment income of $6,242,357 and $6,239,079, respectively)	**$ 893,741,512**	**$ 850,986,705**

Other Information		
Class A		
Shares outstanding at beginning of period	29,474,327	32,798,165
Shares sold	1,781,210	570,579
Shares issued to shareholders in reinvestment of distributions	2,074,361	419,923
Shares redeemed	(3,598,423)	(4,314,340)
Net increase (decrease) in Class A shares	257,148	(3,323,838)
Shares outstanding at end of period	**29,731,475**	**29,474,327**
Class B		
Shares outstanding at beginning of period	484,326	600,771
Shares sold	46,596	31,195
Shares issued to shareholders in reinvestment of distributions	31,359	5,764
Shares redeemed	(448,885)	(153,404)
Net increase (decrease) in Class B shares	(370,930)	(116,445)
Shares outstanding at end of period	**113,396**	**484,326**

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

Financial Highlights

Class A	2014	2013	2012	2011	2010
	Years Ended December 31,				
Selected Per Share Data					
Net asset value, beginning of period	**$28.41**	**$21.38**	**$18.58**	**$19.59**	**$16.93**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.21	.21	.28	.17	.14[c]
Net realized and unrealized gain (loss)	3.18	7.12	2.70	(1.03)	2.68
Total from investment operations	3.39	7.33	2.98	(.86)	2.82
Less distributions from:					
Net investment income	(.18)	(.30)	(.18)	(.15)	(.16)
Net realized gains	(1.67)	—	—	—	—
Total distributions	(1.85)	(.30)	(.18)	(.15)	(.16)
Net asset value, end of period	**$29.95**	**$28.41**	**$21.38**	**$18.58**	**$19.59**
Total Return (%)	12.97	34.65	16.05	(4.47)	16.71[b]
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	890	837	701	677	729
Ratio of expenses before expense reductions (%)	.50	.50	.50	.50	.51
Ratio of expenses after expense reductions (%)	.50	.50	.50	.50	.51
Ratio of net investment income (loss) (%)	.76	.85	1.32	.86	.78[c]
Portfolio turnover rate (%)	47	37	25	47	42

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 per share and 0.28% of average daily net assets for the year ended December 31, 2010.

Class B	2014	2013	2012	2011	2010
	Years Ended December 31,				
Selected Per Share Data					
Net asset value, beginning of period	**$28.29**	**$21.29**	**$18.51**	**$19.51**	**$16.86**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.09	.13	.20	.10	.08[c]
Net realized and unrealized gain (loss)	3.22	7.10	2.69	(1.02)	2.67
Total from investment operations	3.31	7.23	2.89	(.92)	2.75
Less distributions from:					
Net investment income	(.09)	(.23)	(.11)	(.08)	(.10)
Net realized gains	(1.67)	—	—	—	—
Total distributions	(1.76)	(.23)	(.11)	(.08)	(.10)
Net asset value, end of period	**$29.84**	**$28.29**	**$21.29**	**$18.51**	**$19.51**
Total Return (%)	12.67	34.19	15.61	(4.76)	16.33[b]
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	3	14	13	13	12
Ratio of expenses before expense reductions (%)	.80	.83	.83	.84	.85
Ratio of expenses after expense reductions (%)	.80	.83	.83	.84	.84
Ratio of net investment income (loss) (%)	.33	.52	.97	.52	.45[c]
Portfolio turnover rate (%)	47	37	25	47	42

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 per share and 0.28% of average daily net assets for the year ended December 31, 2010.

Notes to Financial Statements

A. Organization and Significant Accounting Policies

Deutsche Variable Series I (formerly 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: Deutsche Bond VIP, Deutsche Core Equity VIP, Deutsche Capital Growth VIP, Deutsche Global Small Cap VIP and Deutsche International VIP (individually or collectively hereinafter referred to as a "Fund" or the "Funds" and formerly known as DWS Bond VIP, DWS Core Equity VIP, DWS Capital Growth VIP, DWS Global Small Cap Growth VIP and DWS International VIP, respectively). These financial statements report on Deutsche 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 record keeping fees equal to an annual rate of 0.25% and up to 0.15%, respectively, of the average daily net assets of the Class B shares of the 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 level assigned to the securities valuations may not be an indication of the risk or liquidity 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. 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. Equity securities are generally categorized as Level 1.

Investments in open-end investment companies are valued at their net asset value each business day and are categorized as Level 1.

Debt securities are valued at prices supplied by independent pricing services approved by the Fund's Board. 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, prepayment speeds and other data, as well as broker quotes. If the pricing services are unable to provide valuations, debt securities are valued at the average of the most recent reliable bid quotations or evaluated prices, as applicable, obtained from broker-dealers. These securities 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 Trustees and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors considered 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.

Securities Lending. Brown Brothers Harriman & Co., as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains the benefits of owning the securities it has loaned and continues to receive interest and dividends generated by the 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. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. 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.

As of December 31, 2014, the Fund had securities on loan. The value of the related collateral exceeded the value of the securities loaned at period end.

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 incurred post-enactment 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, 2014, the Fund had a net tax basis capital loss carryforward of approximately $15,222,000 of pre-enactment losses, all of which was inherited from its merger with other affiliated funds in previous years, which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2016, the expiration date, 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, 2014 and has determined that no provision for income tax and/or uncertain tax provisions 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 from net investment income of the Fund, if any, are 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, 2014, the Fund's components of distributable earnings (accumulated losses) on a tax basis are as follows:

Undistributed ordinary income*	$ 6,242,357
Undistributed net long-term capital gains	$ 117,313,066
Capital loss carryforwards	$ (15,222,000)
Net unrealized gain appreciation (depreciation) investments	$ 327,280,539

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

	Years Ended December 31, 2014	2013
Distributions from ordinary income*	$ 5,322,069	$ 9,748,001
Distributions from long-term capital gains	$ 49,046,042	$ —

* 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 based upon the relative net assets or other appropriate measures.

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. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments.

B. Purchases and Sales of Securities

During the year ended December 31, 2014, purchases and sales of investment securities (excluding short-term investments) aggregated $394,747,775 and $439,260,251, 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, 2014, the fee pursuant to the Investment Management Agreement was equivalent to an annual rate (exclusive of any applicable waivers/reimbursements) of 0.37% of the Fund's average daily net assets.

For the period from January 1, 2014 through September 30, 2015, the Advisor has contractually agreed to waive all or a portion of its fees and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of each class as follows:

Class A	.80%
Class B	1.13%

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, 2014, the Administration Fee was $849,407, of which $75,798 is unpaid.

Service Provider Fees. DeAWM Service Company ("DSC"), 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 DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it receives from the Fund. For the year ended December 31, 2014, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at December 31, 2014
Class A	$ 783	$ 142
Class B	176	29
	$ 959	**$ 171**

Distribution Service Agreement. DeAWM Distributors, Inc. ("DDI"), also an affiliate of the Advisor, is the Series' Distributor. In accordance with the Master Distribution Plan, DDI receives 12b-1 fees of 0.25% of average daily net assets of Class B shares. Pursuant to the Master Distribution Plan, DDI 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, 2014, the Distribution Service Fee aggregated $16,247, of which $720 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, 2014, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $15,114, of which $4,205 is unpaid.

Trustees' Fees and Expenses. The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and Vice Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicles. The Fund may invest uninvested cash balances in Central Cash Management Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. Each affiliated money market fund seeks to provide a high level of current income consistent with liquidity and the preservation of capital. Each affiliated money market fund is managed in accordance with Rule 2a-7 under the Investment Company Act of 1940, which governs the quality, maturity, diversity and liquidity of instruments in which a money market fund may invest. Central Cash Management Fund seeks to maintain a stable net asset value, and Deutsche Variable NAV Money Fund maintains a floating net asset value. The Fund indirectly bears its proportionate share of the expenses of each affiliated money market fund in which it invests. Central Cash Management Fund does not pay the Advisor an investment management fee. To the extent that Deutsche Variable NAV Money Fund pays an investment management fee to the Advisor, the Advisor will waive an amount of the investment management fee payable to the Advisor by the Fund equal to the amount of the investment management fee payable on the Fund's assets invested in Deutsche Variable NAV Money Fund.

D. Ownership of the Fund

At December 31, 2014, three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 39%, 37% and 12%, respectively. Two participating insurance companies were the owners of record of 10% or more of the total outstanding Class B shares of the Fund, each owning 81% and 10%, respectively.

E. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 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, 2014.

Report of Independent Registered Public Accounting Firm

To the Trustees of Deutsche Variable Series I and the Shareholders of Deutsche 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 Deutsche Capital Growth VIP (formerly DWS Capital Growth VIP) (the "Fund") at December 31, 2014 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, 2014 by correspondence with the custodian, brokers and transfer agent, and the application of alternative auditing procedures where such confirmations had not been received, provide a reasonable basis for our opinion.

Boston, Massachusetts
February 13, 2015

PricewaterhouseCoopers LLP

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, 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, 2014 to December 31, 2014).

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, 2014

Actual Fund Return	Class A	Class B
Beginning Account Value 7/1/14	$1,000.00	$1,000.00
Ending Account Value 12/31/14	$1,076.20	$1,074.90
Expenses Paid per $1,000*	$ 2.62	$ 3.92
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/14	$1,000.00	$1,000.00
Ending Account Value 12/31/14	$1,022.68	$1,021.42
Expenses Paid per $1,000*	$ 2.55	$ 3.82

* 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 184 (the number of days in the most recent six-month period), then divided by 365.

Annualized Expense Ratios	Class A	Class B
Deutsche Variable Series I — Deutsche Capital Growth VIP	.50%	.75%

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.

For an analysis of the fees associated with an investment in the fund or similar funds, please refer to the current and hypothetical expense calculators for Variable Insurance Products which can be found at deutschefunds.com/EN/resources/calculators.jsp.

Tax Information

(Unaudited)

The Fund paid distributions of $1.67 per share from net long-term capital gains during its year ended December 31, 2014.

Pursuant to Section 852 of the Internal Revenue Code, the Fund designates $129,198,000 as capital gain dividends for its year ended December 31, 2014.

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, 2014 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 — deutschefunds.com (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — 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.

Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of Deutsche Capital Growth VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2014.

In terms of the process that the Board followed prior to approving the Agreement, shareholders should know that:

— In September 2014, all of the Fund's Trustees were independent of DIMA 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 DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly meet privately with counsel to discuss contract review and other matters. In addition, the Independent Trustees were advised by the Fee Consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the Fee Consultant in connection with their deliberations.

— 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 DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG ("DB"), a major global banking institution that is engaged in a wide range of financial services. The Board believes that there are 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.

As part of the contract review process, the Board carefully considered the fees and expenses of each Deutsche fund overseen by the Board in light of the fund's performance. In many cases, this led to the negotiation and implementation of expense caps. As part of these negotiations, the Board indicated that it would consider relaxing these caps in future years following sustained improvements in performance, among other considerations.

In 2012, DB combined its Asset Management (of which DIMA was a part) and Wealth Management divisions into a new Asset and Wealth Management ("AWM") division. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that DB will continue to invest in AWM a significant portion of the savings it has realized by combining its Asset and Wealth Management divisions, including ongoing enhancements to AWM's investment capabilities. DB also has confirmed its commitment to maintaining strong legal and compliance groups within the AWM division.

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

Nature, Quality and Extent of Services. The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including a market index and a peer universe compiled by the Fee Consultant using information supplied by Morningstar Direct ("Morningstar"), an independent fund data service. The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to a peer universe), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's 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, 2013, the Fund's performance (Class A shares) was in the 3rd quartile, 3rd quartile and 4th quartile, respectively, of the applicable Morningstar 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, 2013.

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 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 DIMA under the Fund's administrative services agreement, were lower than the median (1st quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2013). 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, 2013) ("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 also considered how the Fund's total (net) operating expenses compared to the total (net) operating expenses of a more customized peer group selected by Lipper (based on such factors as asset size). The Board also noted that the expense limitations agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable funds and considered differences between the Fund and the comparable funds.

The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts and funds offered primarily to European investors ("Deutsche Europe funds") managed by DIMA and its affiliates. The Board noted that DIMA indicated that it does not manage any institutional accounts or Deutsche Europe funds comparable to the Fund.

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

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the Deutsche U.S. mutual funds ("Deutsche 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 DIMA and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable.

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

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to Deutsche Funds advertising and cross-selling opportunities among DIMA products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of DIMA's and the Fund's chief compliance officer; (ii) the large number of DIMA compliance personnel; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.

Based on all of the information considered and the conclusions reached, the Board 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 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.

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund. 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 Kenneth C. Froewiss, Chairman, Deutsche Mutual Funds, P.O. Box 390601, Cambridge, MA 02139. 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.

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 Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Kenneth C. Froewiss (1945) Chairperson since 2013, and 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)	105	—
William McClayton (1944) Vice Chairperson since 2013, and 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	105	—
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); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (provider of disease and care management services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International	105	Portland General Electric[2] (utility company) (2003–present)
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); North Bennett Street School (Boston); former Directorships: Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College	105	Lead Director, Becton Dickinson and Company[2] (medical technology company)
Dawn-Marie Driscoll (1946) Board Member since 1987	Emeritus Executive Fellow, Center for Business Ethics, Bentley University; formerly: President, Driscoll Associates (consulting firm); Partner, Palmer & Dodge (law firm) (1988–1990); Vice President of Corporate Affairs and General Counsel, Filene's (retail) (1978–1988). Directorships: Director of ICI Mutual Insurance Company (since 2007); Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	105	—
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); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies; former Directorships: BoxTop Media Inc. (advertising); Sun Capital Advisers Trust (mutual funds) (2011–2012)	105	—

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 Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Paul K. Freeman (1950) Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Chair, Independent Directors Council; Investment Company Institute (executive and nominating committees); formerly, Chairman of Education Committee of Independent Directors Council; Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998); Directorships: Denver Zoo Foundation (December 2012–present); former Directorships: Prisma Energy International	105	—
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; 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)	105	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
Rebecca W. Rimel (1951) Board Member since 1995	President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 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); Director, Viasys Health Care[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	105	Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc.[2] (health care) (2009–present)
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); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	105	—
Jean Gleason Stromberg (1943) Board Member since 1997	Retired. Formerly, Consultant (1997–2001); Director, Financial Markets U.S. Government Accountability Office (1996–1997); Partner, Norton Rose Fulbright, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation (charitable organization); former Directorships: Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	105	—
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	105	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Brian E. Binder[8] (1972) President and Chief Executive Officer, 2013–present	Managing Director[3] and Head of Fund Administration, Deutsche Asset & Wealth Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012); Chief Administrative Officer, Van Kampen Funds Inc. (2008–2010); and Chief Administrative Officer, Morgan Stanley Investment Management Americas Distribution (2003–2008)
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset & Wealth Management
Melinda Morrow[6] (1970) Vice President, 2012–present	Director,[3] Deutsche Asset & Wealth Management

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset & Wealth 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 & Wealth Management; formerly: Assistant Secretary for DWS family of funds (1997–2010)
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director,[3] Deutsche Asset & Wealth Management
Wayne Salit[6] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset & Wealth Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Hepsen Uzcan[7] (1974) Assistant Secretary, 2013–present	Director,[3] Deutsche Asset & Wealth Management
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management

1 The length of time served represents the year in which the Board Member joined the board of one or more Deutsche 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 Deutsche funds.

6 Address: 60 Wall Street, New York, NY 10005.

7 Address: One Beacon Street, Boston, MA 02108.

8 Address: 222 South Riverside Plaza, Chicago, IL 60606.

* Robert H. Wadsworth retired from the Board effective December 31, 2014.

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.

Deutsche Asset
& Wealth Management

DeAWM Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS1capgro-2 (R-025820-4 2/15)

Deutsche Asset
& Wealth Management

December 31, 2014

Annual Report

Deutsche Variable Series I

(formerly DWS Variable Series I)

Deutsche Core Equity VIP

(formerly DWS Core Equity VIP)

Contents

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. The Fund may lend securities to approved institutions. 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. See the prospectus for details.

Deutsche Asset & Wealth Management represents the asset management and wealth management activities conducted by Deutsche Bank AG or any of its subsidiaries, including the Advisor and DeAWM Distributors, Inc.

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

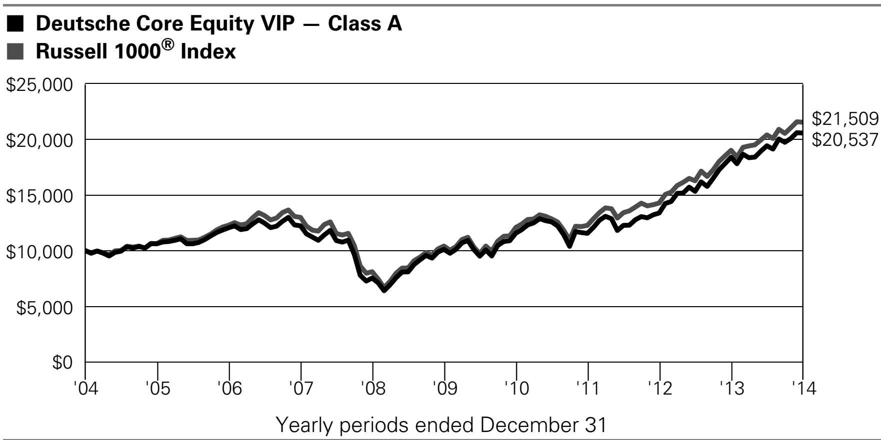
Performance Summary

December 31, 2014 (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, 2014 are 0.56% and 0.76% 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



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

Deutsche Core Equity VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$11,182	$17,785	$20,316	$20,537
	Average annual total return	11.82%	21.16%	15.23%	7.46%
Russell 1000® Index	Growth of $10,000	$11,324	$17,549	$20,679	$21,509
	Average annual total return	13.24%	20.62%	15.64%	7.96%

Deutsche Core Equity VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$11,152	$17,645	$20,056	$20,009
	Average annual total return	11.52%	20.84%	14.93%	7.18%
Russell 1000® Index	Growth of $10,000	$11,324	$17,549	$20,679	$21,509
	Average annual total return	13.24%	20.62%	15.64%	7.96%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2014 (Unaudited)

The U.S. stock market delivered a gain during the past year, reflecting the continued strength in corporate earnings trends and the health of the country's economy compared to its major developed-market counterparts. The Fund returned 11.82% (Class A shares, unadjusted for contract charges), underperforming the 13.24% return for the Russell 1000® Index.[1]

Consistent with our bottom-up approach, individual stock selection was the primary driver of relative performance. Two of the leading contributors to the Fund's performance were the food company Hillshire Brands Co.* and the spirits producer Beam, Inc.,* both of which were acquired at a premium during the first half of the year. The portfolio holding Allergan, Inc. also was targeted for an acquisition by a rival. Allergan was just one of several holdings in the health care sector that delivered outperformance during the past year, as we also generated strong returns through our positions in CareFusion Corp.,* Medivation, Inc. and Celgene Corp. Our investments in health care have targeted companies with robust underlying fundamentals and exciting product stories, an approach that paid off in the past 12 months. Positions in L Brands Inc., Avago Technologies Ltd. and Extra Space Storage Inc. also contributed positively to performance.

Whole Foods Market, Inc., which lost ground due to rising competition in the organic-foods space, was the largest individual detractor from performance. On a sector basis, our holdings underperformed the benchmark by the widest margin in financials, where positions in Affiliated Managers Group, Inc., Prudential Financial, Inc. and Citigroup, Inc. all hurt the Fund's relative performance. Information technology also proved to be a challenging sector for the Fund, due in part to the underperformance of Solera Holdings, Inc.* and LinkedIn Corp.* Outside of these sectors, other detractors of note included Fiat Chrysler Automobiles NV and Chevron Corp.

We maintain a focus on stocks with company-specific drivers of growth, as well as those that stand to benefit from longer-term, secular themes. This approach is reflected in the Fund's modest overweight positions in higher-growth sectors such as consumer discretionary and health care, and its corresponding underweight in slower-growth sectors such as telecommunications and utilities.[2] In addition, we have favored stocks with a greater exposure to the strong domestic economy over those with a global focus.

Owen Fitzpatrick, CFA
Lead Portfolio Manager

Thomas M. Hynes, Jr., CFA
Brendan O'Neill, CFA
Pankaj Bhatnagar, PhD
Portfolio Managers

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.

1 The Russell 1000 Index tracks the performance of the 1,000 largest stocks in the Russell 3000® Index, which consists of the 3,000 largest U.S. companies as measured by market capitalization. Index returns do not reflect fees or expenses and it is not possible to invest directly in an index.

2 The consumer discretionary sector represents industries that produce goods and services that are not necessities in everyday life.

* Not held in the portfolio as of December 31, 2014.

Portfolio Summary

December 31, 2014 (Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/14**	**12/31/13**
Common Stocks	99%	100%
Cash Equivalents	1%	0%
	100%	100%

Sector Diversification (As a % of Common Stocks and Convertible Bonds)	**12/31/14**	**12/31/13**
Information Technology	20%	18%
Health Care	17%	16%
Financials	16%	17%
Consumer Discretionary	13%	14%
Industrials	11%	12%
Consumer Staples	9%	8%
Energy	8%	10%
Materials	3%	3%
Utilities	2%	1%
Telecommunication Services	1%	1%
	100%	100%

Portfolio holdings and characteristics 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 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 deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

	Shares	Value ($)
Common Stocks 99.0%		
Consumer Discretionary 12.8%		
Auto Components 1.0%		
BorgWarner, Inc.	39,736	**2,183,493**
Hotels, Restaurants & Leisure 1.3%		
Las Vegas Sands Corp.	17,001	988,778
Starwood Hotels & Resorts Worldwide, Inc.	25,030	2,029,182
		3,017,960
Internet & Catalog Retail 1.5%		
Amazon.com, Inc.*	6,882	2,135,829
Expedia, Inc.	13,489	1,151,421
		3,287,250
Media 2.0%		
Twenty-First Century Fox, Inc. "A"	51,178	1,965,491
Walt Disney Co. (a)	26,386	2,485,297
		4,450,788
Specialty Retail 4.1%		
Dick's Sporting Goods, Inc.	36,724	1,823,346
Home Depot, Inc.	32,604	3,422,442
L Brands, Inc.	44,196	3,825,164
		9,070,952
Textiles, Apparel & Luxury Goods 2.9%		
NIKE, Inc. "B"	44,933	4,320,308
VF Corp.	27,294	2,044,321
		6,364,629
Consumer Staples 9.3%		
Beverages 1.4%		
PepsiCo, Inc.	33,284	**3,147,335**
Food & Staples Retailing 2.9%		
Costco Wholesale Corp.	19,824	2,810,052
Kroger Co.	28,492	1,829,471
Whole Foods Market, Inc. (a)	36,671	1,848,952
		6,488,475
Food Products 3.1%		
ConAgra Foods, Inc.	36,767	1,333,907
Mead Johnson Nutrition Co.	29,220	2,937,779
The WhiteWave Foods Co.*	76,162	2,664,908
		6,936,594
Household Products 0.8%		
Procter & Gamble Co.	19,756	**1,799,574**
Personal Products 1.1%		
Estee Lauder Companies, Inc. "A"	31,495	**2,399,919**
Energy 7.6%		
Energy Equipment & Services 0.6%		
Schlumberger Ltd.	15,527	**1,326,161**
Oil, Gas & Consumable Fuels 7.0%		
Anadarko Petroleum Corp.	24,593	2,028,923
Antero Resources Corp.* (a)	18,761	761,321
California Resources Corp.*	14,282	78,694
Chevron Corp.	40,156	4,504,700
EOG Resources, Inc.	23,684	2,180,586
Occidental Petroleum Corp.	35,706	2,878,261
Phillips 66	21,399	1,534,308
Pioneer Natural Resources Co.	10,098	1,503,087
		15,469,880
Financials 16.1%		
Banks 6.3%		
Citigroup, Inc.	111,845	6,051,933
JPMorgan Chase & Co.	71,215	4,456,635
Regions Financial Corp.	325,335	3,435,537
		13,944,105
Capital Markets 2.9%		
Affiliated Managers Group, Inc.*	18,260	3,875,502
Ameriprise Financial, Inc.	18,866	2,495,029
		6,370,531
Consumer Finance 2.0%		
Capital One Financial Corp.	55,536	**4,584,497**
Diversified Financial Services 0.7%		
Intercontinental Exchange, Inc.	6,858	**1,503,891**
Insurance 2.9%		
MetLife, Inc.	41,611	2,250,739
Prudential Financial, Inc.	45,994	4,160,617
		6,411,356
Real Estate Investment Trusts 1.3%		
Prologis, Inc. (REIT)	69,539	**2,992,263**
Health Care 16.5%		
Biotechnology 4.9%		
Celgene Corp.* (a)	41,119	4,599,571
Gilead Sciences, Inc.*	22,779	2,147,149
Medivation, Inc.*	19,004	1,892,988
NPS Pharmaceuticals, Inc.*	63,596	2,274,829
		10,914,537
Health Care Equipment & Supplies 1.2%		
St. Jude Medical, Inc.	42,575	**2,768,652**
Health Care Providers & Services 3.2%		
Express Scripts Holding Co.*	21,276	1,801,439
McKesson Corp.	10,455	2,170,249
Omnicare, Inc. (a)	41,676	3,039,431
		7,011,119
Life Sciences Tools & Services 1.9%		
Thermo Fisher Scientific, Inc.	33,426	**4,187,944**
Pharmaceuticals 5.3%		
Allergan, Inc.	14,014	2,979,236
Bristol-Myers Squibb Co.	19,359	1,142,762
Merck & Co., Inc.	65,380	3,712,930
Pfizer, Inc.	95,717	2,981,585
Shire PLC (ADR)	4,430	941,552
		11,758,065
Industrials 10.9%		
Aerospace & Defense 2.3%		
Boeing Co.	23,401	3,041,662
TransDigm Group, Inc.	10,053	1,973,907
		5,015,569
Electrical Equipment 1.9%		
AMETEK, Inc.	60,027	3,159,221
Regal-Beloit Corp. (a)	15,198	1,142,890
		4,302,111

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

	Shares	Value ($)
Industrial Conglomerates 3.0%		
General Electric Co.	139,180	3,517,079
Roper Industries, Inc.	19,949	3,119,026
		6,636,105
Machinery 2.2%		
Pall Corp.	24,042	2,433,291
Parker-Hannifin Corp.	19,809	2,554,370
		4,987,661
Road & Rail 1.5%		
Norfolk Southern Corp.	29,550	**3,238,975**
Information Technology 19.9%		
Communications Equipment 1.0%		
Cisco Systems, Inc.	40,974	1,139,692
Palo Alto Networks, Inc.*	8,352	1,023,704
		2,163,396
Internet Software & Services 4.0%		
Alibaba Group Holding Ltd. (ADR)*	8,666	900,744
Facebook, Inc. "A"*	35,084	2,737,254
Google, Inc. "A"*	4,968	2,636,319
Google, Inc. "C"*	4,986	2,624,630
		8,898,947
IT Services 2.5%		
Cognizant Technology Solutions Corp. "A"*	31,756	1,672,271
Visa, Inc. "A" (a)	14,911	3,909,664
		5,581,935
Semiconductors & Semiconductor Equipment 3.8%		
Analog Devices, Inc.	29,473	1,636,341
Avago Technologies Ltd.	14,625	1,471,129
Intel Corp.	105,174	3,816,764
NXP Semiconductor NV*	18,892	1,443,349
		8,367,583
Software 4.5%		
Intuit, Inc.	17,017	1,568,797
Microsoft Corp.	83,514	3,879,226
Oracle Corp.	67,857	3,051,529
Salesforce.com, Inc.* (a)	24,287	1,440,462
		9,940,014
Technology Hardware, Storage & Peripherals 4.1%		
Apple, Inc.	65,094	7,185,076
Western Digital Corp.	18,297	2,025,478
		9,210,554

	Shares	Value ($)
Materials 3.1%		
Chemicals 2.0%		
Dow Chemical Co.	27,379	1,248,756
Ecolab, Inc.	29,508	3,084,176
		4,332,932
Containers & Packaging 1.1%		
Sealed Air Corp.	59,959	**2,544,061**
Telecommunication Services 0.7%		
Wireless Telecommunication Services		
T-Mobile U.S., Inc.* (a)	55,022	**1,482,293**
Utilities 2.1%		
Electric Utilities 0.8%		
NextEra Energy, Inc.	17,016	**1,808,631**
Water Utilities 1.3%		
American Water Works Co., Inc.	53,872	**2,871,377**
Total Common Stocks (Cost $181,931,095)		**219,772,114**

	Principal Amount ($)	Value ($)
Convertible Bonds 0.4%		
Consumer Discretionary 0.2%		
Fiat Chrysler Automobiles NV, 7.875%, 12/15/2016	440,000	**467,808**
Information Technology 0.2%		
Twitter, Inc., 144A, 0.25%, 9/15/2019	544,000	**472,600**
Total Convertible Bonds (Cost $984,000)		**940,408**

	Shares	Value ($)
Securities Lending Collateral 7.9%		
Daily Assets Fund Institutional, 0.10% (b) (c) (Cost $17,499,003)	17,499,003	**17,499,003**
Cash Equivalents 0.7%		
Central Cash Management Fund, 0.06% (b) (Cost $1,599,017)	1,599,017	**1,599,017**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $202,013,115)†	108.0	**239,810,542**
Other Assets and Liabilities, Net	(8.0)	**(17,693,992)**
Net Assets	100.0	**222,116,550**

* Non-income producing security.

† The cost for federal income tax purposes was $202,102,178. At December 31, 2014, net unrealized appreciation for all securities based on tax cost was $37,708,364. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $40,452,079 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $2,743,715.

(a) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at December 31, 2014 amounted to $16,973,818, which is 7.6% of net assets.

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

(c) Represents collateral held in connection with securities lending. Income earned by the 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

REIT: Real Estate Investment Trust

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 level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

The following is a summary of the inputs used as of December 31, 2014 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)	$219,772,114	$ —	$ —	$219,772,114
Convertible Bonds (d)	—	940,408	—	940,408
Short-Term Investments (d)	19,098,020	—	—	19,098,020
Total	**$238,870,134**	**$ 940,408**	**$ —**	**$239,810,542**

There have been no transfers between fair value measurement levels during the year ended December 31, 2014.

(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, 2014

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $182,915,095) — including $16,973,818 of securities loaned	$	220,712,522
Investment in Daily Assets Fund Institutional (cost $17,499,003)*		17,499,003
Investment in Central Cash Management Fund (cost $1,599,017)		1,599,017
Total investments in securities, at value (cost $202,013,115)		239,810,542
Receivable for Fund shares sold		279,312
Dividends receivable		244,876
Interest receivable		3,334
Other assets		3,788
Total assets		240,341,852
Liabilities		
Payable upon return of securities loaned		17,499,003
Payable for Fund shares redeemed		540,686
Accrued management fee		74,028
Accrued Trustees' fees		2,688
Other accrued expenses and payables		108,897
Total liabilities		18,225,302
Net assets, at value	**$**	**222,116,550**
Net Assets Consist of		
Undistributed net investment income		1,766,159
Net unrealized appreciation (depreciation) on investments		37,797,427
Accumulated net realized gain (loss)		402,587
Paid-in capital		182,150,377
Net assets, at value	**$**	**222,116,550**
Class A		
Net Asset Value, offering and redemption price per share ($220,304,295 ÷ 17,268,971 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**12.76**
Class B		
Net Asset Value, offering and redemption price per share ($1,812,255 ÷ 142,262 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**12.74**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2014

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $1,475)	$	3,119,757
Interest		3,617
Income distributions — Central Cash Management Fund		585
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		8,456
Total income		3,132,415
Expenses:		
Management fee		858,591
Administration fee		220,152
Services to shareholders		2,837
Distribution service fee (Class B)		4,500
Custodian fee		24,103
Professional fees		76,832
Reports to shareholders		43,238
Trustees' fees and expenses		11,246
Other		9,639
Total expenses		1,251,138
Net investment income		**1,881,277**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from investments		17,630,326
Change in net unrealized appreciation (depreciation) on investments		4,906,485
Net gain (loss)		**22,536,811**
Net increase (decrease) in net assets resulting from operations	**$**	**24,418,088**

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, 2014	2013
Operations:		
Net investment income	$ 1,881,277	$ 2,438,537
Net realized gain (loss)	17,630,326	48,316,584
Change in net unrealized appreciation (depreciation)	4,906,485	13,479,342
Net increase (decrease) in net assets resulting from operations	24,418,088	64,234,463
Distributions to shareholders from:		
Net investment income:		
Class A	(2,373,232)	(2,931,105)
Class B	(16,034)	(20,449)
Total distributions	(2,389,266)	(2,951,554)
Fund share transactions:		
Class A		
Proceeds from shares sold	9,130,365	12,066,669
Reinvestment of distributions	2,373,232	2,931,105
Payments for shares redeemed	(36,253,798)	(32,588,778)
Net increase (decrease) in net assets from Class A share transactions	(24,750,201)	(17,591,004)
Class B		
Proceeds from shares sold	50,380	61,298
Reinvestment of distributions	16,034	20,449
Payments for shares redeemed	(301,019)	(347,419)
Net increase (decrease) in net assets from Class B share transactions	(234,605)	(265,672)
Increase (decrease) in net assets	(2,955,984)	43,426,233
Net assets at beginning of period	225,072,534	181,646,301
Net assets at end of period (including undistributed net investment income of $1,789,273 and $2,295,256, respectively)	**$ 222,116,550**	**$ 225,072,534**

Other Information		
Class A		
Shares outstanding at beginning of period	19,342,719	21,101,010
Shares sold	762,045	1,197,826
Shares issued to shareholders in reinvestment of distributions	210,580	308,213
Shares redeemed	(3,046,373)	(3,264,330)
Net increase (decrease) in Class A shares	(2,073,748)	(1,758,291)
Shares outstanding at end of period	**17,268,971**	**19,342,719**
Class B		
Shares outstanding at beginning of period	161,956	188,843
Shares sold	4,074	5,908
Shares issued to shareholders in reinvestment of distributions	1,423	2,148
Shares redeemed	(25,191)	(34,943)
Net increase (decrease) in Class B shares	(19,694)	(26,887)
Shares outstanding at end of period	**142,262**	**161,956**

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

Financial Highlights

Class A			Years Ended December 31,		
	2014	2013	2012	2011	2010
Selected Per Share Data					
Net asset value, beginning of period	**$11.54**	**$ 8.53**	**$ 7.46**	**$ 7.56**	**$ 6.71**
Income (loss) from investment operations:					
Net investment income[a]	.10	.12	.15	.10	.09
Net realized and unrealized gain (loss)	1.25	3.03	1.03	(.10)	.87
Total from investment operations	1.35	3.15	1.18	.00	.96
Less distributions from:					
Net investment income	(.13)	(.14)	(.11)	(.10)	(.11)
Net asset value, end of period	**$12.76**	**$11.54**	**$ 8.53**	**$ 7.46**	**$ 7.56**
Total Return (%)	11.82	37.33	15.81	(.14)	14.40[b]
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	220	223	180	85	98
Ratio of expenses before expense reductions (%)	.57	.56	.59	.63	.63
Ratio of expenses after expense reductions (%)	.57	.56	.59	.63	.60
Ratio of net investment income (%)	.86	1.20	1.90	1.25	1.32
Portfolio turnover rate (%)	48	238	307	215	145

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,		
	2014	2013	2012	2011	2010
Selected Per Share Data					
Net asset value, beginning of period	**$11.53**	**$ 8.51**	**$ 7.45**	**$ 7.55**	**$ 6.70**
Income (loss) from investment operations:					
Net investment income[a]	.07	.10	.11	.08	.07
Net realized and unrealized gain (loss)	1.24	3.03	1.03	(.10)	.87
Total from investment operations	1.31	3.13	1.14	(.02)	.94
Less distributions from:					
Net investment income	(.10)	(.11)	(.08)	(.08)	(.09)
Net asset value, end of period	**$12.74**	**$11.53**	**$ 8.51**	**$ 7.45**	**$ 7.55**
Total Return (%)	11.52	37.10	15.41	(.40)	14.12[b]
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	2	2	2	2	2
Ratio of expenses before expense reductions (%)	.82	.76	.90	.88	.88
Ratio of expenses after expense reductions (%)	.82	.76	.90	.88	.85
Ratio of net investment income (%)	.60	1.00	1.41	.99	1.07
Portfolio turnover rate (%)	48	238	307	215	145

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

Deutsche Variable Series I (formerly 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: Deutsche Bond VIP, Deutsche Core Equity VIP, Deutsche Capital Growth VIP, Deutsche Global Small Cap VIP and Deutsche International VIP (individually or collectively hereinafter referred to as a "Fund" or the "Funds" and formerly known as DWS Bond VIP, DWS Core Equity VIP, DWS Capital Growth VIP, DWS Global Small Cap Growth VIP and DWS International VIP, respectively). These financial statements report on Deutsche Core Equity 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 level assigned to the securities valuations may not be an indication of the risk or liquidity 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. 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. Equity securities are generally categorized as Level 1.

Investments in open-end investment companies are valued at their net asset value each business day and are categorized as Level 1.

Debt securities are valued at prices supplied by independent pricing services approved by the Fund's Board. 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, prepayment speeds and other data, as well as broker quotes. If the pricing services are unable to provide valuations, debt securities are valued at the average of the most recent reliable bid quotations or evaluated prices, as applicable, obtained from broker-dealers are valued at the mean of the most recent bid and ask quotations or evaluated prices, as applicable, obtained from broker-dealers. These securities 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 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.

Securities Lending. Brown Brothers Harriman & Co., as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains the benefits of owning the securities it has loaned and continues to receive interest and dividends generated by the 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. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. 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.

As of December 31, 2014, the Fund had securities on loan. The value of the related collateral exceeded the value of the securities loaned at period end.

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.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2014 and has determined that no provision for income tax and/or uncertain tax provisions 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 from net investment income of the Fund, if any, are 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, 2014, the Fund's components of distributable earnings (accumulated losses) on a tax basis are as follows:

Undistributed ordinary income*	$ 1,764,715
Undistributed net long-term capital gains	$ 491,648
Net unrealized appreciation (depreciation) on investments	$ 37,708,364

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

	Years Ended December 31, 2014	2013
Distributions from ordinary income*	$ 2,389,266	$ 2,951,554

* 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 based upon the relative net assets or other appropriate measures.

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. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments.

B. Purchases and Sales of Securities

During the year ended December 31, 2014, purchases and sales of investment securities (excluding short-term investments) aggregated $106,307,086 and $131,876,491, 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, 2014, the fee pursuant to the Investment Management Agreement was equivalent to an annual rate (exclusive of any applicable waivers/reimbursements) of 0.39% of the Fund's average daily net assets.

For the period from January 1, 2014 through September 30, 2014, the Advisor had contractually agreed to waive its fee and/or reimburse certain operating expenses of the Fund to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of each class as follows:

Class A	.80%
Class B	1.18%

Effective October 1, 2014 through September 30, 2015, the Advisor has contractually agreed to waive its fees and/or reimburse certain operating expenses of the Fund to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest) of each class as follows:

Class A	.85%
Class B	1.10%

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, 2014, the Administration Fee was $220,152, of which $18,981 is unpaid.

Service Provider Fees. DeAWM Service Company ("DSC"), 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 DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it receives from the Fund. For the year ended December 31, 2014, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at December 31, 2014
Class A	$ 574	$ 96
Class B	81	14
	$ 655	**$ 110**

Distribution Service Agreement. DeAWM Distributors, Inc. ("DDI"), also an affiliate of the Advisor, is the Series' Distributor. In accordance with the Master Distribution Plan, DDI receives 12b-1 fees of 0.25% of average daily net assets of Class B shares. Pursuant to the Master Distribution Plan, DDI 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, 2014, the Distribution Service Fee aggregated $4,500, of which $385 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, 2014, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $15,253, of which $4,405 is unpaid.

Trustees' Fees and Expenses. The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and Vice Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicles. The Fund may invest uninvested cash balances in Central Cash Management Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. Each affiliated money market fund seeks to provide a high level of current income consistent with liquidity and the preservation of capital. Each affiliated money market fund is managed in accordance with Rule 2a-7 under the Investment Company Act of 1940, which governs the quality, maturity, diversity and liquidity of instruments in which a money market fund may invest. Central Cash Management Fund seeks to maintain a stable net asset value, and Deutsche Variable NAV Money Fund maintains a floating net asset value. The Fund indirectly bears its proportionate share of the expenses of each affiliated money market fund in which it invests. Central Cash Management Fund does not pay the Advisor an investment management fee. To the extent that Deutsche Variable NAV Money Fund pays an investment management fee to the Advisor, the Advisor will waive an amount of the investment management fee payable to the Advisor by the Fund equal to the amount of the investment management fee payable on the Fund's assets invested in Deutsche Variable NAV Money Fund.

D. Ownership of the Fund

At December 31, 2014, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 49% and 33%, respectively. Two participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, each owning 84% and 16%, respectively.

E. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 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, 2014.

Report of Independent Registered Public Accounting Firm

To the Trustees of Deutsche Variable Series I and the Shareholders of Deutsche Core Equity 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 Deutsche Core Equity VIP (formerly DWS Core Equity VIP) (the "Fund") at December 31, 2014 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, 2014 by correspondence with the custodian, brokers and transfer agent, and the application of alternative auditing procedures where such confirmations had not been received, provide a reasonable basis for our opinion.

Boston, Massachusetts
February 13, 2015

PricewaterhouseCoopers LLP

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, 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, 2014 to December 31, 2014).

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, 2014

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/14	$1,000.00	$1,000.00
Ending Account Value 12/31/14	$1,058.90	$1,057.30
Expenses Paid per $1,000*	$ 2.91	$ 4.25
Hypothetical 5% Portfolio Return	**Class A**	**Class B**
Beginning Account Value 7/1/14	$1,000.00	$1,000.00
Ending Account Value 12/31/14	$1,022.38	$1,021.07
Expenses Paid per $1,000*	$ 2.85	$ 4.18

* 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 184 (the number of days in the most recent six-month period), then divided by 365.

Annualized Expense Ratios	**Class A**	**Class B**
Deutsche Variable Series I — Deutsche Core Equity VIP	.56%	.82%

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.

For an analysis of the fees associated with an investment in the fund or similar funds, please refer to the current and hypothetical expense calculators for Variable Insurance Products which can be found at deutschefunds.com/EN/resources/calculators.jsp.

Tax Information

(Unaudited)

Pursuant to Section 852 of the Internal Revenue Code, the Fund designates $541,000 as capital gain dividends for its year ended December 31, 2014.

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, 2014 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 — deutschefunds.com (click on "proxy voting"at the bottom of the page) — or on the SEC's Web site — 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.

Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of Deutsche Core Equity VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2014.

In terms of the process that the Board followed prior to approving the Agreement, shareholders should know that:

— In September 2014, all of the Fund's Trustees were independent of DIMA 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 DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly meet privately with counsel to discuss contract review and other matters. In addition, the Independent Trustees were advised by the Fee Consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the Fee Consultant in connection with their deliberations.

— 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 DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG ("DB"), a major global banking institution that is engaged in a wide range of financial services. The Board believes that there are 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.

As part of the contract review process, the Board carefully considered the fees and expenses of each Deutsche fund overseen by the Board in light of the fund's performance. In many cases, this led to the negotiation and implementation of expense caps. As part of these negotiations, the Board indicated that it would consider relaxing these caps in future years following sustained improvements in performance, among other considerations.

In 2012, DB combined its Asset Management (of which DIMA was a part) and Wealth Management divisions into a new Asset and Wealth Management ("AWM") division. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that DB will continue to invest in AWM a significant portion of the savings it has realized by combining its Asset and Wealth Management divisions, including ongoing enhancements to AWM's investment capabilities. DB also has confirmed its commitment to maintaining strong legal and compliance groups within the AWM division.

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

Nature, Quality and Extent of Services. The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including a market index and a peer universe compiled by the Fee Consultant using information supplied by Morningstar Direct ("Morningstar"), an independent fund data service. The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing

poorly relative to a peer universe), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's 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, 2013, the Fund's performance (Class A shares) was in the 1st quartile, 1st quartile and 1st quartile, respectively, of the applicable Morningstar 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, 2013.

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 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 DIMA under the Fund's administrative services agreement, were lower than the median (1st quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2013). 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, 2013) ("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 also considered how the Fund's total (net) operating expenses compared to the total (net) operating expenses of a more customized peer group selected by Lipper (based on such factors as asset size). The Board also noted that the expense limitations agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable funds and considered differences between the Fund and the comparable funds.

The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts and funds offered primarily to European investors ("Deutsche Europe funds") managed by DIMA and its affiliates. The Board noted that DIMA indicated that it manages an institutional account comparable to the Fund, but does not manage any comparable Deutsche Europe funds. The Board took note of the differences in services provided to Deutsche U.S. mutual funds ("Deutsche Funds") as compared to institutional accounts and that such differences made comparison difficult.

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

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the Deutsche 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 DIMA and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable.

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

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to Deutsche Funds advertising and cross-selling opportunities among DIMA products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of DIMA's and the Fund's chief compliance officer; (ii) the large number of DIMA compliance personnel; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.

Based on all of the information considered and the conclusions reached, the Board 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 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.

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund. 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 Kenneth C. Froewiss, Chairman, Deutsche Mutual Funds, P.O. Box 390601, Cambridge, MA 02139. 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.

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 Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Kenneth C. Froewiss (1945) Chairperson since 2013, and 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)	105	—
William McClayton (1944) Vice Chairperson since 2013, and 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	105	—
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); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (provider of disease and care management services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International	105	Portland General Electric[2] (utility company) (2003–present)
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); North Bennett Street School (Boston); former Directorships: Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College	105	Lead Director, Becton Dickinson and Company[2] (medical technology company)
Dawn-Marie Driscoll (1946) Board Member since 1987	Emeritus Executive Fellow, Center for Business Ethics, Bentley University; formerly: President, Driscoll Associates (consulting firm); Partner, Palmer & Dodge (law firm) (1988–1990); Vice President of Corporate Affairs and General Counsel, Filene's (retail) (1978–1988). Directorships: Director of ICI Mutual Insurance Company (since 2007); Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	105	—
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); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies; former Directorships: BoxTop Media Inc. (advertising); Sun Capital Advisers Trust (mutual funds) (2011–2012)	105	—

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 Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Paul K. Freeman (1950) Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Chair, Independent Directors Council; Investment Company Institute (executive and nominating committees); formerly, Chairman of Education Committee of Independent Directors Council; Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998); Directorships: Denver Zoo Foundation (December 2012–present); former Directorships: Prisma Energy International	105	—
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; 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)	105	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
Rebecca W. Rimel (1951) Board Member since 1995	President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 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); Director, Viasys Health Care[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	105	Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc.[2] (health care) (2009–present)
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); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	105	—
Jean Gleason Stromberg (1943) Board Member since 1997	Retired. Formerly, Consultant (1997–2001); Director, Financial Markets U.S. Government Accountability Office (1996–1997); Partner, Norton Rose Fulbright, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation (charitable organization); former Directorships: Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	105	—
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	105	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Brian E. Binder[8] (1972) President and Chief Executive Officer, 2013–present	Managing Director[3] and Head of Fund Administration, Deutsche Asset & Wealth Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012); Chief Administrative Officer, Van Kampen Funds Inc. (2008–2010); and Chief Administrative Officer, Morgan Stanley Investment Management Americas Distribution (2003–2008)
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset & Wealth Management
Melinda Morrow[6] (1970) Vice President, 2012–present	Director,[3] Deutsche Asset & Wealth Management

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset & Wealth 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 & Wealth Management; formerly: Assistant Secretary for DWS family of funds (1997–2010)
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director,[3] Deutsche Asset & Wealth Management
Wayne Salit[6] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset & Wealth Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Hepsen Uzcan[7] (1974) Assistant Secretary, 2013–present	Director,[3] Deutsche Asset & Wealth Management
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management

1 The length of time served represents the year in which the Board Member joined the board of one or more Deutsche 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 Deutsche funds.

6 Address: 60 Wall Street, New York, NY 10005.

7 Address: One Beacon Street, Boston, MA 02108.

8 Address: 222 South Riverside Plaza, Chicago, IL 60606.

* Robert H. Wadsworth retired from the Board effective December 31, 2014.

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

Notes

Deutsche Asset
& Wealth Management

DeAWM Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS1coreq-2 (R-025822-5 2/15)

Deutsche Asset
& Wealth Management

December 31, 2014

Annual Report

Deutsche Investments VIT Funds

(formerly DWS Investments VIT Funds)

Deutsche Equity 500 Index VIP

(formerly DWS Equity 500 Index VIP)

Contents

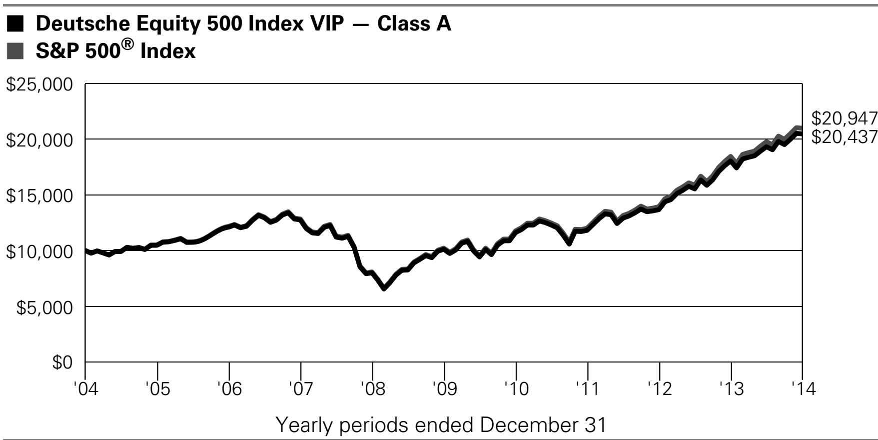
Performance Summary

December 31, 2014 (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 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, 2014 are 0.34%, 0.59% and 0.74% 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, 2014)

Deutsche Equity 500 Index VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$11,339	$17,307	$20,216	$20,437
	Average annual total return	13.39%	20.06%	15.12%	7.41%
S&P 500 Index	Growth of $10,000	$11,369	$17,460	$20,514	$20,947
	Average annual total return	13.69%	20.41%	15.45%	7.67%

Deutsche Equity 500 Index VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$11,305	$17,181	$19,970	$19,932
	Average annual total return	13.05%	19.77%	14.84%	7.14%
S&P 500 Index	Growth of $10,000	$11,369	$17,460	$20,514	$20,947
	Average annual total return	13.69%	20.41%	15.45%	7.67%

Deutsche Equity 500 Index VIP		1-Year	3-Year	5-Year	Life of Class*
Class B2	Growth of $10,000	$11,300	$17,119	$19,844	$19,106
	Average annual total return	13.00%	19.63%	14.69%	7.22%
S&P 500 Index	Growth of $10,000	$11,369	$17,460	$20,514	$20,383
	Average annual total return	13.69%	20.41%	15.45%	8.00%

The growth of $10,000 is cumulative.

* The Fund commenced offering Class B2 shares on September 16, 2005. The performance shown for the index is for the time period of September 30, 2005 through December 31, 2014, which is based on the performance period of the life of Class B2.

Management Summary

December 31, 2014 (Unaudited)

The Fund returned 13.39% in 2014 (Class A shares, unadjusted for contract charges). Since the Fund's investment strategy is to replicate the performance of the Standard & Poor's 500® (S&P 500) Index before the deduction of expenses, the Fund's return is normally close to the return of the index.[1]

The U.S. equity market performed very well in 2014, delivering a positive return for the sixth consecutive calendar year. A number of favorable factors came together to support performance, but the most important may have been the improvement in the economic outlook. After a brief, weather-related dip in the first three months of the year, U.S. economic growth accelerated to a 5% annual growth rate in the third quarter — the largest quarterly gain since 2003. Notably, this represented a level of growth well above that of other industrialized economies, particularly Europe and Japan. This above-average growth attracted capital from global investors, and the resulting inflows boosted performance for the types of large, liquid companies found in the S&P 500 Index.

Investors were also encouraged by the supportive nature of U.S. Federal Reserve Board (the Fed) policy. Although the Fed wound down the stimulative bond-buying program known as "quantitative easing,"[2] investors remained confident that interest rates would stay near zero well into 2015. Together with the continued gains in corporate earnings, these factors helped drive the S&P 500 Index to a series of new all-time highs throughout the year — the most recent of which occurred during the final week of the reporting period.

Although investors continued to demonstrate a healthy appetite for risk, the two best-performing sectors were actually those typically thought of as being among the most defensive: utilities and health care. The robust showing of the rate-sensitive utilities sector reflected the surprisingly strong performance of the bond market. Health care stocks, for their part, were in high demand, as the above-average earnings gains and low degree of economic sensitivity for health care companies represented an attractive combination for many investors. The information technology, consumer staples and financial sectors delivered market-beating gains, as well.[3]

Energy was the market's worst-performing sector by a wide margin due to the sharp decline in the price of oil. Materials stocks lagged the broader market as well, as slower global demand led to underperformance for metals and mining companies. The industrials, consumer discretionary and telecommunications services sectors also finished behind the broader index.[4]

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
Portfolio Manager

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

2 Quantitative easing entails the Fed's purchase of government and other securities from the market in an effort to increase money supply.

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.

Portfolio Summary (Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/14**	**12/31/13**
Common Stocks	99%	98%
Cash Equivalents	1%	2%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/14**	**12/31/13**
Information Technology	20%	19%
Financials	17%	16%
Health Care	14%	13%
Consumer Discretionary	12%	12%
Consumer Staples	10%	10%
Industrials	10%	11%
Energy	9%	10%
Utilities	3%	3%
Materials	3%	4%
Telecommunication Services	2%	2%
	100%	100%

Ten Largest Equity Holdings (17.8% of Net Assets)

1.	**Apple, Inc.** Designs, manufactures and markets personal computers and related computing and mobile communications devices	**3.5%**
2.	**Exxon Mobil Corp.** Explorer and producer of oil and gas	**2.1%**
3.	**Microsoft Corp.** Develops, manufactures, licenses, sells and supports software products	**2.1%**
4.	**Google, Inc.** Provides a Web-based search engine for the Internet	**1.6%**
5.	**Johnson & Johnson** Provider of health care products	**1.6%**
6.	**Berkshire Hathaway, Inc.** Holding company of insurance business and a variety of other businesses	**1.5%**
7.	**Wells Fargo & Co.** A diversified financial services company	**1.4%**
8.	**General Electric Co.** Diversified technology, media and financial services company	**1.4%**
9.	**Procter & Gamble Co.** Manufacturer of diversified consumer products	**1.3%**
10.	**JPMorgan Chase & Co.** Provider of global financial services	**1.3%**

Portfolio holdings and characteristics 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 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 deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

Investment Portfolio

	Shares	Value ($)
Common Stocks 98.9%		
Consumer Discretionary 12.0%		
Auto Components 0.4%		
BorgWarner, Inc.	7,846	431,138
Delphi Automotive PLC	10,291	748,361
Goodyear Tire & Rubber Co.	9,248	264,215
Johnson Controls, Inc.	22,887	1,106,358
		2,550,072
Automobiles 0.7%		
Ford Motor Co.	133,133	2,063,562
General Motors Co.	46,673	1,629,354
Harley-Davidson, Inc.	7,440	490,370
		4,183,286
Distributors 0.1%		
Genuine Parts Co.	5,307	**565,567**
Diversified Consumer Services 0.0%		
H&R Block, Inc.	9,330	**314,235**
Hotels, Restaurants & Leisure 1.6%		
Carnival Corp.	15,428	699,351
Chipotle Mexican Grill, Inc.*	1,062	726,950
Darden Restaurants, Inc.	4,667	273,626
Marriott International, Inc. "A"	7,323	571,414
McDonald's Corp.	33,560	3,144,572
Royal Caribbean Cruises Ltd.	5,722	471,664
Starbucks Corp.	25,792	2,116,234
Starwood Hotels & Resorts Worldwide, Inc.	6,129	496,878
Wyndham Worldwide Corp.	4,256	364,995
Wynn Resorts Ltd.	2,807	417,569
Yum! Brands, Inc.	15,098	1,099,889
		10,383,142
Household Durables 0.4%		
D.R. Horton, Inc.	11,146	281,882
Garmin Ltd. (a)	4,174	220,513
Harman International Industries, Inc.	2,402	256,318
Leggett & Platt, Inc.	4,843	206,360
Lennar Corp. "A" (a)	6,214	278,449
Mohawk Industries, Inc.*	2,153	334,490
Newell Rubbermaid, Inc.	9,176	349,514
PulteGroup, Inc.	11,579	248,485
Whirlpool Corp.	2,657	514,767
		2,690,778
Internet & Catalog Retail 1.2%		
Amazon.com, Inc.*	13,094	4,063,723
Expedia, Inc.	3,349	285,871
Netflix, Inc.*	2,063	704,741
The Priceline Group, Inc.*	1,812	2,066,060
TripAdvisor, Inc.*	3,798	283,559
		7,403,954
Leisure Products 0.1%		
Hasbro, Inc. (a)	3,917	215,396
Mattel, Inc.	11,756	363,789
		579,185
Media 3.5%		
Cablevision Systems Corp. (New York Group) "A" (a)	7,460	153,975
CBS Corp. "B"	16,408	908,019
Comcast Corp. "A"	88,799	5,151,230
DIRECTV*	17,369	1,505,892
Discovery Communications, Inc. "A"*	5,163	177,865
Discovery Communications, Inc. "C"*	9,249	311,876
Gannett Co., Inc.	7,715	246,340
Interpublic Group of Companies, Inc.	14,377	298,610
News Corp. "A"*	16,916	265,412
Omnicom Group, Inc.	8,610	667,017
Scripps Networks Interactive, Inc. "A"	3,444	259,230
Time Warner Cable, Inc.	9,682	1,472,245
Time Warner, Inc.	28,918	2,470,176
Twenty-First Century Fox, Inc. "A" (a)	63,975	2,456,960
Viacom, Inc. "B"	12,777	961,469
Walt Disney Co.	53,821	5,069,400
		22,375,716
Multiline Retail 0.7%		
Dollar General Corp.*	10,407	735,775
Dollar Tree, Inc.*	7,160	503,921
Family Dollar Stores, Inc.	3,242	256,799
Kohl's Corp.	6,967	425,265
Macy's, Inc.	11,927	784,200
Nordstrom, Inc.	4,884	387,741
Target Corp.	21,977	1,668,274
		4,761,975
Specialty Retail 2.4%		
AutoNation, Inc.*	2,519	152,173
AutoZone, Inc.*	1,098	679,783
Bed Bath & Beyond, Inc.*	6,353	483,908
Best Buy Co., Inc.	10,142	395,335
CarMax, Inc.*	7,439	495,289
GameStop Corp. "A" (a)	3,820	129,116
Home Depot, Inc.	45,449	4,770,782
L Brands, Inc.	8,437	730,222
Lowe's Companies, Inc.	33,571	2,309,685
O'Reilly Automotive, Inc.*	3,491	672,436
PetSmart, Inc.	3,456	280,955
Ross Stores, Inc.	7,267	684,987
Staples, Inc. (a)	21,950	397,734
The Gap, Inc.	9,298	391,539
Tiffany & Co.	3,884	415,044
TJX Companies, Inc.	23,791	1,631,587
Tractor Supply Co.	4,613	363,597
Urban Outfitters, Inc.*	3,551	124,747
		15,108,919
Textiles, Apparel & Luxury Goods 0.9%		
Coach, Inc.	9,540	358,322
Fossil Group, Inc.*	1,595	176,630
Michael Kors Holdings Ltd.*	7,147	536,740
NIKE, Inc. "B"	24,016	2,309,139
PVH Corp.	2,794	358,107
Ralph Lauren Corp.	2,067	382,726
Under Armour, Inc. "A"*	5,847	397,011
VF Corp.	11,850	887,565
		5,406,240

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

	Shares	Value ($)
Consumer Staples 9.7%		
Beverages 2.1%		
Brown-Forman Corp. "B"	5,374	472,052
Coca-Cola Co.	135,948	5,739,725
Coca-Cola Enterprises, Inc.	7,579	335,143
Constellation Brands, Inc. "A"*	5,771	566,539
Dr. Pepper Snapple Group, Inc.	6,639	475,884
Molson Coors Brewing Co. "B"	5,452	406,283
Monster Beverage Corp.*	5,023	544,242
PepsiCo, Inc.	51,720	4,890,643
		13,430,511
Food & Staples Retailing 2.5%		
Costco Wholesale Corp.	15,141	2,146,237
CVS Health Corp.	39,537	3,807,808
Kroger Co.	17,004	1,091,827
Safeway, Inc.	7,819	274,603
Sysco Corp. (a)	20,390	809,279
Wal-Mart Stores, Inc.	54,460	4,677,025
Walgreens Boots Alliance, Inc.	29,998	2,285,848
Whole Foods Market, Inc.	12,288	619,561
		15,712,188
Food Products 1.6%		
Archer-Daniels-Midland Co.	22,174	1,153,048
Campbell Soup Co.	6,071	267,124
ConAgra Foods, Inc.	14,511	526,459
General Mills, Inc.	20,819	1,110,277
Hormel Foods Corp.	4,569	238,045
Kellogg Co.	8,717	570,440
Keurig Green Mountain, Inc.	4,181	553,544
Kraft Foods Group, Inc.	20,428	1,280,019
McCormick & Co., Inc.	4,488	333,458
Mead Johnson Nutrition Co.	7,028	706,595
Mondelez International, Inc. "A"	57,895	2,103,036
The Hershey Co.	5,081	528,068
The JM Smucker Co.	3,450	348,381
Tyson Foods, Inc. "A"	10,006	401,141
		10,119,635
Household Products 2.0%		
Clorox Co.	4,472	466,027
Colgate-Palmolive Co.	29,636	2,050,515
Kimberly-Clark Corp.	12,828	1,482,147
Procter & Gamble Co.	93,138	8,483,940
		12,482,629
Personal Products 0.1%		
Avon Products, Inc.	15,299	143,658
Estee Lauder Companies, Inc. "A"	7,706	587,197
		730,855
Tobacco 1.4%		
Altria Group, Inc.	68,302	3,365,239
Lorillard, Inc.	12,352	777,435
Philip Morris International, Inc.	53,596	4,365,394
Reynolds American, Inc.	10,577	679,784
		9,187,852
Energy 8.3%		
Energy Equipment & Services 1.3%		
Baker Hughes, Inc.	14,945	837,966
Cameron International Corp.*	6,886	343,956
Diamond Offshore Drilling, Inc. (a)	2,425	89,022
Ensco PLC "A"	8,056	241,277
FMC Technologies, Inc.*	7,965	373,081
Halliburton Co.	29,203	1,148,554
Helmerich & Payne, Inc.	3,678	247,971
Nabors Industries Ltd.	9,953	129,190
National Oilwell Varco, Inc.	14,765	967,550
Noble Corp. PLC	8,955	148,384
Schlumberger Ltd.	44,335	3,786,652
Transocean Ltd. (a)	11,756	215,488
		8,529,091
Oil, Gas & Consumable Fuels 7.0%		
Anadarko Petroleum Corp.	17,536	1,446,720
Apache Corp.	12,918	809,571
Cabot Oil & Gas Corp.	14,213	420,847
Chesapeake Energy Corp.	17,591	344,256
Chevron Corp.	65,153	7,308,864
Cimarex Energy Co.	3,064	324,784
ConocoPhillips	42,564	2,939,470
CONSOL Energy, Inc.	7,781	263,076
Denbury Resources, Inc.	12,040	97,885
Devon Energy Corp.	13,201	808,033
EOG Resources, Inc.	18,938	1,743,622
EQT Corp.	5,206	394,094
Exxon Mobil Corp.	146,074	13,504,541
Hess Corp.	8,796	649,321
Kinder Morgan, Inc.	58,640	2,481,058
Marathon Oil Corp.	23,177	655,677
Marathon Petroleum Corp.	9,723	877,598
Murphy Oil Corp.	5,692	287,560
Newfield Exploration Co.*	4,778	129,579
Noble Energy, Inc.	12,359	586,187
Occidental Petroleum Corp.	26,750	2,156,317
ONEOK, Inc.	7,144	355,700
Phillips 66	19,181	1,375,278
Pioneer Natural Resources Co.	5,160	768,066
QEP Resources, Inc.	5,763	116,528
Range Resources Corp.	5,731	306,322
Southwestern Energy Co.*	12,241	334,057
Spectra Energy Corp.	23,022	835,699
Tesoro Corp.	4,305	320,077
Valero Energy Corp.	17,863	884,218
Williams Companies, Inc.	23,368	1,050,158
		44,575,163
Financials 16.5%		
Banks 6.0%		
Bank of America Corp.	362,748	6,489,562
BB&T Corp.	24,676	959,650
Citigroup, Inc.	104,508	5,654,928
Comerica, Inc.	6,228	291,720
Fifth Third Bancorp.	28,587	582,460
Huntington Bancshares, Inc.	28,361	298,358
JPMorgan Chase & Co.	128,828	8,062,056
KeyCorp	29,926	415,971
M&T Bank Corp.	4,516	567,300
PNC Financial Services Group, Inc.	18,182	1,658,744
Regions Financial Corp.	47,031	496,647
SunTrust Banks, Inc.	17,925	751,057
U.S. Bancorp.	61,814	2,778,539
Wells Fargo & Co.	162,739	8,921,352
Zions Bancorp.	7,071	201,594
		38,129,938
Capital Markets 2.3%		
Affiliated Managers Group, Inc.*	1,927	408,987
Ameriprise Financial, Inc.	6,324	836,349

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

	Shares	Value ($)
Bank of New York Mellon Corp.	38,790	1,573,710
BlackRock, Inc.	4,385	1,567,901
Charles Schwab Corp.	39,365	1,188,429
E*TRADE Financial Corp.*	10,199	247,377
Franklin Resources, Inc.	13,511	748,104
Invesco Ltd.	14,733	582,248
Legg Mason, Inc.	3,511	187,382
Morgan Stanley	52,523	2,037,892
Northern Trust Corp.	8,044	542,166
State Street Corp.	14,346	1,126,161
T. Rowe Price Group, Inc.	8,980	771,023
The Goldman Sachs Group, Inc.	13,970	2,707,805
		14,525,534
Consumer Finance 0.9%		
American Express Co.	30,699	2,856,235
Capital One Financial Corp.	19,095	1,576,292
Discover Financial Services	15,649	1,024,853
Navient Corp.	13,962	301,719
		5,759,099
Diversified Financial Services 2.1%		
Berkshire Hathaway, Inc. "B"*	62,870	9,439,931
CME Group, Inc.	10,966	972,136
Intercontinental Exchange, Inc.	3,891	853,258
Leucadia National Corp.	10,989	246,373
McGraw Hill Financial, Inc.	9,296	827,158
Moody's Corp.	6,378	611,076
The NASDAQ OMX Group, Inc.	4,095	196,396
		13,146,328
Insurance 2.7%		
ACE Ltd.	11,403	1,309,977
Aflac, Inc.	15,548	949,827
Allstate Corp.	14,477	1,017,009
American International Group, Inc.	48,325	2,706,683
Aon PLC	9,836	932,748
Assurant, Inc.	2,388	163,411
Chubb Corp.	8,130	841,211
Cincinnati Financial Corp.	4,960	257,077
Genworth Financial, Inc. "A"*	16,699	141,942
Hartford Financial Services Group, Inc.	14,961	623,724
Lincoln National Corp.	8,914	514,070
Loews Corp.	10,257	430,999
Marsh & McLennan Companies, Inc.	18,676	1,069,014
MetLife, Inc.	39,185	2,119,517
Principal Financial Group, Inc.	9,540	495,508
Progressive Corp.	18,447	497,885
Prudential Financial, Inc.	15,790	1,428,363
The Travelers Companies, Inc.	11,446	1,211,559
Torchmark Corp.	4,501	243,819
Unum Group	8,872	309,455
XL Group PLC	8,786	301,975
		17,565,773
Real Estate Investment Trusts 2.3%		
American Tower Corp. (REIT)	13,728	1,357,013
Apartment Investment & Management Co. "A" (REIT)	5,161	191,731
AvalonBay Communities, Inc. (REIT)	4,515	737,706
Boston Properties, Inc. (REIT)	5,330	685,918
Crown Castle International Corp. (REIT)	11,465	902,295
Equity Residential (REIT)	12,440	893,690

	Shares	Value ($)
Essex Property Trust, Inc. (REIT)	2,238	462,371
General Growth Properties, Inc. (REIT)	21,590	607,327
HCP, Inc. (REIT)	15,937	701,706
Health Care REIT, Inc. (REIT)	11,348	858,703
Host Hotels & Resorts, Inc. (REIT)	26,289	624,890
Iron Mountain, Inc. (REIT)	6,484	250,671
Kimco Realty Corp. (REIT)	14,023	352,538
Plum Creek Timber Co., Inc. (REIT)	5,994	256,483
Prologis, Inc. (REIT)	17,117	736,544
Public Storage (REIT)	4,981	920,738
Simon Property Group, Inc. (REIT)	10,691	1,946,938
The Macerich Co. (REIT)	4,803	400,618
Ventas, Inc. (REIT)	10,071	722,091
Vornado Realty Trust (REIT)	6,068	714,264
Weyerhaeuser Co. (REIT)	18,039	647,420
		14,971,655
Real Estate Management & Development 0.1%		
CBRE Group, Inc. "A"*	9,494	**325,169**
Thrifts & Mortgage Finance 0.1%		
Hudson City Bancorp., Inc.	16,672	168,721
People's United Financial, Inc.	10,978	166,646
		335,367

Health Care 14.1%

	Shares	Value ($)
Biotechnology 2.9%		
Alexion Pharmaceuticals, Inc.*	6,859	1,269,121
Amgen, Inc.	26,223	4,177,062
Biogen Idec, Inc.*	8,143	2,764,141
Celgene Corp.*	27,553	3,082,078
Gilead Sciences, Inc.*	52,018	4,903,217
Regeneron Pharmaceuticals, Inc.*	2,562	1,051,060
Vertex Pharmaceuticals, Inc.*	8,292	985,090
		18,231,769
Health Care Equipment & Supplies 2.2%		
Abbott Laboratories	51,946	2,338,609
Baxter International, Inc.	18,766	1,375,360
Becton, Dickinson & Co.	6,586	916,508
Boston Scientific Corp.*	46,021	609,778
C.R. Bard, Inc.	2,590	431,546
CareFusion Corp.*	6,936	411,582
Covidien PLC	15,625	1,598,125
DENTSPLY International, Inc.	4,781	254,684
Edwards Lifesciences Corp.*	3,663	466,593
Intuitive Surgical, Inc.*	1,257	664,877
Medtronic, Inc. (a)	33,956	2,451,623
St. Jude Medical, Inc.	9,891	643,212
Stryker Corp.	10,275	969,241
Varian Medical Systems, Inc.*	3,379	292,317
Zimmer Holdings, Inc.	5,864	665,095
		14,089,150
Health Care Providers & Services 2.3%		
Aetna, Inc.	12,181	1,082,038
AmerisourceBergen Corp.	7,177	647,078
Anthem, Inc.	9,320	1,171,244
Cardinal Health, Inc.	11,411	921,210
Cigna Corp.	9,067	933,085
DaVita HealthCare Partners, Inc.*	5,869	444,518
Express Scripts Holding Co.*	25,320	2,143,844
Humana, Inc.	5,279	758,223
Laboratory Corp. of America Holdings*	2,896	312,478
McKesson Corp.	8,013	1,663,339

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

	Shares	Value ($)
Patterson Companies, Inc.	2,906	139,779
Quest Diagnostics, Inc.	4,922	330,069
Tenet Healthcare Corp.* (a)	3,403	172,430
UnitedHealth Group, Inc.	33,106	3,346,686
Universal Health Services, Inc. "B"	3,088	343,571
		14,409,592
Health Care Technology 0.1%		
Cerner Corp.*	10,436	**674,792**
Life Sciences Tools & Services 0.4%		
Agilent Technologies, Inc.	11,409	467,085
PerkinElmer, Inc.	3,988	174,395
Thermo Fisher Scientific, Inc.	13,798	1,728,751
Waters Corp.*	2,898	326,663
		2,696,894
Pharmaceuticals 6.2%		
AbbVie, Inc.	54,943	3,595,470
Actavis PLC*	9,142	2,353,242
Allergan, Inc.	10,273	2,183,937
Bristol-Myers Squibb Co.	57,202	3,376,634
Eli Lilly & Co.	33,736	2,327,447
Hospira, Inc.*	5,873	359,721
Johnson & Johnson	96,526	10,093,724
Mallinckrodt PLC*	4,016	397,704
Merck & Co., Inc.	98,309	5,582,968
Mylan, Inc.*	12,842	723,904
Perrigo Co. PLC	4,860	812,398
Pfizer, Inc.	217,166	6,764,721
Zoetis, Inc.	17,212	740,632
		39,312,502
Industrials 10.3%		
Aerospace & Defense 2.6%		
Boeing Co.	22,865	2,971,993
General Dynamics Corp.	10,900	1,500,058
Honeywell International, Inc.	26,983	2,696,141
L-3 Communications Holdings, Inc.	2,936	370,553
Lockheed Martin Corp.	9,257	1,782,621
Northrop Grumman Corp.	6,965	1,026,571
Precision Castparts Corp.	4,924	1,186,093
Raytheon Co.	10,663	1,153,417
Rockwell Collins, Inc.	4,632	391,311
Textron, Inc.	9,409	396,213
United Technologies Corp.	29,184	3,356,160
		16,831,131
Air Freight & Logistics 0.8%		
C.H. Robinson Worldwide, Inc.	5,111	382,763
Expeditors International of Washington, Inc.	6,621	295,363
FedEx Corp.	9,109	1,581,869
United Parcel Service, Inc. "B"	23,997	2,667,746
		4,927,741
Airlines 0.4%		
Delta Air Lines, Inc.	28,978	1,425,428
Southwest Airlines Co.	23,453	992,531
		2,417,959
Building Products 0.1%		
Allegion PLC	3,385	187,732
Masco Corp.	12,129	305,651
		493,383
Commercial Services & Supplies 0.4%		
ADT Corp. (a)	6,069	219,880
Cintas Corp.	3,349	262,695
Pitney Bowes, Inc.	7,122	173,563
Republic Services, Inc.	8,839	355,770
Stericycle, Inc.*	2,918	382,491
Tyco International PLC	14,358	629,742
Waste Management, Inc.	14,602	749,375
		2,773,516
Construction & Engineering 0.1%		
Fluor Corp.	5,365	325,280
Jacobs Engineering Group, Inc.*	4,653	207,943
Quanta Services, Inc.*	7,411	210,398
		743,621
Electrical Equipment 0.6%		
AMETEK, Inc.	8,443	444,355
Eaton Corp. PLC	16,338	1,110,330
Emerson Electric Co.	23,961	1,479,113
Rockwell Automation, Inc.	4,718	524,642
		3,558,440
Industrial Conglomerates 2.3%		
3M Co.	22,107	3,632,622
Danaher Corp.	21,108	1,809,167
General Electric Co.	346,457	8,754,968
Roper Industries, Inc.	3,432	536,593
		14,733,350
Machinery 1.5%		
Caterpillar, Inc.	20,905	1,913,435
Cummins, Inc.	5,877	847,287
Deere & Co.	12,292	1,087,473
Dover Corp.	5,672	406,796
Flowserve Corp.	4,724	282,637
Illinois Tool Works, Inc.	12,386	1,172,954
Ingersoll-Rand PLC	9,153	580,209
Joy Global, Inc.	3,344	155,563
PACCAR, Inc.	12,168	827,546
Pall Corp.	3,725	377,007
Parker-Hannifin Corp.	5,092	656,613
Pentair PLC	6,417	426,217
Snap-on, Inc.	1,966	268,831
Stanley Black & Decker, Inc.	5,365	515,469
Xylem, Inc.	6,289	239,422
		9,757,459
Professional Services 0.2%		
Dun & Bradstreet Corp.	1,228	148,539
Equifax, Inc.	4,169	337,147
Nielsen NV	11,199	500,931
Robert Half International, Inc.	4,643	271,058
		1,257,675
Road & Rail 1.1%		
CSX Corp.	34,278	1,241,892
Kansas City Southern	3,788	462,250
Norfolk Southern Corp.	10,616	1,163,620
Ryder System, Inc.	1,878	174,372
Union Pacific Corp.	30,654	3,651,811
		6,693,945
Trading Companies & Distributors 0.2%		
Fastenal Co. (a)	9,429	448,443
United Rentals, Inc.*	3,448	351,731
W.W. Grainger, Inc.	2,080	530,171
		1,330,345

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

	Shares	Value ($)
Information Technology 19.4%		
Communications Equipment 1.6%		
Cisco Systems, Inc.	176,310	4,904,063
F5 Networks, Inc.*	2,498	325,902
Harris Corp.	3,625	260,347
Juniper Networks, Inc.	13,304	296,945
Motorola Solutions, Inc.	7,300	489,684
QUALCOMM, Inc.	57,334	4,261,636
		10,538,577
Electronic Equipment, Instruments & Components 0.4%		
Amphenol Corp. "A"	10,749	578,404
Corning, Inc.	44,321	1,016,281
FLIR Systems, Inc.	4,943	159,708
TE Connectivity Ltd.	14,054	888,915
		2,643,308
Internet Software & Services 3.2%		
Akamai Technologies, Inc.*	6,122	385,441
eBay, Inc.*	38,992	2,188,231
Facebook, Inc. "A"*	72,104	5,625,554
Google, Inc. "A"*	9,831	5,216,919
Google, Inc. "C"*	9,822	5,170,301
VeriSign, Inc.* (a)	3,708	211,356
Yahoo!, Inc.*	30,388	1,534,898
		20,332,700
IT Services 3.3%		
Accenture PLC "A"	21,654	1,933,919
Alliance Data Systems Corp.*	2,193	627,308
Automatic Data Processing, Inc.	16,624	1,385,943
Cognizant Technology Solutions Corp. "A"*	21,097	1,110,968
Computer Sciences Corp.	4,785	301,694
Fidelity National Information Services, Inc.	9,869	613,852
Fiserv, Inc.*	8,360	593,309
International Business Machines Corp.	31,740	5,092,365
MasterCard, Inc. "A"	33,776	2,910,140
Paychex, Inc.	11,200	517,104
Teradata Corp.*	5,126	223,904
Total System Services, Inc.	5,802	197,036
Visa, Inc. "A"	16,841	4,415,710
Western Union Co. (a)	18,103	324,225
Xerox Corp.	37,190	515,453
		20,762,930
Semiconductors & Semiconductor Equipment 2.4%		
Altera Corp.	10,639	393,005
Analog Devices, Inc.	10,784	598,728
Applied Materials, Inc.	41,821	1,042,179
Avago Technologies Ltd.	8,765	881,671
Broadcom Corp. "A"	18,456	799,699
First Solar, Inc.*	2,629	117,240
Intel Corp.	166,686	6,049,035
KLA-Tencor Corp.	5,729	402,863
Lam Research Corp.	5,405	428,833
Linear Technology Corp.	8,350	380,760
Microchip Technology, Inc. (a)	6,805	306,974
Micron Technology, Inc.*	37,123	1,299,676
NVIDIA Corp.	17,922	359,336
Texas Instruments, Inc.	36,308	1,941,207
Xilinx, Inc.	9,168	396,883
		15,398,089

	Shares	Value ($)
Software 3.8%		
Adobe Systems, Inc.*	16,393	1,191,771
Autodesk, Inc.*	7,809	469,009
CA, Inc.	11,027	335,772
Citrix Systems, Inc.*	5,632	359,322
Electronic Arts, Inc.*	10,635	500,005
Intuit, Inc.	9,875	910,376
Microsoft Corp.	284,203	13,201,229
Oracle Corp.	111,599	5,018,607
Red Hat, Inc.*	6,522	450,931
Salesforce.com, Inc.*	20,230	1,199,841
Symantec Corp.	23,994	615,566
		24,252,429
Technology Hardware, Storage & Peripherals 4.7%		
Apple, Inc.	202,241	22,323,362
EMC Corp.	70,193	2,087,540
Hewlett-Packard Co.	64,374	2,583,329
NetApp, Inc.	10,878	450,893
SanDisk Corp.	7,574	742,100
Seagate Technology PLC	11,209	745,398
Western Digital Corp.	7,553	836,117
		29,768,739
Materials 3.1%		
Chemicals 2.3%		
Air Products & Chemicals, Inc.	6,674	962,591
Airgas, Inc.	2,369	272,861
CF Industries Holdings, Inc.	1,696	462,228
Dow Chemical Co.	38,234	1,743,853
E.I. du Pont de Nemours & Co.	31,236	2,309,590
Eastman Chemical Co.	5,103	387,114
Ecolab, Inc.	9,262	968,064
FMC Corp.	4,501	256,692
International Flavors & Fragrances, Inc.	2,760	279,754
LyondellBasell Industries NV "A"	14,337	1,138,214
Monsanto Co.	16,714	1,996,822
PPG Industries, Inc.	4,739	1,095,420
Praxair, Inc.	10,031	1,299,616
Sigma-Aldrich Corp.	4,113	564,591
The Mosaic Co.	10,821	493,979
The Sherwin-Williams Co.	2,804	737,564
		14,968,953
Construction Materials 0.1%		
Martin Marietta Materials, Inc. (a)	2,118	233,657
Vulcan Materials Co.	4,630	304,330
		537,987
Containers & Packaging 0.2%		
Avery Dennison Corp.	3,169	164,408
Ball Corp.	4,608	314,127
MeadWestvaco Corp.	5,843	259,371
Owens-Illinois, Inc.*	5,819	157,055
Sealed Air Corp.	7,398	313,897
		1,208,858
Metals & Mining 0.4%		
Alcoa, Inc.	40,399	637,900
Allegheny Technologies, Inc.	3,795	131,952
Freeport-McMoRan, Inc.	35,674	833,345
Newmont Mining Corp.	17,126	323,682
Nucor Corp.	11,107	544,798
		2,471,677

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

	Shares	Value ($)
Paper & Forest Products 0.1%		
International Paper Co.	14,660	**785,483**
Telecommunication Services 2.3%		
Diversified Telecommunication Services		
AT&T, Inc. (a)	178,961	6,011,300
CenturyLink, Inc.	19,552	773,868
Frontier Communications Corp. (a)	35,160	234,517
Level 3 Communications, Inc.*	9,540	471,085
Verizon Communications, Inc.	143,122	6,695,247
Windstream Holdings, Inc. (a)	20,911	172,307
		14,358,324
Utilities 3.2%		
Electric Utilities 1.8%		
American Electric Power Co., Inc.	16,799	1,020,035
Duke Energy Corp.	24,418	2,039,880
Edison International	11,333	742,085
Entergy Corp.	6,168	539,577
Exelon Corp.	29,830	1,106,096
FirstEnergy Corp.	14,427	562,509
NextEra Energy, Inc.	15,100	1,604,979
Northeast Utilities	10,876	582,084
Pepco Holdings, Inc.	8,908	239,892
Pinnacle West Capital Corp.	3,728	254,660
PPL Corp.	22,816	828,905
Southern Co.	31,027	1,523,736
Xcel Energy, Inc.	17,260	619,979
		11,664,417
Gas Utilities 0.1%		
AGL Resources, Inc.	4,196	**228,724**
Independent Power & Renewable Eletricity Producers 0.1%		
AES Corp.	22,517	310,059
NRG Energy, Inc.	11,742	316,447
		626,506
Multi-Utilities 1.2%		
Ameren Corp.	8,305	383,110
CenterPoint Energy, Inc.	14,705	344,538
CMS Energy Corp.	9,428	327,623
Consolidated Edison, Inc.	10,176	671,718
Dominion Resources, Inc.	20,181	1,551,919
DTE Energy Co.	6,116	528,239
Integrys Energy Group, Inc.	2,820	219,537
NiSource, Inc.	10,825	459,196
PG&E Corp.	16,428	874,627
Public Service Enterprise Group, Inc.	17,333	717,759
SCANA Corp.	4,990	301,396
Sempra Energy	7,937	883,864
TECO Energy, Inc.	8,133	166,645
Wisconsin Energy Corp. (a)	7,763	409,420
		7,839,591
Total Common Stocks (Cost $363,043,281)		**629,170,412**

	Principal Amount ($)	Value ($)
Government & Agency Obligation 0.1%		
U.S. Treasury Obligation		
U.S. Treasury Bill, 0.023%**, 4/30/2015 (b) (Cost $699,948)	700,000	**699,897**

	Shares	Value ($)
Securities Lending Collateral 1.0%		
Daily Assets Fund Institutional, 0.10% (c) (d) (Cost $6,459,210)	6,459,210	**6,459,210**
Cash Equivalents 1.0%		
Central Cash Management Fund, 0.06% (c) (Cost $6,726,547)	6,726,547	**6,726,547**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $376,928,986)†	101.0	**643,056,066**
Other Assets and Liabilities, Net	(1.0)	**(6,634,207)**
Net Assets	100.0	**636,421,859**

* Non-income producing security.

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

† The cost for federal income tax purposes was $389,517,165. At December 31, 2014, net unrealized appreciation for all securities based on tax cost was $253,538,901. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $275,639,672 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $22,100,771.

(a) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at December 31, 2014 amounted to $6,229,307, which is 1% of net assets.

(b) At December 31, 2014, 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

S&P: Standard & Poor's

At December 31, 2014, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation ($)
S&P 500 E-Mini Index	USD	3/20/2015	79	8,106,980	**135,739**

Currency Abbreviation	
USD	United States Dollar

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

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 level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

The following is a summary of the inputs used as of December 31, 2014 in valuing the Fund's investments.

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Common Stocks (e)	$629,170,412	$ —	$ —	$629,170,412
Government & Agency Obligation	—	699,897	—	699,897
Short-Term Investments (e)	13,185,757	—	—	13,185,757
Derivatives (f)				
Futures Contracts	135,739	—	—	135,739
Total	**$642,491,908**	**$ 699,897**	**$ —**	**$643,191,805**

There have been no transfers between fair value measurement levels during the year ended December 31, 2014.

(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, 2014

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $363,743,229) — including $6,229,307 of securities loaned	$	629,870,309
Investment in Daily Assets Fund Institutional (cost $6,459,210)*		6,459,210
Investment in Central Cash Management Fund (cost $6,726,547)		6,726,547
Total investments in securities, at value (cost $376,928,986)		643,056,066
Cash		15,751
Receivable for Fund shares sold		1,042
Dividends receivable		842,364
Interest receivable		3,506
Other assets		10,027
Total assets		643,928,756
Liabilities		
Payable upon return of securities loaned		6,459,210
Payable for Fund shares redeemed		666,734
Payable for variation margin on futures contracts		96,498
Accrued management fee		98,726
Accrued Trustees' fees		6,608
Other accrued expenses and payables		179,121
Total liabilities		7,506,897
Net assets, at value	**$**	**636,421,859**
Net Assets Consist of		
Undistributed net investment income		10,218,649
Net unrealized appreciation (depreciation) on:		
Investments		266,127,080
Futures		135,739
Accumulated net realized gain (loss)		15,974,061
Paid-in capital		343,966,330
Net assets, at value	**$**	**636,421,859**
Class A		
Net Asset Value, offering and redemption price per share ($610,486,594 ÷ 29,911,141 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$**	**20.41**
Class B		
Net Asset Value, offering and redemption price per share ($6,891,701 ÷ 337,768 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$**	**20.40**
Class B2		
Net Asset Value, offering and redemption price per share ($19,043,564 ÷ 933,560 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$**	**20.40**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2014

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $1,451)	$	12,486,854
Interest		168
Income distributions — Central Cash Management Fund		3,160
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		29,704
Total income		12,519,886
Expenses:		
Management fee		1,232,183
Administration fee		616,092
Services to shareholders		7,454
Record keeping fee (Class B and Class B2)		29,923
Distribution service fees (Class B and Class B2)		61,472
Custodian fee		40,675
Professional fees		84,130
Reports to shareholders		53,617
Trustees' fees and expenses		26,159
Other		34,174
Total expenses before expense reductions		2,185,879
Expense reductions		(71,551)
Total expenses after expense reductions		2,114,328
Net investment income (loss)		**10,405,558**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		27,702,350
Futures		1,474,816
		29,177,166
Change in net unrealized appreciation (depreciation) on:		
Investments		37,746,905
Futures		(130,619)
		37,616,286
Net gain (loss)		**66,793,452**
Net increase (decrease) in net assets resulting from operations	**$**	**77,199,010**

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, 2014	2013
Operations:		
Net investment income (loss)	$ 10,405,558	$ 11,638,966
Net realized gain (loss)	29,177,166	96,448,640
Change in net unrealized appreciation (depreciation)	37,616,286	87,938,875
Net increase (decrease) in net assets resulting from operations	77,199,010	196,026,481
Distributions to shareholders from:		
Net investment income:		
Class A	(11,057,697)	(13,318,863)
Class B	(84,385)	(787,551)
Class B2	(287,223)	(282,229)
Net realized gains:		
Class A	(19,839,875)	(15,821,037)
Class B	(173,737)	(1,084,819)
Class B2	(647,089)	(427,037)
Total distributions	(32,090,006)	(31,721,536)
Fund share transactions:		
Class A		
Proceeds from shares sold	27,216,371	35,505,952
Reinvestment of distributions	30,897,572	29,139,900
Cost of shares redeemed	(91,182,781)	(86,833,091)
In-kind redemptions	—	(198,780,061)
Net increase (decrease) in net assets from Class A share transactions	(33,068,838)	(220,967,300)
Class B		
Proceeds from shares sold	2,195,802	1,863,922
Reinvestment of distributions	258,122	1,872,370
Cost of shares redeemed	(865,375)	(6,660,194)
In-kind redemptions	—	(45,503,334)
Net increase (decrease) in net assets from Class B share transactions	1,588,549	(48,427,236)
Class B2		
Proceeds from shares sold	926,523	965,536
Reinvestment of distributions	934,312	709,266
Cost of shares redeemed	(4,285,608)	(4,662,986)
Net increase (decrease) in net assets from Class B2 share transactions	(2,424,773)	(2,988,184)
Increase (decrease) in net assets	11,203,942	(108,077,775)
Net assets at beginning of period	625,217,917	733,295,692
Net assets at end of period (including undistributed net investment income of $10,218,649 and $11,352,137, respectively)	**$ 636,421,859**	**$ 625,217,917**

Other Information	Years Ended December 31, 2014	2013
Class A		
Shares outstanding at beginning of period	31,567,788	44,517,365
Shares sold	1,399,940	2,109,689
Shares issued to shareholders in reinvestment of distributions	1,693,946	1,809,932
Shares redeemed	(4,750,533)	(5,155,582)
In-kind redemptions	—	(11,713,616)
Net increase (decrease) in Class A shares	(1,656,647)	(12,949,577)
Shares outstanding at end of period	**29,911,141**	**31,567,788**
Class B		
Shares outstanding at beginning of period	255,427	3,108,562
Shares sold	112,884	113,444
Shares issued to shareholders in reinvestment of distributions	14,128	116,152
Shares redeemed	(44,671)	(402,912)
In-kind redemptions	—	(2,679,819)
Net increase (decrease) in Class B shares	82,341	(2,853,135)
Shares outstanding at end of period	**337,768**	**255,427**
Class B2		
Shares outstanding at beginning of period	1,058,904	1,234,243
Shares sold	47,260	55,093
Shares issued to shareholders in reinvestment of distributions	51,111	43,999
Shares redeemed	(223,715)	(274,431)
Net increase (decrease) in Class B2 shares	(125,344)	(175,339)
Shares outstanding at end of period	**933,560**	**1,058,904**

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

Financial Highlights

Class A	2014	2013	2012	2011	2010
	Years Ended December 31,				
Selected Per Share Data					
Net asset value, beginning of period	**$19.01**	**$15.01**	**$13.20**	**$13.17**	**$11.68**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.33	.30	.28	.23	.21
Net realized and unrealized gain (loss)	2.10	4.37	1.78	.03	1.51
Total from investment operations	2.43	4.67	2.06	.26	1.72
Less distributions from:					
Net investment income	(.37)	(.31)	(.25)	(.23)	(.23)
Net realized gains on investment transactions	(.66)	(.36)	—	—	—
Total distributions	(1.03)	(.67)	(.25)	(.23)	(.23)
Net asset value, end of period	**$20.41**	**$19.01**	**$15.01**	**$13.20**	**$13.17**
Total Return (%)	13.39[b]	31.93[b]	15.70	1.83	14.70
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	610	600	668	632	699
Ratio of expenses before expense reductions (%)	.34	.34	.35	.33	.33
Ratio of expenses after expense reductions (%)	.33	.34	.35	.33	.33
Ratio of net investment income (loss) (%)	1.70	1.76	1.95	1.74	1.74
Portfolio turnover rate (%)	3	4[c]	4	6	5

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	2014	2013	2012	2011	2010
	Years Ended December 31,				
Selected Per Share Data					
Net asset value, beginning of period	**$19.01**	**$15.00**	**$13.19**	**$13.17**	**$11.68**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.28	.34	.25	.20	.18
Net realized and unrealized gain (loss)	2.09	4.29	1.78	.01	1.51
Total from investment operations	2.37	4.63	2.03	.21	1.69
Less distributions from:					
Net investment income	(.32)	(.26)	(.22)	(.19)	(.20)
Net realized gains on investment transactions	(.66)	(.36)	—	—	—
Total distributions	(.98)	(.62)	(.22)	(.19)	(.20)
Net asset value, end of period	**$20.40**	**$19.01**	**$15.00**	**$13.19**	**$13.17**
Total Return (%)	13.05[b]	31.68[b]	15.42	1.50	14.52
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	7	5	47	45	53
Ratio of expenses before expense reductions (%)	.62	.59	.60	.58	.58
Ratio of expenses after expense reductions (%)	.58	.58	.60	.58	.58
Ratio of net investment income (loss) (%)	1.45	2.11	1.70	1.49	1.49
Portfolio turnover rate (%)	3	4[c]	4	6	5

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	2014	Years Ended December 31, 2013	2012	2011	2010
Selected Per Share Data					
Net asset value, beginning of period	**$18.99**	**$14.99**	**$13.18**	**$13.15**	**$11.67**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.27	.23	.22	.18	.16
Net realized and unrealized gain (loss)	2.09	4.37	1.78	.02	1.50
Total from investment operations	2.36	4.60	2.00	.20	1.66
Less distributions from:					
Net investment income	(.29)	(.24)	(.19)	(.17)	(.18)
Net realized gains on investment transactions	(.66)	(.36)	—	—	—
Total distributions	(.95)	(.60)	(.19)	(.17)	(.18)
Net asset value, end of period	**$20.40**	**$18.99**	**$14.99**	**$13.18**	**$13.15**
Total Return (%)	13.00[b]	31.44[b]	15.26[b]	1.43	14.29
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	19	20	19	18	20
Ratio of expenses before expense reductions (%)	.74	.74	.75	.73	.73
Ratio of expenses after expense reductions (%)	.68	.72	.74	.73	.73
Ratio of net investment income (loss) (%)	1.35	1.39	1.55	1.34	1.34
Portfolio turnover rate (%)	3	4[c]	4	6	5

[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

Deutsche Investments VIT Funds (formerly 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. Deutsche Equity 500 Index VIP (formerly 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% of Class B and Class B2 shares average daily net assets. In addition, Class B and Class B2 shares are subject to record keeping fees equal to an annual rate up to 0.15% of average daily net assets. Class A shares are not subject to such fees.

Investment income, realized and unrealized gains and losses, and certain 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 record keeping fees). Differences in class-level expenses may result in payment of different per share dividends by class. All shares have equal rights with respect to voting subject to class-specific arrangements.

The 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 level assigned to the securities valuations may not be an indication of the risk or liquidity 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. 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. Equity securities are generally categorized as Level 1.

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 considered 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.

Securities Lending. Deutsche Bank AG, as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains benefits of owning the securities it has loaned and continues to receive interest and dividends generated by the 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. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. 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.

As of December 31, 2014, the Fund had securities on loan. The value of the related collateral exceeded the value of the securities loaned at period end.

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, 2014 and has determined that no provision for income tax and/or uncertain tax provisions 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 in-kind redemptions, investments in futures contracts, 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, 2014, the Fund's components of distributable earnings (accumulated gains) on a tax basis were as follows:

Undistributed ordinary income	$ 10,857,318
Undistributed long-term capital gains	$ 28,053,282
Unrealized appreciation (depreciation) on investments	$ 253,538,901

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

	Years Ended December 31,	
	2014	2013
Distributions from ordinary income*	$ 12,972,415	$ 14,388,643
Distributions from long-term capital gains	$ 19,117,591	$ 17,332,893

* For tax purposes, short-term capital gain distributions are considered ordinary income distributions.

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 based upon the relative net assets or other appropriate measures.

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. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments.

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, 2014, 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 disclosed in the Statement of Assets and Liabilities.

A summary of the open futures contracts as of December 31, 2014 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2014, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $3,047,000 to $14,448,000.

The following tables summarize the value of the Fund's derivative instruments held as of December 31, 2014 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)	$ 135,739

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, 2014 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)	$ 1,474,816

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)	$ (130,619)

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, 2014, purchases and sales of investment securities (excluding short-term investments) aggregated $16,796,604 and $67,125,885, 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, 2014, the fee pursuant to the Investment Management Agreement was equivalent to an annual rate (exclusive of any applicable waivers/reimbursements) of 0.20% of the Fund's average daily net assets.

For the period from January 1, 2014 through September 30, 2015, the Advisor has contractually agreed to waive all or a portion of its fees and/or reimburse certain operating expenses of the Fund to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest) of each class as follows:

Class A	.33%
Class B	.58%
Class B2	.68%

For the year ended December 31, 2014, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 58,006
Class B	2,312
Class B2	11,233
	$ 71,551

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, 2014, the Administration Fee was $616,092, of which $54,084 is unpaid.

Distribution Service Agreement. DeAWM Distributors, Inc. ("DDI"), an affiliate of the Advisor, is the Fund's distributor. In accordance with the Distribution Plan, DDI receives 12b-1 fees of 0.25% of average daily net assets of Class B and B2 shares. For the year ended December 31, 2014, the Distribution Service Fees were as follows:

Distribution Service Fees	Total Aggregated	Unpaid at December 31, 2014
Class B	$ 14,135	$ 1,464
Class B2	47,337	4,063
	$ 61,472	**$ 5,527**

Service Provider Fees. DeAWM Service Company ("DSC"), 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 DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee they receive from the Fund. For the year ended December 31, 2014, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at December 31, 2014
Class A	$ 488	$ 79
Class B	101	17
Class B2	44	7
	$ 633	**$ 103**

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, 2014, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $24,492, of which $5,999 is unpaid.

Trustees' Fees and Expenses. The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and Vice Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicles. The Fund may invest uninvested cash balances in Central Cash Management Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. Each affiliated money market fund seeks to provide a high level of current income consistent with liquidity and the preservation of capital. Each affiliated money market fund is managed in accordance with Rule 2a-7 under the Investment Company Act of 1940, which governs the quality, maturity, diversity and liquidity of instruments in which a money market fund may invest. Central Cash Management Fund seeks to maintain a stable net asset value, and Deutsche Variable NAV Money Fund maintains a floating net asset value. The Fund indirectly bears its proportionate share of the expenses of each affiliated money market fund in which it invests. Central Cash Management Fund does not pay the Advisor an investment management fee. To the extent that Deutsche Variable NAV Money Fund pays an investment management fee to the Advisor, the Advisor will waive an amount of the investment management fee payable to the Advisor by the Fund equal to the amount of the investment management fee payable on the Fund's assets invested in Deutsche Variable NAV Money Fund.

Securities Lending Agent Fees. Deutsche Bank AG serves as securities lending agent for the Fund. For the year ended December 31, 2014, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $2,601.

E. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 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, 2014.

F. Ownership of the Fund

At December 31, 2014, 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 48% and 20%, respectively. At December 31, 2014, four participating insurance companies were beneficial owners of record of 10% or more of the total outstanding Class B shares of the Fund, owning 36%, 20%, 17% and 17%. At December 31, 2014, one participating insurance company was a beneficial owner of record of 100% of the total outstanding Class B2 shares of the Fund.

G. In-Kind Redemptions

In certain circumstances, the Fund may distribute portfolio securities rather than cash as payments for a redemption of Fund shares (in-kind redemption). For financial reporting purposes, the Fund recognizes a gain on in-kind redemptions to the extent the value of the distributed securities exceeds their costs; the Fund recognizes a loss if cost exceeds value. Gains and losses realized on in-kind redemptions are not recognized for tax purposes and are reclassified from undistributed realized gain (loss) to paid-in capital. During the year ended December 31, 2013, the Fund realized $75,739,517 of net gain attributable to in-kind redemptions.

Report of Independent Registered Public Accounting Firm

To the Trustees of Deutsche Investments VIT Funds and the Shareholders of Deutsche 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 Deutsche Equity 500 Index VIP (formerly DWS Equity 500 Index VIP) (the "Fund") at December 31, 2014, 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, 2014 by correspondence with the custodian, brokers and transfer agent, and the application of alternative auditing procedures where such confirmations had not been received, provide a reasonable basis for our opinion.

Boston, Massachusetts
February 13, 2015

PricewaterhouseCoopers LLP

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, 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, 2014 to December 31, 2014).

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, 2014

Actual Fund Return	Class A	Class B	Class B2
Beginning Account Value 7/1/14	$1,000.00	$1,000.00	$1,000.00
Ending Account Value 12/31/14	$1,059.70	$1.058.10	$1,058.10
Expenses Paid per $1,000*	$ 1.71	$ 3.01	$ 3.53

Hypothetical 5% Fund Return	Class A	Class B	Class B2
Beginning Account Value 7/1/14	$1,000.00	$1,000.00	$1,000.00
Ending Account Value 12/31/14	$1,023.54	$1.022.28	$1,021.78
Expenses Paid per $1,000*	$ 1.68	$ 2.96	$ 3.47

* 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 184 (the number of days in the most recent six-month period), then divided by 365.

Annualized Expense Ratios	Class A	Class B	Class B2
Deutsche Equity 500 Index VIP	.33%	.58%	.68%

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.

For an analysis of the fees associated with an investment in the fund or similar funds, please refer to the current and hypothetical expense calculators for Variable Insurance Products which can be found at deutschefunds.com/EN/resources/calculators.jsp.

Tax Information

(Unaudited)

The fund paid distributions of $0.61 per share from net long-term capital gains during its year ended December 31, 2014.

Pursuant to Section 852 of the Internal Revenue Code, the Fund designates $30,908,000 as capital gain dividends for its year ended December 31, 2014.

For corporate shareholders, 94% of the ordinary dividends (i.e., income dividends plus short-term capital gains) paid during the Fund's fiscal year ended December 31, 2014 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, 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 — deutschefunds.com (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — 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.

Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of Deutsche Equity 500 Index VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") and sub-advisory agreement (the "Sub-Advisory Agreement" and together with the Agreement, the "Agreements") between DIMA and Northern Trust Investments, Inc. ("NTI") in September 2014.

In terms of the process that the Board followed prior to approving the Agreements, shareholders should know that:

— In September 2014, all of the Fund's Trustees were independent of DIMA 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 DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly meet privately with counsel to discuss contract review and other matters. In addition, the Independent Trustees were advised by the Fee Consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the Fee Consultant in connection with their deliberations.

— 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 DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG ("DB"), a major global banking institution that is engaged in a wide range of financial services. The Board believes that there are 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.

As part of the contract review process, the Board carefully considered the fees and expenses of each Deutsche fund overseen by the Board in light of the fund's performance. In many cases, this led to the negotiation and implementation of expense caps. As part of these negotiations, the Board indicated that it would consider relaxing these caps in future years following sustained improvements in performance, among other considerations.

In 2012, DB combined its Asset Management (of which DIMA was a part) and Wealth Management divisions into a new Asset and Wealth Management ("AWM") division. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that DB will continue to invest in AWM a significant portion of the savings it has realized by combining its Asset and Wealth Management divisions, including ongoing enhancements to AWM's investment capabilities. DB also has confirmed its commitment to maintaining strong legal and compliance groups within the AWM division.

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

Nature, Quality and Extent of Services. The Board considered the terms of the Agreements, including the scope of advisory services provided under the Agreements. The Board noted that, under the Agreements, DIMA and NTI provide portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board also requested and received information regarding DIMA'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 Fee Consultant using information supplied by Morningstar Direct ("Morningstar"), an independent fund data service. The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to a peer universe), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's 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, 2013, the Fund's performance (Class A shares) was in the 3rd quartile, 1st quartile and 2nd quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers).

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 Inc. ("Lipper") and the 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 DIMA under the Fund's administrative services agreement, were higher than the median (3rd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2013). With respect to the sub-advisory fee paid to NTI, the Board noted that the fee is paid by DIMA out of its fee and not directly by the Fund. The Board noted that the Fund's Class A shares total (net) operating expenses were expected to be higher than the median (3rd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2013 ("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 also considered how the Fund's total (net) operating expenses compared to the total (net) operating expenses of a more customized peer group selected by Lipper (based on such factors as asset size). The Board also noted that the expense limitations agreed to by DIMA helped ensure that the Fund's total (net) operating expenses would remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable funds and considered differences between the Fund and the comparable funds.

The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts and funds offered primarily to European investors ("Deutsche Europe funds") managed by DIMA and its affiliates. The Board noted that DIMA indicated that it does not manage any institutional accounts or Deutsche Europe funds comparable to the Fund.

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

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the Deutsche U.S. mutual funds ("Deutsche 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 DIMA and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable. The Board did not consider the profitability of NTI with respect to the Fund. The Board noted that DIMA 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 DIMA.

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

Other Benefits to DIMA and NTI and Their Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and NTI and their affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also considered benefits to DIMA 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 DIMA and NTI related to Deutsche Funds advertising and cross-selling opportunities among DIMA products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of DIMA's and the Fund's chief compliance officer; (ii) the large number of DIMA compliance personnel; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters. The Board also considered the attention and resources dedicated by DIMA 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 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.

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund. 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 Kenneth C. Froewiss, Chairman, Deutsche Mutual Funds, P.O. Box 390601, Cambridge, MA 02139. 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.

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 Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Kenneth C. Froewiss (1945) Chairperson since 2013, and 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)	105	—
William McClayton (1944) Vice Chairperson since 2013, and 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	105	—
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); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (provider of disease and care management services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International	105	Portland General Electric[2] (utility company) (2003–present)
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); North Bennett Street School (Boston); former Directorships: Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College	105	Lead Director, Becton Dickinson and Company[2] (medical technology company)
Dawn-Marie Driscoll (1946) Board Member since 1987	Emeritus Executive Fellow, Center for Business Ethics, Bentley University; formerly: President, Driscoll Associates (consulting firm); Partner, Palmer & Dodge (law firm) (1988–1990); Vice President of Corporate Affairs and General Counsel, Filene's (retail) (1978–1988). Directorships: Director of ICI Mutual Insurance Company (since 2007); Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	105	—
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); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies; former Directorships: BoxTop Media Inc. (advertising); Sun Capital Advisers Trust (mutual funds) (2011–2012)	105	—

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 Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Paul K. Freeman (1950) Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Chair, Independent Directors Council; Investment Company Institute (executive and nominating committees); formerly, Chairman of Education Committee of Independent Directors Council; Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998); Directorships: Denver Zoo Foundation (December 2012–present); former Directorships: Prisma Energy International	105	—
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; 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)	105	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
Rebecca W. Rimel (1951) Board Member since 1995	President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 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); Director, Viasys Health Care[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	105	Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc.[2] (health care) (2009–present)
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); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	105	—
Jean Gleason Stromberg (1943) Board Member since 1997	Retired. Formerly, Consultant (1997–2001); Director, Financial Markets U.S. Government Accountability Office (1996–1997); Partner, Norton Rose Fulbright, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation (charitable organization); former Directorships: Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	105	—
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	105	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Brian E. Binder[8] (1972) President and Chief Executive Officer, 2013–present	Managing Director[3] and Head of Fund Administration, Deutsche Asset & Wealth Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012); Chief Administrative Officer, Van Kampen Funds Inc. (2008–2010); and Chief Administrative Officer, Morgan Stanley Investment Management Americas Distribution (2003–2008)
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset & Wealth Management
Melinda Morrow[6] (1970) Vice President, 2012–present	Director,[3] Deutsche Asset & Wealth Management

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset & Wealth 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 & Wealth Management; formerly: Assistant Secretary for DWS family of funds (1997–2010)
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director,[3] Deutsche Asset & Wealth Management
Wayne Salit[6] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset & Wealth Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Hepsen Uzcan[7] (1974) Assistant Secretary, 2013–present	Director,[3] Deutsche Asset & Wealth Management
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management

1 The length of time served represents the year in which the Board Member joined the board of one or more Deutsche 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 Deutsche funds.

6 Address: 60 Wall Street, New York, NY 10005.

7 Address: One Beacon Street, Boston, MA 02108.

8 Address: 222 South Riverside Plaza, Chicago, IL 60606.

* Robert H. Wadsworth retired from the Board effective December 31, 2014.

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

Deutsche Asset
& Wealth Management

DeAWM Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

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Deutsche Asset
& Wealth Management

December 31, 2014

Annual Report

Deutsche Variable Series II

(formerly DWS Variable Series II)

Deutsche Global Equity VIP

(formerly DWS Global Equity VIP)

Contents

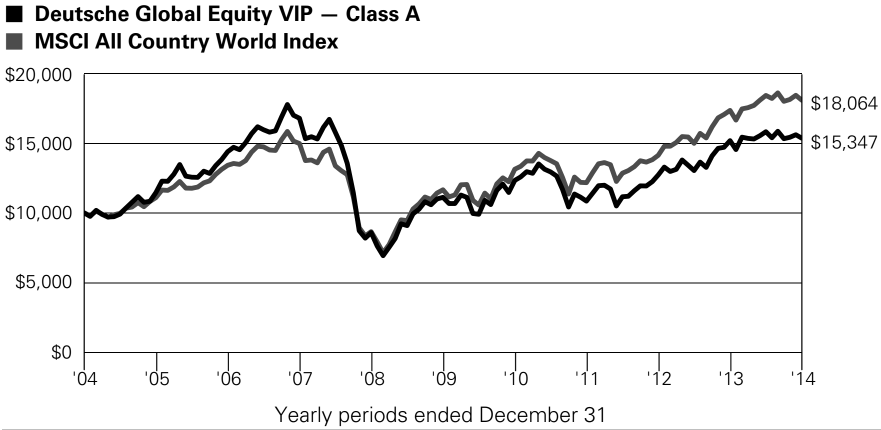
Performance Summary

December 31, 2014 (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, 2014 is 1.08% 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 Deutsche Global Equity VIP



The MSCI All Country World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The index consists of 45 country indices comprising 24 developed and 21 emerging market country indices.

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

Comparative Results

Deutsche Global Equity VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,114	$14,160	$13,811	$15,347
	Average annual total return	1.14%	12.29%	6.67%	4.38%
MSCI All Country World Index	Growth of $10,000	$10,416	$14,854	$15,507	$18,064
	Average annual total return	4.16%	14.10%	9.17%	6.09%

The growth of $10,000 is cumulative.

Management Summary

Global equities delivered a mixed return during 2014, with underperformance in the international markets offsetting the strong showing of the United States. The Fund's benchmark, the MSCI All Country World Index, returned 4.16% during the year, while the Class A shares of the Fund returned 1.14% (unadjusted for contract charges).[1]

The primary cause of the Fund's underperformance was the weakness of its holdings in the consumer discretionary, information technology and industrial sectors.[2] The largest individual detractor in each group were Las Vegas Sands Corp., AVEVA Group PLC and MasTec Corp., respectively. Outside of these sectors, the leading detractor was the mining company Anglo American PLC, which was pressured by the sharp downturn in commodity prices. Our allocation to the emerging markets also detracted from returns, but we believe it remains home to stocks with the growth characteristics we seek. On the plus side, we added value through our individual stock selection in the consumer staples and health care sectors. The leading contributors in these groups were Monster Beverage Corp., which rallied after Coca-Cola Co. took a strategic stake in the firm, and Allergan Inc., which received two competing takeover bids during the period.

The Fund closed the annual period with overweight positions in the consumer staples, health care and industrials sectors.[3,4] We reduced the portfolio's weighting in health care during the fourth quarter, however, as we believed many companies in the group had become more richly valued following their strong performance during 2014. With regard to industrials, the sector underperformed during the second half of the year since many companies in the group derive a large portion of their revenues from energy-related business lines. Broadly speaking, however, our holdings in the sector have a limited exposure to the drop in the oil price. Instead, they are geared more toward structural end-market demand in the commercial construction and aerospace sectors, as well to niche industrial technologies. On the other side of the ledger, the Fund held underweight positions in energy and financials, as well as in slower-growth sectors such as telecommunications services and utilities.

As always, we remained focused on the goal of delivering performance via individual stock selection rather than making large "macro" bets or taking on excessive risk. We continued to believe that the stocks of companies with strong revenue and growth prospects are well positioned in an environment of sluggish global economic activity. Accordingly, our bottom-up strategy was geared toward identifying companies with the type of sustainable, above-average potential growth characteristics that we believe may support performance even during periods of economic and market "noise."

Nils E. Ernst, PhD
Martin Berberich, CFA
Sebastian P. Werner, PhD
Portfolio Managers

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.

1 The MSCI All Country World Index tracks the performance of stocks in select developed markets around the world, including the United States. 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 "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 Consumer staples are the industries that manufacture and sell products such as food and beverages, prescription drugs and household products.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/14**	**12/31/13**
Common Stocks	96%	96%
Cash Equivalents	3%	3%
Participatory Notes	1%	1%
	100%	100%

Sector Diversification (As a % of Common Stocks and Participatory Notes)	**12/31/14**	**12/31/13**
Health Care	19%	13%
Industrials	19%	9%
Consumer Staples	14%	10%
Financials	11%	12%
Materials	11%	9%
Information Technology	10%	9%
Consumer Discretionary	8%	9%
Energy	7%	7%
Telecommunication Services	1%	13%
Utilities	—	9%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/14**	**12/31/13**
United States	46%	46%
Continental Europe	32%	32%
Canada	7%	6%
United Kingdom	7%	6%
Latin America	3%	1%
Pacific Basin	3%	5%
Other	2%	4%
	100%	100%

Portfolio holdings and characteristics 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 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 deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

Investment Portfolio

December 31, 2014

	Shares	Value ($)
Common Stocks 96.1%		
Belgium 2.0%		
Anheuser-Busch InBev NV (Cost $867,606)	12,000	**1,350,405**
Brazil 0.9%		
Estacio Participacoes SA (Cost $735,382)	70,000	**619,478**
Canada 7.1%		
Agnico Eagle Mines Ltd.	23,000	572,470
Alimentation Couche-Tard, Inc. "B"	33,000	1,383,000
Brookfield Asset Management, Inc. "A"	32,000	1,603,581
Canadian Pacific Railway Ltd.	6,500	1,251,829
(Cost $3,696,760)		**4,810,880**
Denmark 0.3%		
William Demant Holding AS* (Cost $231,756)	3,000	**227,706**
Finland 1.1%		
Stora Enso Oyj "R" (Cost $726,213)	88,000	**783,297**
France 2.2%		
Airbus Group NV	12,000	596,006
Pernod Ricard SA	8,000	887,016
(Cost $1,619,949)		**1,483,022**
Germany 6.6%		
adidas AG	12,000	836,378
BASF SE	7,000	591,736
Fresenius Medical Care AG & Co. KGaA	29,000	2,170,385
Lanxess AG	18,641	867,240
(Cost $4,367,428)		**4,465,739**
Hong Kong 0.8%		
Michael Kors Holdings Ltd.* (a) (Cost $531,747)	7,000	**525,700**
Indonesia 0.7%		
PT Bank Negara Indonesia Persero Tbk	800,000	390,633
PT Indofood CBP Sukses Makmur Tbk	75,000	79,403
(Cost $470,921)		**470,036**
Ireland 4.2%		
Glanbia PLC	69,000	1,059,464
Kerry Group PLC "A"	12,028	829,885
Shire PLC	14,000	990,546
(Cost $2,302,009)		**2,879,895**
Italy 0.4%		
World Duty Free SpA* (b) (Cost $327,520)	28,400	**271,991**
Luxembourg 1.1%		
Eurofins Scientific (Cost $712,011)	3,000	**763,899**
Malaysia 0.6%		
IHH Healthcare Bhd. (Cost $390,628)	300,000	**412,830**
Netherlands 1.4%		
Sensata Technologies Holding NV* (a) (Cost $836,561)	18,000	**943,380**
Norway 3.3%		
DNO ASA* (b)	380,000	808,668
Gjensidige Forsikring ASA	40,000	651,547
Statoil ASA	44,000	771,075
(Cost $2,247,147)		**2,231,290**
Panama 1.2%		
Copa Holdings SA "A" (b) (Cost $874,349)	8,000	**829,120**
Philippines 1.5%		
GT Capital Holdings, Inc.	24,000	551,403
Metropolitan Bank & Trust Co.	250,000	460,913
(Cost $1,069,961)		**1,012,316**
South Africa 1.1%		
MTN Group Ltd. (Cost $762,005)	40,000	**759,072**
Spain 0.6%		
Atresmedia Corp. de Medios de Comunicacion SA (Cost $405,557)	27,000	**379,755**
Sweden 3.7%		
Assa Abloy AB "B"	14,000	739,857
Atlas Copco AB "A"	35,000	974,299
Svenska Cellulosa AB "B"	37,000	799,053
(Cost $2,395,581)		**2,513,209**
Switzerland 2.4%		
Nestle SA (Registered)	15,515	1,137,274
Novartis AG (Registered)	5,500	505,821
(Cost $860,852)		**1,643,095**
United Kingdom 5.3%		
Anglo American PLC	50,000	925,098
Aon PLC (a)	7,000	663,810
Aveva Group PLC	26,000	532,230
British American Tobacco PLC	13,000	706,340
Halma PLC	40,000	426,428
Spirax-Sarco Engineering PLC	8,000	355,524
(Cost $4,347,697)		**3,609,430**
United States 47.6%		
Actavis PLC*	5,000	1,287,050
Allergan, Inc.	1,000	212,590
Alliance Data Systems Corp.*	3,200	915,360
Amgen, Inc.	4,000	637,160
Amphenol Corp. "A"	33,000	1,775,730
Bristol-Myers Squibb Co.	18,000	1,062,540
Bristow Group, Inc.	5,000	328,950
CBRE Group, Inc. "A"*	20,000	685,000
Cerner Corp.*	14,000	905,240
Colfax Corp.*	21,000	1,082,970
Danaher Corp.	11,000	942,810
DIRECTV*	9,200	797,640
eBay, Inc.*	16,000	897,920
Ecolab, Inc.	9,000	940,680
Express Scripts Holding Co.*	23,000	1,947,410

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

	Shares	Value ($)
Exxon Mobil Corp.	10,000	924,500
Fastenal Co. (b)	11,000	523,160
JPMorgan Chase & Co.	19,000	1,189,020
Las Vegas Sands Corp.	19,000	1,105,040
LKQ Corp.*	25,000	703,000
MasTec, Inc.*	25,000	565,250
MasterCard, Inc. "A"	15,000	1,292,400
Mead Johnson Nutrition Co.	6,000	603,240
Monster Beverage Corp.*	12,000	1,300,200
Nielsen NV	16,000	715,680
Noble Energy, Inc.	22,000	1,043,460
Omnicare, Inc.	12,000	875,160
Pall Corp.	14,000	1,416,940
Praxair, Inc.	11,000	1,425,160
PTC, Inc.*	9,000	329,850
Schlumberger Ltd.	11,000	939,510
The Hershey Co.	4,000	415,720
The Travelers Companies, Inc.	8,000	846,800
United Technologies Corp.	10,000	1,150,000
Zoetis, Inc.	12,000	516,360
(Cost $28,247,758)		**32,299,500**
Total Common Stocks (Cost $59,027,398)		**65,285,045**

	Shares	Value ($)
Participatory Note 0.5%		
Nigeria		
Zenith Bank PLC (issuer Merrill Lynch International) Expiration Date 8/21/2015 (Cost $405,600)	3,000,000	**301,802**
Securities Lending Collateral 3.2%		
Daily Assets Fund Institutional, 0.10% (c) (d) (Cost $2,200,513)	2,200,513	**2,200,513**
Cash Equivalents 3.4%		
Central Cash Management Fund, 0.06% (c) (Cost $2,325,942)	2,325,942	**2,325,942**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $63,959,453)†	103.2	**70,113,302**
Other Assets and Liabilities, Net	(3.2)	**(2,195,791)**
Net Assets	100.0	**67,917,511**

* Non-income producing security.

† The cost for federal income tax purposes was $63,957,305. At December 31, 2014, net unrealized appreciation for all securities based on tax cost was $6,155,997. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $8,751,267 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $2,595,270.

(a) Listed on the New York Stock Exchange.

(b) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at December 31, 2014 amounted to $2,102,645, which is 3.1% 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.

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 level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

The following is a summary of the inputs used as of December 31, 2014 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				
Belgium	$ —	$ 1,350,405	$ —	$ 1,350,405
Brazil	619,478	—	—	619,478
Canada	4,810,880	—	—	4,810,880
Denmark	—	227,706	—	227,706
Finland	—	783,297	—	783,297
France	—	1,483,022	—	1,483,022
Germany	—	4,465,739	—	4,465,739
Hong Kong	525,700	—	—	525,700
Indonesia	—	470,036	—	470,036
Ireland	—	2,879,895	—	2,879,895
Italy	—	271,991	—	271,991
Luxembourg	—	763,899	—	763,899
Malaysia	—	412,830	—	412,830
Netherlands	943,380	—	—	943,380
Norway	—	2,231,290	—	2,231,290
Panama	829,120	—	—	829,120
Philippines	—	1,012,316	—	1,012,316
South Africa	—	759,072	—	759,072
Spain	—	379,755	—	379,755
Sweden	—	2,513,209	—	2,513,209
Switzerland	—	1,643,095	—	1,643,095
United Kingdom	663,810	2,945,620	—	3,609,430
United States	32,299,500	—	—	32,299,500
Participatory Notes	—	301,802	—	301,802
Short-Term Investments (e)	4,526,455	—	—	4,526,455
Total	**$ 45,218,323**	**$ 24,894,979**	**$ —**	**$ 70,113,302**

There have been no transfers between fair value measurement levels during the year ended December 31, 2014.

(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, 2014

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $59,432,998) — including $2,102,645 of securities loaned	$	65,586,847
Investment in Daily Assets Fund Institutional (cost $2,200,513)*		2,200,513
Investment in Central Cash Management Fund (cost $2,325,942)		2,325,942
Total investments in securities, at value (cost $63,959,453)		70,113,302
Foreign currency, at value (cost $50,992)		50,397
Receivable for Fund shares sold		33,458
Dividends receivable		26,067
Interest receivable		171
Foreign taxes recoverable		60,940
Other assets		1,351
Total assets		70,285,686

Liabilities		
Cash overdraft		3,300
Payable upon return of securities loaned		2,200,513
Payable for Fund shares redeemed		22,385
Accrued management fee		37,738
Accrued Trustees' fees		1,222
Other accrued expenses and payables		103,017
Total liabilities		2,368,175
Net assets, at value	**$**	**67,917,511**

Net Assets Consist of		
Undistributed net investment income		345,800
Net unrealized appreciation (depreciation) on:		
Investments		6,153,849
Foreign currency		(5,751)
Accumulated net realized gain (loss)		(44,157,702)
Paid-in capital		105,581,315
Net assets, at value	**$**	**67,917,511**
Class A		
Net Asset Value, offering and redemption price per share ($67,917,511 ÷ 7,372,593 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**9.21**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2014

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $80,391)	$	1,063,944
Income distributions — Central Cash Management Fund		1,398
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		28,739
Total income		1,094,081
Expenses:		
Management fee		462,144
Administration fee		71,099
Services to shareholders		719
Custodian fee		24,724
Professional fees		70,031
Reports to shareholders		20,796
Trustees' fees and expenses		4,625
Other		18,387
Total expenses		672,525
Net investment income		**421,556**

Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		3,346,500
Futures		(4,270)
Foreign currency		(13,538)
		3,328,692
Change in net unrealized appreciation (depreciation) on:		
Investments		(2,958,312)
Foreign currency		(5,173)
		(2,963,485)
Net gain (loss)		**365,207**
Net increase (decrease) in net assets resulting from operations	**$**	**786,763**

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, 2014	2013
Operations:		
Net investment income	$ 421,556	$ 1,174,893
Net realized gain (loss)	3,328,692	17,352,793
Change in net unrealized appreciation (depreciation)	(2,963,485)	(6,262,438)
Net increase (decrease) in net assets resulting from operations	786,763	12,265,248
Distributions to shareholders from:		
Net investment income:		
Class A	(1,256,998)	(1,676,904)
Fund share transactions:		
Class A		
Proceeds from shares sold	2,233,568	3,395,869
Reinvestment of distributions	1,256,998	1,676,904
Payments for shares redeemed	(8,090,295)	(9,660,444)
Net increase (decrease) in net assets from Class A share transactions	(4,599,729)	(4,587,671)
Increase (decrease) in net assets	(5,069,964)	6,000,673
Net assets at beginning of period	72,987,475	66,986,802
Net assets at end of period (including undistributed net investment income of $345,800 and $1,217,770, respectively)	**$ 67,917,511**	**$ 72,987,475**

Other Information		
Class A		
Shares outstanding at beginning of period	7,869,570	8,411,945
Shares sold	240,333	404,553
Shares issued to shareholders in reinvestment of distributions	138,132	202,770
Shares redeemed	(875,442)	(1,149,698)
Net increase (decrease) in Class A shares	(496,977)	(542,375)
Shares outstanding at end of period	**7,372,593**	**7,869,570**

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

Financial Highlights

Class A	2014	Years Ended December 31, 2013	2012	2011	2010
Selected Per Share Data					
Net asset value, beginning of period	**$ 9.27**	**$ 7.96**	**$ 6.98**	**$ 8.08**	**$ 7.45**
Income (loss) from investment operations:					
Net investment income[a]	.06	.14	.18	.19	.14
Net realized and unrealized gain (loss)	.04	1.37	1.01	(1.14)	.66
Total from investment operations	.10	1.51	1.19	(.95)	.80
Less distributions from:					
Net investment income	(.16)	(.20)	(.21)	(.15)	(.17)
Net asset value, end of period	**$ 9.21**	**$ 9.27**	**$ 7.96**	**$ 6.98**	**$ 8.08**
Total Return (%)	1.14	19.31[b]	17.34	(12.07)	10.93
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	68	73	67	65	83
Ratio of expenses before expense reductions (%)	.95	1.06	1.02	1.03	.99
Ratio of expenses after expense reductions (%)	.95	.99	1.02	1.03	.99
Ratio of net investment income (%)	.59	1.69	2.46	2.44	1.90
Portfolio turnover rate (%)	78	139	18	26	14

a Based on average shares outstanding during the period.

b Total return would have been lower had certain expenses not been reimbursed.

Notes to Financial Statements

A. Organization and Significant Accounting Policies

Deutsche Global Equity VIP (formerly DWS Global Equity VIP) (the "Fund") is a diversified series of Deutsche Variable Series II (formerly 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 level assigned to the securities valuations may not be an indication of the risk or liquidity 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. 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. Equity securities are generally categorized as Level 1. 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), 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.

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 considered 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.

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.

Securities Lending. Deutsche Bank AG, as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains the benefits of owning the securities it has loaned and continues to receive interest and dividends generated by the 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. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. 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.

As of December 31, 2014, the Fund had securities on loan. The value of the related collateral exceeded the value of the securities loaned at period end.

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, the Fund may be subject to taxes imposed by the governments of countries in which it invests and are generally based on income and/or capital gains earned or repatriated. Estimated tax liabilities on certain foreign securities are recorded on an accrual basis and are reflected as components of interest income or net change in unrealized gain/loss on investments. Tax liabilities realized as a result of security sales are reflected as a component of net realized gain/loss on investments.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses incurred post-enactment 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, 2014, the Fund had a net tax basis capital loss carryforward of approximately $44,062,000 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 ($4,898,000) and December 31, 2017 ($39,164,000), the respective expiration dates, whichever occurs first.

In addition, from November 1, 2014 through December 31, 2014, the Fund elected to defer qualified late year losses of approximately $98,000 of net short-term capital losses and treat them as arising in the fiscal year ending December 31, 2015.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2014 and has determined that no provision for income tax and/or uncertain tax provisions 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 from net investment income of the Fund, if any, are 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 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, 2014, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 345,800
Capital loss carryforwards	$ (44,062,000)
Unrealized appreciation (depreciation) on investments	$ 6,155,997

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

	Years Ended December 31, 2014	2013
Distributions from ordinary income*	$ 1,256,998	$ 1,676,904

* 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 based upon the relative net assets or other appropriate measures.

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. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments.

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, 2014, the Fund entered into 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 disclosed in the Statement of Assets and Liabilities.

There are no open futures contracts as of December 31, 2014. For the year ended December 31, 2014, the investment in futures contracts purchased had a total notional value from $0 to approximately $2,239,000.

The amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the year ended December 31, 2014 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)	$ (4,270)

The above derivative is located in the following Statement of Operations account:
(a) Net realized gain (loss) from futures

C. Purchases and Sales of Securities

During the year ended December 31, 2014, purchases and sales of investment transactions (excluding short-term investments) aggregated $53,505,514 and $58,665,744, 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 $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, 2014, the fee pursuant to the Investment Management Agreement was equivalent to an annual rate (exclusive of any applicable waivers/reimbursements) of 0.65% of the Fund's average daily net assets.

For the period from January 1, 2014 through September 30, 2014, the Advisor had contractually agreed to waive its fee and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of Class A shares at 1.00%.

Effective October 1, 2014 through September 30, 2015, the Advisor has contractually agreed to waive its fees and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of Class A shares at 0.91%.

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, 2014, the Administration Fee was $71,099, of which $5,806 is unpaid.

Service Provider Fees. DeAWM Service Company ("DSC"), 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 DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it receives from the Fund. For the year ended December 31, 2014, the amounts charged to the Fund by DSC aggregated $111, of which $19 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, 2014, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $9,435, of which $4,525 is unpaid.

Trustees' Fees and Expenses. The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and Vice Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicles. The Fund may invest uninvested cash balances in Central Cash Management Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. Each affiliated money market fund seeks to provide a high level of current income consistent with liquidity and the preservation of capital. Each affiliated money market fund is managed in accordance with Rule 2a-7 under the Investment Company Act of 1940, which governs the quality, maturity, diversity and liquidity of instruments in which a money market fund may invest. Central Cash Management Fund seeks to maintain a stable net asset value, and Deutsche Variable NAV Money Fund maintains a floating net asset value. The Fund indirectly bears its proportionate share of the expenses of each affiliated money market fund in which it invests. Central Cash Management Fund does not pay the Advisor an investment management fee. To the extent that Deutsche Variable NAV Money Fund pays an investment management fee to the Advisor, the Advisor will waive an amount of the investment management fee payable to the Advisor by the Fund equal to the amount of the investment management fee payable on the Fund's assets invested in Deutsche Variable NAV Money Fund.

Securities Lending Fees. Deutsche Bank AG serves as lending agent for the Fund. For the year ended December 31, 2014, the Fund incurred lending agent fees to Deutsche Bank AG in the amount of $2,501.

E. Ownership of the Fund

At December 31, 2014, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 76% and 23%.

F. Line of Credit

The Fund and other affiliated funds (the “Participants”) share in a $400 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, 2014.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Deutsche Variable Series II and Shareholders of Deutsche Global Equity VIP:

We have audited the accompanying statement of assets and liabilities, including the investment portfolio, of Deutsche Global Equity VIP (formerly DWS Global Equity VIP) (the "Fund") (one of the series constituting Deutsche Variable Series II (formerly DWS Variable Series II)), as of December 31, 2014, 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 periods indicated therein. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. 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, 2014, 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 Deutsche Global Equity VIP at December 31, 2014, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the periods indicated therein, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Boston, Massachusetts
February 13, 2015

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, 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, 2014 to December 31, 2014).

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, 2014

Actual Fund Return	**Class A**
Beginning Account Value 7/1/14	$1,000.00
Ending Account Value 12/31/14	$ 970.50
Expenses Paid per $1,000*	$ 4.42

Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 7/1/14	$1,000.00
Ending Account Value 12/31/14	$1,020.72
Expenses Paid per $1,000*	$ 4.53

* Expenses are equal to the Fund's annualized expense ratio, multiplied by the average account value over the period, multiplied by 184 (the number of days in the most recent six-month period), then divided by 365.

Annualized Expense Ratio	**Class A**
Deutsche Variable Series II — Deutsche Global Equity VIP	.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.

For an analysis of the fees associated with an investment in the fund or similar funds, please refer to the current and hypothetical expense calculators for Variable Insurance Products which can be found at deutschefunds.com/EN/resources/calculators.jsp.

Tax Information

(Unaudited)

For corporate shareholders, 10% of the ordinary dividends (i.e., income dividends plus short-term capital gains) paid during the Fund's fiscal year ended December 31, 2014, 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 — deutschefunds.com (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — 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.

Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of Deutsche Global Equity VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2014.

In terms of the process that the Board followed prior to approving the Agreement, shareholders should know that:

— In September 2014, all of the Fund's Trustees were independent of DIMA 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 DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly meet privately with counsel to discuss contract review and other matters. In addition, the Independent Trustees were advised by the Fee Consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the Fee Consultant in connection with their deliberations.

— 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 DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG ("DB"), a major global banking institution that is engaged in a wide range of financial services. The Board believes that there are 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.

As part of the contract review process, the Board carefully considered the fees and expenses of each Deutsche fund overseen by the Board in light of the fund's performance. In many cases, this led to the negotiation and implementation of expense caps. As part of these negotiations, the Board indicated that it would consider relaxing these caps in future years following sustained improvements in performance, among other considerations.

In 2012, DB combined its Asset Management (of which DIMA was a part) and Wealth Management divisions into a new Asset and Wealth Management ("AWM") division. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that DB will continue to invest in AWM a significant portion of the savings it has realized by combining its Asset and Wealth Management divisions, including ongoing enhancements to AWM's investment capabilities. DB also has confirmed its commitment to maintaining strong legal and compliance groups within the AWM division.

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

Nature, Quality and Extent of Services. The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market index(es) and a peer universe compiled by the Fee Consultant using information supplied by Morningstar Direct ("Morningstar"), an independent fund data service. The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to a peer universe), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's 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, 2013, the Fund's performance (Class A shares) was in the 3rd quartile of the applicable Morningstar 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, 2013.

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 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 DIMA under the Fund's administrative services agreement, were higher than the median (3rd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2013). 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, 2013, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). 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 noted that the expense limitation agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable funds and considered differences between the Fund and the comparable funds. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts and funds offered primarily to European investors ("Deutsche Europe funds") managed by DIMA and its affiliates. The Board noted that DIMA indicated that it does not manage any institutional accounts or Deutsche Europe funds comparable to the Fund.

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

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the Deutsche U.S. mutual funds ("Deutsche 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 DIMA and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable.

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

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to Deutsche Funds advertising and cross-selling opportunities among DIMA products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of DIMA's and the Fund's chief compliance officer; (ii) the large number of DIMA compliance personnel; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.

Based on all of the information considered and the conclusions reached, the Board 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 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.

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund. 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 Kenneth C. Froewiss, Chairman, Deutsche Mutual Funds, P.O. Box 390601, Cambridge, MA 02139. 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.

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 Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Kenneth C. Froewiss (1945) Chairperson since 2013, and 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)	105	—
William McClayton (1944) Vice Chairperson since 2013, and 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	105	—
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); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (provider of disease and care management services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International	105	Portland General Electric[2] (utility company) (2003–present)
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); North Bennett Street School (Boston); former Directorships: Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College	105	Lead Director, Becton Dickinson and Company[2] (medical technology company)
Dawn-Marie Driscoll (1946) Board Member since 1987	Emeritus Executive Fellow, Center for Business Ethics, Bentley University; formerly: President, Driscoll Associates (consulting firm); Partner, Palmer & Dodge (law firm) (1988–1990); Vice President of Corporate Affairs and General Counsel, Filene's (retail) (1978–1988). Directorships: Director of ICI Mutual Insurance Company (since 2007); Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	105	—
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); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies; former Directorships: BoxTop Media Inc. (advertising); Sun Capital Advisers Trust (mutual funds) (2011–2012)	105	—

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 Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Paul K. Freeman (1950) Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Chair, Independent Directors Council; Investment Company Institute (executive and nominating committees); formerly, Chairman of Education Committee of Independent Directors Council; Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998); Directorships: Denver Zoo Foundation (December 2012–present); former Directorships: Prisma Energy International	105	—
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; 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)	105	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
Rebecca W. Rimel (1951) Board Member since 1995	President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 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); Director, Viasys Health Care[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	105	Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc.[2] (health care) (2009–present)
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); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	105	—
Jean Gleason Stromberg (1943) Board Member since 1997	Retired. Formerly, Consultant (1997–2001); Director, Financial Markets U.S. Government Accountability Office (1996–1997); Partner, Norton Rose Fulbright, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation (charitable organization); former Directorships: Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	105	—
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	105	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Brian E. Binder[8] (1972) President and Chief Executive Officer, 2013–present	Managing Director[3] and Head of Fund Administration, Deutsche Asset & Wealth Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012); Chief Administrative Officer, Van Kampen Funds Inc. (2008–2010); and Chief Administrative Officer, Morgan Stanley Investment Management Americas Distribution (2003–2008)
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset & Wealth Management
Melinda Morrow[6] (1970) Vice President, 2012–present	Director,[3] Deutsche Asset & Wealth Management

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset & Wealth 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 & Wealth Management; formerly: Assistant Secretary for DWS family of funds (1997–2010)
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director,[3] Deutsche Asset & Wealth Management
Wayne Salit[6] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset & Wealth Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Hepsen Uzcan[7] (1974) Assistant Secretary, 2013–present	Director,[3] Deutsche Asset & Wealth Management
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management

1 The length of time served represents the year in which the Board Member joined the board of one or more Deutsche 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 Deutsche funds.

6 Address: 60 Wall Street, New York, NY 10005.

7 Address: One Beacon Street, Boston, MA 02108.

8 Address: 222 South Riverside Plaza, Chicago, IL 60606.

* Robert H. Wadsworth retired from the Board effective December 31, 2014.

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

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Deutsche Asset
& Wealth Management

DeAWM Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2GE-2 (R-025828-4 2/15)

Deutsche Asset
& Wealth Management

December 31, 2014

Annual Report

Deutsche Variable Series II

(formerly DWS Variable Series II)

Deutsche Global Growth VIP

(formerly DWS Global Growth VIP)

Contents

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. Smaller company stocks tend to be more volatile than medium-sized or large company stocks. Stocks may decline in value. See the prospectus for details.

Deutsche Asset & Wealth Management represents the asset management and wealth management activities conducted by Deutsche Bank AG or any of its subsidiaries, including the Advisor and DeAWM Distributors, Inc.

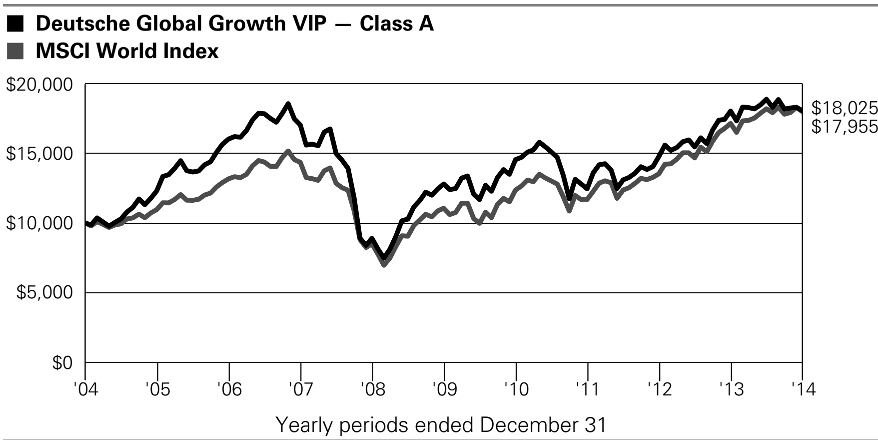
Performance Summary

December 31, 2014 (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, 2014 are 1.45% and 1.81% 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 Deutsche Global Growth VIP



The Morgan Stanley Capital International (MSCI) World Index is an unmanaged index that tracks the performance of stocks in select developed markets around the world, including the U.S.

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

Comparative Results

Deutsche Global Growth VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,012	$14,494	$14,104	$18,025
	Average annual total return	0.21%	13.17%	7.12%	6.07%
MSCI World Index	Growth of $10,000	$10,494	$15,397	$16,255	$17,955
	Average annual total return	4.94%	15.47%	10.20%	6.03%

Deutsche Global Growth VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$9,976	$14,336	$13,854	$17,387
	Average annual total return	–0.15%	12.76%	6.74%	5.69%
MSCI World Index	Growth of $10,000	$10,494	$15,397	$16,255	$17,955
	Average annual total return	4.94%	15.47%	10.20%	6.03%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2014 (Unaudited)

The Fund's Class A shares returned 0.21% during 2014, underperforming the 4.94% return of the MSCI World Index.[1] The leading cause of the Fund's shortfall was its overweight position in the international markets, which amplified the impact of both the foreign markets' underperformance and the weakness in non-U.S. currencies relative to the dollar. On a sector basis, the Fund's investments trailed the benchmark in the information technology, industrial and consumer discretionary sectors.[2] The largest individual detractors in each group were AVEVA Group PLC, Colfax Corp. and Las Vegas Sands Corp., respectively.[3]

On the plus side, the Fund's sector weightings played a positive role in its 12-month results. An underweight position in the energy sector, which lagged significantly, and an overweight position in health care, which outperformed the broader market by a wide margin, made positive contributions to performance.[4] Among individual stocks, many of the leading contributors were companies that were acquired or bid for during the period, including Beam, Inc.,* Monster Beverage Corp., DIRECTV and Allergan, Inc.*

As of December 31, 2014, 47% of the portfolio was invested in the United States, and 53% was invested in the international markets. The Fund's overweight in the international markets reflects the fact that we continued to find a higher representation of reasonably valued growth companies overseas. Within the international segment, we held an overweight position in emerging-markets stocks. We achieved this exposure through direct investments in emerging-markets companies and positions in developed-market companies with above-average exposure to the developing world. While this can have a negative impact on performance during periods of elevated investor risk aversion, we also believe the asset class is home to some of the most attractively valued growth companies in the global markets. On a sector basis, the Fund closed the year with overweight positions in the industrials, health care and consumer staples sectors, and it was underweight in financials, telecommunication services and energy.[5]

Although the Fund underperformed during the past 12 months, we believe in the long-term value of our strategy. We do not simply invest in the highest-growth companies without regard to their valuations or fundamentals. Instead, we take a balanced approach that seeks to diversify among companies in varying stages of their growth cycle. Further, we believe our ability to invest in companies of any size and from any region provides an extensive universe from which to select stocks with the optimal combination of growth potential and reasonable valuations.

Joseph Axtell, CFA
Lead Portfolio Manager

Rafaelina M. Lee
Nils E. Ernst, PhD
Martin Berberich, CFA
Sebastian P. Werner, PhD
Portfolio Managers

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.

1 The MSCI World Index is an unmanaged index that tracks the performance of stocks in select developed markets around the world, including the United States Index returns do not reflect fees or expenses and it is not possible to invest directly into an index.

2 Consumer discretionary represents industries that produce goods and services that are not necessities in everyday life.

3 Contributors and detractors incorporate both a stock's return and its weight. If two stocks have the same return but one has a larger weighting in the Fund, it will have a larger contribution to return in the period.

4 "Underweight" means the Fund holds a lower weighting in a given sector or security than the benchmark. "Overweight" means it holds a higher weighting.

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

* Not held in the portfolio as of December 31, 2014.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/14**	**12/31/13**
Common Stocks	95%	96%
Cash Equivalents	4%	3%
Participatory Notes	1%	1%
	100%	100%

Sector Diversification

(As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/14**	**12/31/13**
Industrials	20%	20%
Health Care	18%	14%
Consumer Staples	13%	12%
Consumer Discretionary	12%	14%
Financials	11%	15%
Information Technology	10%	14%
Materials	9%	4%
Energy	6%	7%
Telecommunication Services	1%	—
	100%	100%

Geographical Diversification

(As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/14**	**12/31/13**
United States	47%	45%
Europe	29%	30%
United Kingdom	7%	9%
Canada	7%	6%
Asia (excluding Japan)	5%	6%
Latin America	2%	1%
Japan	2%	2%
Africa	1%	1%
	100%	100%

Portfolio holdings and characteristics 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 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 deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

Investment Portfolio

December 31, 2014

	Shares	Value ($)
Common Stocks 95.1%		
Belgium 1.8%		
Anheuser-Busch InBev NV (Cost $714,968)	7,600	**855,256**
Bermuda 0.3%		
Lazard Ltd. "A" (Cost $57,740)	2,418	**120,973**
Brazil 0.7%		
Estacio Participacoes SA (Cost $395,451)	38,000	**336,288**
Canada 6.5%		
Agnico Eagle Mines Ltd.	13,000	323,570
Alimentation Couche-Tard, Inc. "B"	17,000	712,455
Brookfield Asset Management, Inc. "A"	17,000	851,902
Canadian Pacific Railway Ltd.	3,700	712,580
Goldcorp, Inc.	10,000	185,200
Quebecor, Inc. "B"	5,134	141,143
SunOpta, Inc.*	11,038	130,800
(Cost $2,557,522)		**3,057,650**
China 0.3%		
Minth Group Ltd. (Cost $102,218)	58,373	**120,392**
Cyprus 0.1%		
Prosafe SE (Cost $134,120)	14,729	**45,064**
Finland 1.0%		
Cramo Oyj	3,923	57,331
Stora Enso Oyj "R"	47,000	418,352
(Cost $480,754)		**475,683**
France 1.9%		
Airbus Group NV	6,500	322,837
Pernod Ricard SA	5,000	554,385
(Cost $1,013,993)		**877,222**
Germany 6.4%		
adidas AG	6,100	425,159
BASF SE	4,700	397,309
Bayer AG (Registered)	1,800	246,077
Fresenius Medical Care AG & Co. KGaA	15,300	1,145,065
LANXESS AG	9,500	441,971
Patrizia Immobilien AG	5,535	81,633
United Internet AG (Registered)	4,055	183,886
Vib Vermoegen AG	4,543	77,885
(Cost $2,939,609)		**2,998,985**
Hong Kong 1.6%		
K Wah International Holdings Ltd.	205,757	108,932
Michael Kors Holdings Ltd.* (b)	4,000	300,400
Playmates Toys Ltd.	230,951	48,930
REXLot Holdings Ltd.	1,194,912	94,941
Sun Hung Kai & Co., Ltd.	101,067	77,084
Techtronic Industries Co., Ltd.	41,213	132,075
(Cost $774,685)		**762,362**
Indonesia 0.4%		
PT Arwana Citramulia Tbk	1,118,618	78,013
PT Multipolar Tbk	1,697,639	113,658
(Cost $180,557)		**191,671**
Ireland 2.9%		
Greencore Group PLC	16,069	71,119
Kerry Group PLC "A"	7,500	517,471
Paddy Power PLC	1,225	101,970
Ryanair Holdings PLC (ADR)* (a) (c)	2,097	149,453
Shire PLC	7,700	544,800
(Cost $1,022,962)		**1,384,813**
Italy 1.4%		
Prysmian SpA	4,827	87,857
Sorin SpA*	80,000	186,416
Unipol Gruppo Finanziario SpA	83,000	409,900
(Cost $613,940)		**684,173**
Japan 1.7%		
Ai Holdings Corp.	5,340	94,283
Avex Group Holdings, Inc.	6,079	99,613
Kusuri No Aoki Co., Ltd.	3,604	195,957
MISUMI Group, Inc.	2,280	74,892
Nippon Seiki Co., Ltd.	7,783	175,507
United Arrows Ltd.	2,070	57,889
Universal Entertainment Corp.	5,003	74,648
UT Holdings Co., Ltd.	10,269	43,585
(Cost $772,613)		**816,374**
Luxembourg 1.1%		
Eurofins Scientific (Cost $494,226)	2,100	**534,729**
Malaysia 0.8%		
Hartalega Holdings Bhd.	59,558	119,262
IHH Healthcare Bhd.	150,000	206,415
Tune Ins Holdings Bhd.	110,328	53,188
(Cost $381,743)		**378,865**
Netherlands 2.5%		
Brunel International NV	3,065	50,231
Constellium NV "A"* (b)	6,849	112,529
ING Groep NV (CVA)*	36,000	466,114
SBM Offshore NV*	6,282	74,496
Sensata Technologies Holding NV* (a) (b)	8,632	452,403
(Cost $1,204,224)		**1,155,773**
Norway 1.4%		
DNO ASA*	105,000	223,448
Statoil ASA	24,000	420,586
(Cost $622,524)		**644,034**
Panama 1.4%		
Banco Latinoamericano de Comercio Exterior SA "E"	4,357	131,146
Copa Holdings SA "A" (a)	5,300	549,292
(Cost $707,404)		**680,438**
Philippines 1.0%		
Alliance Global Group, Inc.	181,474	90,575
Metropolitan Bank & Trust Co.	200,000	368,730
(Cost $501,330)		**459,305**
Singapore 0.2%		
Lian Beng Group Ltd. (Cost $105,481)	252,856	**115,406**

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

	Shares	Value ($)
South Africa 0.9%		
MTN Group Ltd. (Cost $416,095)	21,500	**408,001**
Spain 0.8%		
Mediaset Espana Comunicacion SA* (Cost $358,005)	31,000	**387,154**
Sweden 3.2%		
Assa Abloy AB "B"	7,500	396,352
Atlas Copco AB "A"	16,500	459,312
Svenska Cellulosa AB "B"	31,000	669,477
(Cost $1,599,922)		**1,525,141**
Switzerland 2.9%		
Dufry AG (Registered)*	645	95,615
Nestle SA (Registered)	11,000	806,317
Novartis AG (Registered)	2,700	248,312
Swatch Group AG (Bearer)	500	222,019
(Cost $1,401,136)		**1,372,263**
Taiwan 0.1%		
Kinpo Electronics, Inc.* (Cost $58,427)	145,443	**66,883**
Thailand 0.1%		
Malee Sampran PCL (Foreign Registered) (Cost $82,517)	47,499	**39,703**
United Kingdom 6.8%		
Anglo American PLC	26,500	490,302
Arrow Global Group PLC	25,631	90,370
Aveva Group PLC	10,500	214,939
Babcock International Group PLC	8,401	137,448
British American Tobacco PLC	5,800	315,136
Clinigen Healthcare Ltd.	7,944	65,046
Crest Nicholson Holdings PLC	16,154	97,297
Domino's Pizza Group PLC	6,860	75,083
Halma PLC	22,000	234,535
Hargreaves Lansdown PLC	5,352	83,447
HellermannTyton Group PLC	16,957	82,910
Howden Joinery Group PLC	15,644	97,276
IG Group Holdings PLC	8,745	97,472
IMI PLC	15,000	293,643
Indivior PLC*	5,000	11,643
Jardine Lloyd Thompson Group PLC	4,314	59,844
John Wood Group PLC	7,794	71,684
Monitise PLC*	60,576	23,547
Polypipe Group PLC	21,583	82,710
Reckitt Benckiser Group PLC	5,000	403,357
Rotork PLC	2,254	81,111
Spirax-Sarco Engineering PLC	2,181	96,925
(Cost $3,646,803)		**3,205,725**
United States 44.9%		
Actavis PLC* (a)	3,000	772,230
Advance Auto Parts, Inc.	880	140,166
Affiliated Managers Group, Inc.*	583	123,736
Agilent Technologies, Inc.	5,000	204,700
Alliance Data Systems Corp.*	1,900	543,495
Altra Industrial Motion Corp. (a)	1,695	48,121
Amgen, Inc.	3,300	525,657
Amphenol Corp. "A"	18,500	995,485
BE Aerospace, Inc.*	901	52,276
Biogen Idec, Inc.*	600	203,670
BorgWarner, Inc.	1,739	95,558
Bristol-Myers Squibb Co.	9,300	548,979
Cardtronics, Inc.* (a)	2,723	105,053
Casey's General Stores, Inc. (a)	1,299	117,326
Cerner Corp.*	7,000	452,620
Colfax Corp.* (a)	12,000	618,840
Danaher Corp.	6,000	514,260
DigitalGlobe, Inc.* (a)	2,120	65,656
DIRECTV*	8,000	693,600
eBay, Inc.*	10,000	561,200
Ecolab, Inc.	5,400	564,408
Encore Capital Group, Inc.*	2,640	117,216
Express Scripts Holding Co.*	11,500	973,705
Exxon Mobil Corp.	6,000	554,700
Fox Factory Holding Corp.* (a)	5,680	92,186
Gentherm, Inc.* (a)	2,536	92,868
Hain Celestial Group, Inc.*	1,892	110,285
HeartWare International, Inc.*	869	63,811
Jack in the Box, Inc.	1,486	118,821
JPMorgan Chase & Co.	12,500	782,250
Kindred Healthcare, Inc.	4,316	78,465
KLX, Inc.*	1	21
Las Vegas Sands Corp.	10,500	610,680
Manitowoc Co., Inc.	3,394	75,007
MasTec, Inc.*	15,000	339,150
MasterCard, Inc. "A"	10,300	887,448
Middleby Corp.*	1,500	148,650
Molina Healthcare, Inc.* (a)	2,427	129,917
Monster Beverage Corp.*	4,700	509,245
Nielsen NV	13,000	581,490
Noble Energy, Inc.	14,000	664,020
Oaktree Capital Group LLC (a)	2,483	128,694
Oil States International, Inc.*	1,255	61,369
Omnicare, Inc.	7,000	510,510
Pacira Pharmaceuticals, Inc.*	1,043	92,472
Pall Corp.	7,600	769,196
Polaris Industries, Inc. (a)	831	125,680
Praxair, Inc. (a)	7,000	906,920
Primoris Services Corp. (a)	3,105	72,160
Providence Service Corp.*	3,304	120,398
PTC, Inc.*	2,095	76,782
Retrophin, Inc.*	4,841	59,254
Roadrunner Transportation Systems, Inc.* (a)	3,788	88,450
Schlumberger Ltd.	5,900	503,919
Sinclair Broadcast Group, Inc. "A"	3,377	92,395
Tenneco, Inc.*	2,009	113,729
The Travelers Companies, Inc.	4,600	486,910
Thoratec Corp.*	3,362	109,130
TiVo, Inc.* (a)	5,160	61,094
TriNet Group, Inc.*	3,285	102,755
Tristate Capital Holdings, Inc.*	6,324	64,758
United Rentals, Inc.*	1,273	129,859
United Technologies Corp.	6,200	713,000
Urban Outfitters, Inc.* (a)	3,166	111,222
VeriFone Systems, Inc.*	3,473	129,196
WABCO Holdings, Inc.*	1,138	119,240
Waddell & Reed Financial, Inc. "A"	2,206	109,903
Western Digital Corp.	2,468	273,208
Zeltiq Aesthetics, Inc.*	4,426	123,530
Zoe's Kitchen, Inc.*	1,665	49,800
(Cost $17,842,982)		**21,182,504**
Total Common Stocks (Cost $41,183,951)		**44,882,830**

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

	Shares	Value ($)
Participatory Note 0.3%		
Nigeria		
Zenith Bank PLC (issuer Merrill Lynch International), Expiration Date 8/21/2015 (Cost $195,000)	1,500,000	**150,901**
Securities Lending Collateral 9.2%		
Daily Assets Fund Institutional, 0.10% (d) (e) (Cost $4,347,994)	4,347,994	**4,347,994**

	Shares	Value ($)
Cash Equivalents 4.4%		
Central Cash Management Fund, 0.06% (d) (Cost $2,059,101)	2,059,101	**2,059,101**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $47,786,046)†	109.0	**51,440,826**
Other Assets and Liabilities, Net	(9.0)	**(4,250,029)**
Net Assets	100.0	**47,190,797**

* Non-income producing security.

† The cost for federal income tax purposes was $47,953,852. At December 31, 2014, net unrealized appreciation for all securities based on tax cost was $3,486,974. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $6,126,568 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $2,639,594.

(a) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at December 31, 2014 amounted to $4,241,229, which is 9.0% of net assets.

(b) Listed on the New York Stock Exchange.

(c) Listed on the NASDAQ Stock Market, Inc.

(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.

ADR: American Depositary Receipt

CVA: Certificaten Van Aandelen (Certificate of Stock)

At December 31, 2014, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized (Depreciation) ($)
Nikkei 225 Index	USD	3/12/2015	10	870,000	**(17,264)**

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.

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 level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

The following is a summary of the inputs used as of December 31, 2014 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				
Belgium	$ —	$ 855,256	$ —	$ 855,256
Bermuda	120,973	—	—	120,973
Brazil	336,288	—	—	336,288
Canada	3,057,650	—	—	3,057,650
China	—	120,392	—	120,392
Cyprus	—	45,064	—	45,064
Finland	—	475,683	—	475,683
France	—	877,222	—	877,222
Germany	—	2,998,985	—	2,998,985
Hong Kong	300,400	461,962	—	762,362
Indonesia	—	191,671	—	191,671
Ireland	149,453	1,235,360	—	1,384,813
Italy	—	684,173	—	684,173
Japan	—	816,374	—	816,374
Luxembourg	—	534,729	—	534,729
Malaysia	—	378,865	—	378,865
Netherlands	564,932	590,841	—	1,155,773
Norway	—	644,034	—	644,034
Panama	680,438	—	—	680,438
Philippines	—	459,305	—	459,305
Singapore	—	115,406	—	115,406
South Africa	—	408,001	—	408,001
Spain	—	387,154	—	387,154
Sweden	—	1,525,141	—	1,525,141
Switzerland	—	1,372,263	—	1,372,263
Taiwan	—	66,883	—	66,883
Thailand	—	39,703	—	39,703
United Kingdom	—	3,205,725	—	3,205,725
United States	21,182,504	—	—	21,182,504
Participatory Notes	—	150,901	—	150,901
Short-Term Investments (f)	6,407,095	—	—	6,407,095
Total	**$ 32,799,733**	**$ 18,641,093**	**$ —**	**$ 51,440,826**

Liabilities	Level 1	Level 2	Level 3	Total
Derivatives (g)				
Futures Contracts	$ (17,264)	$ —	$ —	$ (17,264)
Total	**$ (17,264)**	**$ —**	**$ —**	**$ (17,264)**

There have been no transfers between fair value measurement levels during the year ended December 31, 2014.

(f) See Investment Portfolio for additional detailed categorizations.

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

Statement of Assets and Liabilities

as of December 31, 2014

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $41,378,951) — including $4,241,229 of securities loaned	$	45,033,731
Investment in Daily Assets Fund Institutional (cost $4,347,994)*		4,347,994
Investment in Central Cash Management Fund (cost $2,059,101)		2,059,101
Total investments in securities, at value (cost $47,786,046)		51,440,826
Foreign currency, at value (cost $142,095)		138,077
Deposit with broker for futures contracts		40,772
Receivable for investments sold		1,823
Receivable for Fund shares sold		21,540
Dividends receivable		17,466
Interest receivable		978
Foreign taxes recoverable		32,785
Other assets		1,668
Total assets		51,695,935
Liabilities		
Cash overdraft		19,999
Payable upon return of securities loaned		4,347,994
Payable for Fund shares redeemed		736
Payable for variation margin on futures contracts		1,764
Accrued management fees		19,097
Accrued Trustees' fees		1,869
Other accrued expenses and payables		113,679
Total liabilities		4,505,138
Net assets, at value		**47,190,797**
Net Assets Consist of		
Undistributed net investment income		259,024
Net unrealized appreciation (depreciation) on:		
Investments		3,654,780
Futures		(17,264)
Foreign currency		(7,538)
Accumulated net realized gain (loss)		(41,793,664)
Paid-in capital		85,095,459
Net assets, at value		**47,190,797**
Class A		
Net Asset Value, offering and redemption price per share ($47,079,877 ÷ 4,265,093 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**11.04**
Class B		
Net Asset Value, offering and redemption price per share ($110,920 ÷ 10,038 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**11.05**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2014

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $54,843)	$	753,760
Income distributions — Central Cash Management Fund		928
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		21,801
Total income		776,489
Expenses:		
Management fee		464,209
Administration fee		50,733
Services to shareholders		1,392
Record keeping fees (Class B)		798
Distribution service fee (Class B)		2,250
Custodian fee		61,738
Professional fees		78,740
Reports to shareholders		24,735
Trustees' fees and expenses		5,031
Other		30,378
Total expenses before expense reductions		720,004
Expense reductions		(299,070)
Total expenses after expense reductions		420,934
Net investment income (loss)		**355,555**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		2,316,311
Futures		69,674
Foreign currency		(13,527)
		2,372,458
Change in net unrealized appreciation (depreciation) on:		
Investments		(2,557,854)
Futures		(17,264)
Foreign currency		(4,877)
		(2,579,995)
Net gain (loss)		**(207,537)**
Net increase (decrease) in net assets resulting from operations	**$**	**148,018**

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, 2014	2013
Operations:		
Net investment income (loss)	$ 355,555	$ 518,403
Net realized gain (loss)	2,372,458	9,003,948
Change in net unrealized appreciation (depreciation)	(2,579,995)	1,089,980
Net increase (decrease) in net assets resulting from operations	148,018	10,612,331
Distributions to shareholders from:		
Net investment income:		
Class A	(509,707)	(689,482)
Class B	(15,999)	(27,740)
Total distributions	(525,706)	(717,222)
Fund share transactions:		
Class A		
Proceeds from shares sold	2,921,038	4,242,450
Reinvestment of distributions	509,707	689,482
Payments for shares redeemed	(7,205,720)	(16,663,817)
Net increase (decrease) in net assets from Class A share transactions	(3,774,975)	(11,731,885)
Class B		
Proceeds from shares sold	24,993	147,425
Reinvestment of distributions	15,999	27,740
Payments for shares redeemed	(2,651,803)	(823,023)
Net increase (decrease) in net assets from Class B share transactions	(2,610,811)	(647,858)
Increase (decrease) in net assets	(6,763,474)	(2,484,634)
Net assets at beginning of period	53,954,271	56,438,905
Net assets at end of period (including undistributed net investment income of $259,024 and $478,685, respectively)	**$ 47,190,797**	**$ 53,954,271**

Other Information		
Class A		
Shares outstanding at beginning of period	4,601,327	5,793,732
Shares sold	261,234	422,826
Shares issued to shareholders in reinvestment of distributions	46,464	71,746
Shares redeemed	(643,932)	(1,686,977)
Net increase (decrease) in Class A shares	(336,234)	(1,192,405)
Shares outstanding at end of period	**4,265,093**	**4,601,327**
Class B		
Shares outstanding at beginning of period	246,555	311,300
Shares sold	2,774	14,554
Shares issued to shareholders in reinvestment of distributions	1,453	2,878
Shares redeemed	(240,744)	(82,177)
Net increase (decrease) in Class B shares	(236,517)	(64,745)
Shares outstanding at end of period	**10,038**	**246,555**

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

Financial Highlights

Class A	2014	Years Ended December 31, 2013	2012	2011	2010
Selected Per Share Data					
Net asset value, beginning of period	**$11.13**	**$ 9.24**	**$ 7.90**	**$ 9.28**	**$ 8.24**
Income (loss) from investment operations:					
Net investment income[a]	.08	.10	.12	.11	.06
Net realized and unrealized gain (loss)	(.06)	1.92	1.34	(1.43)	1.06
Total from investment operations	.02	2.02	1.46	(1.32)	1.12
Less distributions from:					
Net investment income	(.11)	(.13)	(.12)	(.06)	(.08)
Net asset value, end of period	**$11.04**	**$11.13**	**$ 9.24**	**$ 7.90**	**$ 9.28**
Total Return (%)[b]	.21	22.08	18.60	(14.39)	13.65
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	47	51	54	49	68
Ratio of expenses before expense reductions (%)	1.41	1.45	1.42	1.37	1.41
Ratio of expenses after expense reductions (%)	.82	.88	.99	1.03	1.05
Ratio of net investment income (%)	.71	1.00	1.40	1.24	.77
Portfolio turnover rate (%)	63	171	107	127	165

a Based on average shares outstanding during the period.

b Total return would have been lower had certain expenses not been reduced.

Class B	2014	Years Ended December 31, 2013	2012	2011	2010
Selected Per Share Data					
Net asset value, beginning of period	**$11.14**	**$ 9.25**	**$ 7.91**	**$ 9.29**	**$ 8.25**
Income (loss) from investment operations:					
Net investment income[a]	.02	.07	.09	.08	.04
Net realized and unrealized gain (loss)	(.04)	1.92	1.34	(1.44)	1.05
Total from investment operations	(.02)	1.99	1.43	(1.36)	1.09
Less distributions from:					
Net investment income	(.07)	(.10)	(.09)	(.02)	(.05)
Net asset value, end of period	**$11.05**	**$11.14**	**$ 9.25**	**$ 7.91**	**$ 9.29**
Total Return (%)[b]	(.15)	21.62	18.16	(14.67)	13.24
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	.1	3	3	3	5
Ratio of expenses before expense reductions (%)	1.76	1.81	1.76	1.72	1.76
Ratio of expenses after expense reductions (%)	1.15	1.23	1.34	1.38	1.40
Ratio of net investment income (%)	.14	.66	1.04	.88	.42
Portfolio turnover rate (%)	63	171	107	127	165

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

Deutsche Global Growth VIP (formerly DWS Global Growth VIP) (the "Fund") is a diversified series of Deutsche Variable Series II (formerly 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 level assigned to the securities valuations may not be an indication of the risk or liquidity 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. 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. Equity securities are generally categorized as Level 1. 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.

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 considered 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.

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. Brown Brothers Harriman & Co., as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains the benefits of owning the securities it has loaned and continues to receive interest and dividends generated by the 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. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. 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.

As of December 31, 2014, the Fund had securities on loan. The value of the related collateral exceeded the value of the securities loaned at period end.

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, the Fund may be subject to taxes imposed by the governments of countries in which it invests and are generally based on income and/or capital gains earned or repatriated. Estimated tax liabilities on certain foreign securities are recorded on an accrual basis and are reflected as components of interest income or net change in unrealized gain/loss on investments. Tax liabilities realized as a result of security sales are reflected as a component of net realized gain/loss on investments.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses incurred post-enactment 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, 2014, the Fund had a net tax basis capital loss carryforward of approximately $41,532,000 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 ($23,743,000) and December 31, 2017 ($17,789,000), the respective expiration dates, whichever occurs first.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2014 and has determined that no provision for income tax and/or uncertain tax provisions 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 from net investment income of the Fund, if any, are 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 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, 2014, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 357,234
Capital loss carryforwards	$ (41,532,000)
Unrealized appreciation (depreciation) on investments	$ 3,486,974

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

	Years Ended December 31, 2014	2013
Distributions from ordinary income*	$ 525,706	$ 717,222

* 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 based upon the relative net assets or other appropriate measures.

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. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments.

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, 2014, the Fund invested in futures as a substitute for direct investment in a particular asset class or to keep cash on hand to meet shareholder redemptions or other needs while maintaining exposure to the market. The Fund also invested in 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, 2014, is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2014, the investment in futures contracts purchased had a total notional value from $0 to approximately $870,000.

The following tables summarize the value of the Fund's derivative instruments held as of December 31, 2014 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)	$ (17,264)

The above derivative is located in the following Statement of Assets and Liabilities account:

(a) Includes cumulative appreciation (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, 2014 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)	$ 69,674

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)	$ (17,264)

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, 2014, purchases and sales of investment transactions (excluding short-term investments) aggregated $30,718,408 and $37,584,353, 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	.915%
Next $500 million	.865%
Next $750 million	.815%
Next $1.5 billion	.765%
Over $3 billion	.715%

Accordingly, for the year ended December 31, 2014, the fee pursuant to the Investment Management Agreement was equivalent to an annual rate (exclusive of any applicable waivers/reimbursements) of 0.915% of the Fund's average daily net assets.

For the period from January 1, 2014 through September 30, 2014, the Advisor had contractually agreed to waive its fees and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of each class as follows:

Class A	.80%
Class B	1.15%

Effective October 1, 2014 through September 30, 2015, the Advisor has contractually agreed to waive its fees and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of each class as follows:

Class A	.90%
Class B	1.25%

For the year ended December 31, 2014, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$	293,634
Class B		5,436
	$	**299,070**

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, 2014, the Administration Fee was $50,733, of which $4,023 is unpaid.

Service Provider Fees. DeAWM Service Company ("DSC"), 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 DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it receives from the Fund. For the year ended December 31, 2014, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders		**Total Aggregated**		**Unpaid at December 31, 2014**
Class A	$	303	$	50
Class B		60		9
	$	**363**	**$**	**59**

Distribution Service Agreement. Under the Fund's Class B 12b-1 plan, DeAWM Distributors, Inc. ("DDI") received a fee ("Distribution Service Fee") of 0.25% of average daily net assets of Class B shares. For the year ended December 31, 2014, the Distribution Service Fee aggregated $2,250, of which $24 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, 2014, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $15,398, of which $5,266 is unpaid.

Trustees' Fees and Expenses. The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and Vice Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicles. The Fund may invest uninvested cash balances in Central Cash Management Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. Each affiliated money market fund seeks to provide a high level of current income consistent with liquidity and the preservation of capital. Each affiliated money market fund is managed in accordance with Rule 2a-7 under the Investment Company Act of 1940, which governs the quality, maturity, diversity and liquidity of instruments in which a money market fund may invest. Central Cash Management Fund seeks to maintain a stable net asset value, and Deutsche Variable NAV Money Fund maintains a floating net asset value. The Fund indirectly bears its proportionate share of the expenses of each affiliated money market fund in which it invests. Central Cash Management Fund does not pay the Advisor an investment management fee. To the extent that Deutsche Variable NAV Money Fund pays an investment management fee to the Advisor, the Advisor will waive an amount of the investment management fee payable to the Advisor by the Fund equal to the amount of the investment management fee payable on the Fund's assets invested in Deutsche Variable NAV Money Fund.

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, 2014, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 72% and 23%. Two participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, owning 53% and 39%.

G. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 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, 2014.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Deutsche Variable Series II and Shareholders of Deutsche Global Growth VIP:

We have audited the accompanying statement of assets and liabilities, including the investment portfolio, of Deutsche Global Growth VIP (formerly DWS Global Growth VIP) (the "Fund") (one of the series constituting Deutsche Variable Series II (formerly DWS Variable Series II)), as of December 31, 2014, 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 periods indicated therein. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. 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, 2014, 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 Deutsche Global Growth VIP at December 31, 2014, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the periods indicated therein, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

Boston, Massachusetts
February 13, 2015

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, 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, 2014 to December 31, 2014).

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, 2014

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/14	$1,000.00	$1,000.00
Ending Account Value 12/31/14	$ 956.60	$ 954.20
Expenses Paid per $1,000*	$ 4.19	$ 5.91
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/14	$1,000.00	$1,000.00
Ending Account Value 12/31/14	$1,020.92	$1,019.16
Expenses Paid per $1,000*	$ 4.33	$ 6.11

* 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 184 (the number of days in the most recent six-month period), then divided by 365.

Annualized Expense Ratios	**Class A**	**Class B**
Deutsche Variable Series II — Deutsche Global Growth VIP	.85%	1.20%

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.

For an analysis of the fees associated with an investment in the fund or similar funds, please refer to the current and hypothetical expense calculators for Variable Insurance Products which can be found at deutschefunds.com/EN/resources/calculators.jsp.

Tax Information

(Unaudited)

The Fund paid foreign taxes of $32,608 and earned $196,098 of foreign source income during the year ended December 31, 2014. Pursuant to section 853 of the Internal Revenue Code, the Fund designates $0.01 per share as foreign taxes paid and $0.05 per share as income earned from foreign sources for the year ended December 31, 2014.

For corporate shareholders, 25% of the ordinary dividends (i.e., income dividends plus short-term capital gains) paid during the Fund's fiscal year ended December 31, 2014, 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 — deutschefunds.com (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — 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.

Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of Deutsche Global Growth VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2014.

In terms of the process that the Board followed prior to approving the Agreement, shareholders should know that:

— In September 2014, all of the Fund's Trustees were independent of DIMA 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 DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly meet privately with counsel to discuss contract review and other matters. In addition, the Independent Trustees were advised by the Fee Consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the Fee Consultant in connection with their deliberations.

— 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 DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG ("DB"), a major global banking institution that is engaged in a wide range of financial services. The Board believes that there are 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.

As part of the contract review process, the Board carefully considered the fees and expenses of each Deutsche fund overseen by the Board in light of the fund's performance. In many cases, this led to the negotiation and implementation of expense caps. As part of these negotiations, the Board indicated that it would consider relaxing these caps in future years following sustained improvements in performance, among other considerations.

In 2012, DB combined its Asset Management (of which DIMA was a part) and Wealth Management divisions into a new Asset and Wealth Management ("AWM") division. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that DB will continue to invest in AWM a significant portion of the savings it has realized by combining its Asset and Wealth Management divisions, including ongoing enhancements to AWM's investment capabilities. DB also has confirmed its commitment to maintaining strong legal and compliance groups within the AWM division.

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

Nature, Quality and Extent of Services. The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market index(es) and a peer universe compiled by the Fee Consultant using information supplied by Morningstar Direct ("Morningstar"), an independent fund data service.

The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to a peer universe), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's 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, 2013, the Fund's performance (Class A shares) was in the 3rd quartile, 4th quartile and 3rd quartile, respectively, of the applicable Morningstar 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 has underperformed its benchmark in the one- and three-year periods ended December 31, 2013. The Board noted the disappointing investment performance of the Fund in recent periods and continued to discuss with senior management of DIMA the factors contributing to such underperformance and actions being taken to improve performance. The Board recognized the efforts by DIMA in recent years to enhance its investment platform and improve long-term performance across the Deutsche fund complex.

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 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 DIMA under the Fund's administrative services agreement, were higher than the median (4th quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2013). 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, 2013, and analyzing Lipper expense universe Class A (net) 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 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 noted that the expense limitations agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable funds and considered differences between the Fund and the comparable funds. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts and funds offered primarily to European investors ("Deutsche Europe funds") managed by DIMA and its affiliates. The Board noted that DIMA indicated that it does not manage any institutional accounts or Deutsche Europe funds comparable to the Fund.

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

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the Deutsche U.S. mutual funds ("Deutsche 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 DIMA and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable.

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

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to Deutsche Funds advertising and cross-selling opportunities among DIMA products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of DIMA's and the Fund's chief compliance officer; (ii) the large number of DIMA compliance personnel; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.

Based on all of the information considered and the conclusions reached, the Board 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 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.

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund. 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 Kenneth C. Froewiss, Chairman, Deutsche Mutual Funds, P.O. Box 390601, Cambridge, MA 02139. 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.

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 Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Kenneth C. Froewiss (1945) Chairperson since 2013, and 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)	105	—
William McClayton (1944) Vice Chairperson since 2013, and 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	105	—
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); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (provider of disease and care management services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International	105	Portland General Electric[2] (utility company) (2003–present)
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); North Bennett Street School (Boston); former Directorships: Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College	105	Lead Director, Becton Dickinson and Company[2] (medical technology company)
Dawn-Marie Driscoll (1946) Board Member since 1987	Emeritus Executive Fellow, Center for Business Ethics, Bentley University; formerly: President, Driscoll Associates (consulting firm); Partner, Palmer & Dodge (law firm) (1988–1990); Vice President of Corporate Affairs and General Counsel, Filene's (retail) (1978–1988). Directorships: Director of ICI Mutual Insurance Company (since 2007); Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	105	—
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); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies; former Directorships: BoxTop Media Inc. (advertising); Sun Capital Advisers Trust (mutual funds) (2011–2012)	105	—

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 Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Paul K. Freeman (1950) Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Chair, Independent Directors Council; Investment Company Institute (executive and nominating committees); formerly, Chairman of Education Committee of Independent Directors Council; Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998); Directorships: Denver Zoo Foundation (December 2012–present); former Directorships: Prisma Energy International	105	—
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; 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)	105	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
Rebecca W. Rimel (1951) Board Member since 1995	President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 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); Director, Viasys Health Care[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	105	Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc.[2] (health care) (2009–present)
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); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	105	—
Jean Gleason Stromberg (1943) Board Member since 1997	Retired. Formerly, Consultant (1997–2001); Director, Financial Markets U.S. Government Accountability Office (1996–1997); Partner, Norton Rose Fulbright, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation (charitable organization); former Directorships: Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	105	—
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	105	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Brian E. Binder[8] (1972) President and Chief Executive Officer, 2013–present	Managing Director[3] and Head of Fund Administration, Deutsche Asset & Wealth Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012); Chief Administrative Officer, Van Kampen Funds Inc. (2008–2010); and Chief Administrative Officer, Morgan Stanley Investment Management Americas Distribution (2003–2008)
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset & Wealth Management
Melinda Morrow[6] (1970) Vice President, 2012–present	Director,[3] Deutsche Asset & Wealth Management

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset & Wealth 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 & Wealth Management; formerly: Assistant Secretary for DWS family of funds (1997–2010)
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director,[3] Deutsche Asset & Wealth Management
Wayne Salit[6] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset & Wealth Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Hepsen Uzcan[7] (1974) Assistant Secretary, 2013–present	Director,[3] Deutsche Asset & Wealth Management
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management

1 The length of time served represents the year in which the Board Member joined the board of one or more Deutsche 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 Deutsche funds.

6 Address: 60 Wall Street, New York, NY 10005.

7 Address: One Beacon Street, Boston, MA 02108.

8 Address: 222 South Riverside Plaza, Chicago, IL 60606.

* Robert H. Wadsworth retired from the Board effective December 31, 2014.

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.

Deutsche Asset
& Wealth Management

DeAWM Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2GG-2 (R-025830-5 2/15)

Deutsche Asset
& Wealth Management

December 31, 2014

Annual Report

Deutsche Variable Series II

(formerly DWS Variable Series II)

Deutsche Global Income Builder VIP

(formerly DWS Global Income Builder VIP)

Contents

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, credit, liquidity and market risks to varying degrees. 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. Dividends are not guaranteed. If the dividend-paying stocks held by the Fund reduce or stop paying dividends, the Fund’s ability to generate income may be adversely affected. Preferred stocks, a type of dividend-paying stock, present certain additional risks. Because Exchange Traded Funds (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. Any fund that focuses in a particular segment of the market or region of the world will generally be more volatile than a fund that invests more broadly. 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. Smaller company stocks tend to be more volatile than medium-sized or large company stocks. Stocks may decline in value. Stocks may decline in value. See the prospectus for details.

Deutsche Asset & Wealth Management represents the asset management and wealth management activities conducted by Deutsche Bank AG or any of its subsidiaries, including the Advisor and DeAWM Distributors, Inc.

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

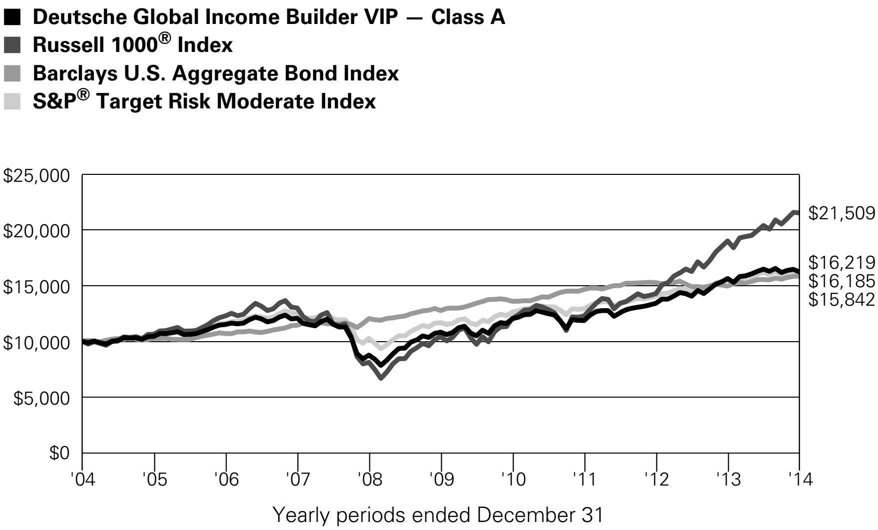
Performance Summary

December 31, 2014 (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, 2014 is 0.60% 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 Deutsche Global Income Builder 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 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.

The S&P® Target Risk Moderate Index is designed to measure the performance of S&P's proprietary moderate target risk allocation model. The S&P® Target Risk Moderate Index seeks to provide significant exposure to fixed income, while also allocating a smaller portion of exposure to equities in order to seek current income, some capital preservation, and an opportunity for moderate to low capital appreciation.

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

Comparative Results

Deutsche Global Income Builder VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,383	$13,681	$15,000	$16,219
	Average annual total return	3.83%	11.01%	8.45%	4.95%
Russell 1000® Index	Growth of $10,000	$11,324	$17,549	$20,679	$21,509
	Average annual total return	13.24%	20.62%	15.64%	7.96%
Barclays U.S. Aggregate Bond Index	Growth of $10,000	$10,597	$10,820	$12,431	$15,842
	Average annual total return	5.97%	2.66%	4.45%	4.71%
S&P® Target Risk Moderate Index	Growth of $10,000	$10,449	$12,534	$13,871	$16,185
	Average annual total return	4.49%	7.82%	6.76%	4.93%

The growth of $10,000 is cumulative.

Management Summary

The Fund returned 3.83% during the 12 months ended December 31, 2014 (Class A shares, unadjusted for contract charges), underperforming the 4.49% return of S&P® Target Risk Moderate Index. Its two other benchmarks — the Barclays U.S. Aggregate Bond Index, which represents domestic taxable investment-grade bonds, and the Russell 1000® Index, which tracks the performance of the 1,000 largest stocks in the Russell 3000® Index — returned 5.97% and 13.24%, respectively.[1,2,3]

As of December 31, 2014, 53% of the portfolio was allocated to global equities and 36% was allocated to bonds, with the remainder in cash. When our team took over the Fund in March 2012, we established an equal, 50-50 weighting between stocks and bonds. We subsequently allowed the Fund's equity allocation to increase to 65% of assets by the end of April 2014 as the stock market rallied, which enabled the Fund to participate in stocks' outperformance during this time. In May 2014, we reduced the Fund's equity allocation on the belief that a more balanced weighting was appropriate given stocks' long streak of outperformance. We reduced the equity weighting further during July 2014 in response to the rising risks for the global equity markets. We believe this reduced weighting is appropriate given our views regarding valuations, interest rates and economic growth.

The Fund's equity portfolio outperformed the benchmark during the period. Stock selection, particularly in the health care, industrials and financials sectors, was the primary driver of positive performance. Among individual stocks, the leading contributors to performance were Southwest Airlines Co. and Delta Air Lines, Inc., both of which were helped by falling industry capacity and lower oil prices. However, some of this positive impact was offset by the portfolio's allocation to international stocks, which underperformed the U.S.-only equity benchmark, as well as its underweight position in the outperforming health care sector.[4] The largest individual detractors from performance were an underweight in Apple, Inc. and overweights in the energy stock Ensco PLC* and Deutsche Lufthansa AG.

Throughout the period, the Fund used derivatives — including forward currency contracts — to hedge currency risk in certain portfolio positions, offsetting the potential impact of the downturn in foreign currencies relative to the U.S. dollar. It also used interest rate contracts to hedge against potential adverse interest rate movements on portfolio assets. In addition, the Fund used derivatives, including forward currency and interest rate contracts, for non-hedging purposes, to seek to enhance potential gains. Derivatives used for non-hedging purposes contributed to returns.

After performing very well through the first six months of the year, the bond portfolio's subsequent underperformance caused it to finish behind its benchmark. During the first half, the Fund's overweight positions in high-yield bonds and emerging-markets debt outperformed in an environment of improving global growth. This backdrop shifted later in the year, however, as slowing growth and falling oil prices weighed on these asset classes. Nevertheless, we continue to see opportunities in all three market segments given the backdrop of improving domestic growth and investors' ongoing reach for yield at a time of ultralow interest rates.

Di Kumble, CFA	Gary Russell, CFA
William Chepolis, CFA	John D. Ryan
Philip G. Condon	Darwei Kung

Portfolio Managers

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.

1 The S&P Target Risk Moderate Index is designed to measure the performance of S&P's proprietary moderate target risk allocation model. The S&P Target Risk Moderate Index seeks to provide significant exposure to fixed income, while also allocating a smaller portion of exposure to equities in order to seek current income, some capital preservation and an opportunity for moderate-to-low capital appreciation.

2 The Barclays 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.

3 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.

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.

* Not held in the portfolio as of December 31, 2014.

Portfolio Summary (Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/14**	**12/31/13**
Equity	**53%**	**63%**
Common Stocks	53%	63%
Fixed Income	**36%**	**33%**
Corporate Bonds	25%	23%
Government & Agency Obligations	8%	5%
Collateralized Mortgage Obligations	1%	2%
Mortgage-Backed Securities Pass-Throughs	1%	1%
Asset-Backed	1%	0%
Commercial Mortgage-Backed Securities	0%	1%
Municipal Bonds and Notes	0%	1%
Loan Participations and Assignments	—	0%
Cash Equivalents	**11%**	**4%**
	100%	100%

Sector Diversification (As a % of Equities, Corporate Bonds, Preferred Securities, Convertible Bonds and Other Investments)	**12/31/14**	**12/31/13**
Financials	22%	22%
Consumer Discretionary	12%	13%
Energy	10%	9%
Industrials	10%	11%
Telecommunication Services	10%	9%
Information Technology	9%	12%
Health Care	8%	6%
Consumer Staples	8%	7%
Materials	6%	5%
Utilities	5%	6%
	100%	100%

Portfolio holdings and characteristics 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 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 deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

	Shares	Value ($)
Common Stocks 53.1%		
Consumer Discretionary 5.5%		
Auto Components 0.6%		
Aisin Seiki Co., Ltd.	2,664	95,751
Bridgestone Corp.	7,805	271,230
Cie Generale des Etablissements Michelin	243	22,031
Delphi Automotive PLC	3,154	229,359
Denso Corp.	79	3,682
Johnson Controls, Inc.	1,959	94,698
Magna International, Inc.	1,176	127,429
Sumitomo Electric Industries Ltd.	16,605	207,178
Sumitomo Rubber Industries Ltd.	12,693	188,985
Toyota Industries Corp.	79	4,037
TRW Automotive Holdings Corp.*	1,936	199,117
Yokohama Rubber Co., Ltd.	23,087	210,924
		1,654,421
Automobiles 1.3%		
Bayerische Motoren Werke (BMW) AG	1,177	127,827
Daihatsu Motor Co., Ltd.	7,600	99,691
Daimler AG (Registered)	1,727	144,085
Ford Motor Co.	29,568	458,304
General Motors Co.	14,040	490,136
Honda Motor Co., Ltd.	10,350	300,975
Isuzu Motors Ltd.	3,500	42,702
Mitsubishi Motors Corp.	3,838	35,160
Nissan Motor Co., Ltd.	40,585	353,505
Renault SA	4,500	328,840
Toyota Motor Corp.	6,190	386,012
Volkswagen AG	2,482	540,814
		3,308,051
Hotels, Restaurants & Leisure 0.4%		
Carnival Corp.	4,858	220,213
Compass Group PLC	710	12,102
Dawn Holdings, Inc.* (a)	1	1,831
McDonald's Corp.	3,056	286,347
Royal Caribbean Cruises Ltd.	799	65,862
Starbucks Corp.	2,821	231,463
Trump Entertainment Resorts, Inc.*	2	0
Yum! Brands, Inc.	1,959	142,713
		960,531
Household Durables 0.3%		
Mohawk Industries, Inc.*	784	121,802
Persimmon PLC	6,152	150,490
Sekisui House Ltd.	13,454	176,218
Toll Brothers, Inc.*	4,100	140,507
Whirlpool Corp.	446	86,408
		675,425
Leisure Products 0.1%		
Hasbro, Inc. (b)	2,821	**155,127**
Media 1.5%		
CBS Corp. "B"	1,176	65,080
Comcast Corp. "A" (b)	7,914	455,569
Comcast Corp. "A"	6,974	404,562
DIRECTV*	1,545	133,951
Discovery Communications, Inc. "A"*	4,200	144,690
Discovery Communications, Inc. "C"*	6,500	219,180
News Corp. "A"*	5,485	86,060
Omnicom Group, Inc.	627	48,574
Scripps Networks Interactive, Inc. "A"	2,273	171,089
SES SA	5	179
Shaw Communications, Inc. "B"	7,444	200,869
Sky PLC	10,533	146,601
Thomson Reuters Corp.	4,231	170,689
Time Warner Cable, Inc.	1,254	190,683
Time Warner, Inc.	4,047	345,695
Twenty-First Century Fox, Inc. "A"	3,056	117,366
Twenty-First Century Fox, Inc. "B"	4,701	173,420
Viacom, Inc. "B"	1,881	141,545
Walt Disney Co.	3,683	346,902
WPP PLC	4,538	94,146
		3,656,850
Multiline Retail 0.3%		
Canadian Tire Corp., Ltd. "A"	157	16,586
Dollar General Corp.*	1,959	138,501
Kohl's Corp.	3,291	200,883
Macy's, Inc.	2,194	144,255
Target Corp.	3,683	279,577
		779,802
Specialty Retail 0.6%		
Advance Auto Parts, Inc.	1,200	191,136
AutoZone, Inc.*	314	194,400
Bed Bath & Beyond, Inc.*	941	71,676
Best Buy Co., Inc.	4,800	187,104
GameStop Corp. "A" (b)	3,392	114,649
Hikari Tsushin, Inc.	1,900	115,651
Home Depot, Inc.	2,038	213,929
Lowe's Companies, Inc.	1,332	91,642
O'Reilly Automotive, Inc.*	314	60,483
The Gap, Inc.	862	36,299
TJX Companies, Inc.	1,567	107,465
Yamada Denki Co., Ltd. (b)	40,400	134,843
		1,519,277
Textiles, Apparel & Luxury Goods 0.4%		
Christian Dior SA	933	159,410
Cie Financiere Richemont SA (Registered)	1,534	135,878
Hermes International	51	18,185
Michael Kors Holdings Ltd.*	706	53,021
NIKE, Inc. "B"	564	54,228
Swatch Group AG (Bearer)	205	91,028
Swatch Group AG (Registered)	1,724	149,116
VF Corp.	2,642	197,886
Yue Yuen Industrial (Holdings) Ltd.	18,804	67,579
		926,331
Consumer Staples 4.7%		
Beverages 0.6%		
Anheuser-Busch InBev NV	450	50,640
Carlsberg AS "B"	1,729	134,267
Coca-Cola Co.	6,268	264,635
Constellation Brands, Inc. "A"*	2,100	206,157
Diageo PLC	2,821	80,910
Dr. Pepper Snapple Group, Inc.	2,586	185,364
Heineken Holding NV	1,747	109,506

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

	Shares	Value ($)
Heineken NV	355	25,219
Molson Coors Brewing Co. "B"	2,899	216,033
PepsiCo, Inc.	3,567	337,296
		1,610,027
Food & Staples Retailing 1.7%		
Aeon Co., Ltd.	12,615	126,975
Alimentation Couche-Tard, Inc. "B"	3,152	132,097
Casino Guichard-Perrachon SA	524	48,221
Costco Wholesale Corp.	1,332	188,811
CVS Health Corp.	5,642	543,381
Empire Co., Ltd. "A"	3,134	236,358
George Weston Ltd.	3,448	297,820
ICA Gruppen AB	4,973	194,647
J Sainsbury PLC	52,473	199,489
Koninklijke Ahold NV	4,417	78,517
Kroger Co.	5,877	377,362
Lawson, Inc.	862	52,124
Loblaw Companies Ltd.	1,756	93,967
Metro, Inc.	1,332	106,968
Safeway, Inc.	7,499	263,365
Seven & I Holdings Co., Ltd.	1,567	56,523
Sysco Corp.	3,761	149,274
Wal-Mart Stores, Inc.	6,112	524,899
Walgreens Boots Alliance, Inc.	2,245	171,069
WM Morrison Supermarkets PLC	60,530	172,266
Woolworths Ltd.	4,247	105,815
		4,119,948
Food Products 1.3%		
Archer-Daniels-Midland Co.	5,328	277,056
Aryzta AG	1,318	101,272
Bunge Ltd.	3,296	299,639
Chocoladefabriken Lindt & Sprungli AG	23	113,546
ConAgra Foods, Inc.	4,466	162,026
General Mills, Inc.	4,780	254,917
Golden Agri-Resources Ltd.	312,000	108,201
Hormel Foods Corp.	2,038	106,180
Kellogg Co.	2,899	189,711
Kraft Foods Group, Inc.	2,116	132,589
McCormick & Co., Inc.	941	69,916
Mondelez International, Inc. "A"	7,679	278,940
Nestle SA (Registered)	4,850	355,512
Tate & Lyle PLC	6,434	60,438
The Hershey Co.	706	73,375
The JM Smucker Co.	1,567	158,236
Tyson Foods, Inc. "A"	7,052	282,715
Wilmar International Ltd.	61,112	149,081
		3,173,350
Household Products 0.5%		
Church & Dwight Co., Inc.	1,803	142,094
Clorox Co.	784	81,701
Colgate-Palmolive Co.	2,429	168,062
Kimberly-Clark Corp.	2,038	235,471
Procter & Gamble Co.	4,566	415,917
Reckitt Benckiser Group PLC	1,733	139,804
		1,183,049
Tobacco 0.6%		
Altria Group, Inc.	5,410	266,551
British American Tobacco PLC	4,589	249,338
Imperial Tobacco Group PLC	4,735	207,361
Japan Tobacco, Inc.	5,877	161,371
Lorillard, Inc.	3,134	197,254
Philip Morris International, Inc.	3,918	319,121
Reynolds American, Inc.	1,723	110,737
		1,511,733
Energy 4.4%		
Energy Equipment & Services 0.4%		
Baker Hughes, Inc.	4,454	249,736
Halliburton Co.	1,254	49,320
Nabors Industries Ltd. (b)	24,300	315,414
National Oilwell Varco, Inc.	1,254	82,174
Schlumberger Ltd.	2,273	194,137
		890,781
Oil, Gas & Consumable Fuels 4.0%		
Apache Corp.	1,567	98,204
BG Group PLC	6,894	91,764
BP PLC	119,052	755,949
Cabot Oil & Gas Corp.	3,996	118,322
Canadian Natural Resources Ltd.	1,646	50,890
Cenovus Energy, Inc.	4,800	99,033
Chevron Corp.	4,780	536,220
ConocoPhillips	3,536	244,196
Devon Energy Corp.	2,038	124,746
Enbridge, Inc.	392	20,157
Eni SpA	9,313	162,653
Exxon Mobil Corp.	4,701	434,607
Hess Corp.	1,834	135,386
HollyFrontier Corp.	7,389	276,940
Husky Energy, Inc.	12,856	304,304
Idemitsu Kosan Co., Ltd.	30,827	510,803
Imperial Oil Ltd.	6,974	300,438
JX Holdings, Inc.	144,285	562,118
Kinder Morgan, Inc. (b)	2,935	124,180
Marathon Oil Corp.	3,103	87,784
Marathon Petroleum Corp.	3,621	326,831
Murphy Oil Corp.	2,806	141,759
Occidental Petroleum Corp.	5,169	416,673
OMV AG	10,626	281,182
Origin Energy Ltd.	152	1,434
Pacific Rubiales Energy Corp.	4,623	28,610
Phillips 66	4,075	292,178
Repsol SA	5,901	109,689
Royal Dutch Shell PLC "A"	17,458	578,671
Royal Dutch Shell PLC "B"	14,953	513,694
Showa Shell Sekiyu KK (b)	54,039	532,587
Spectra Energy Corp.	3,448	125,162
Statoil ASA	6,006	105,252
Suncor Energy, Inc.	4,780	151,818
Tesoro Corp.	2,615	194,425
TonenGeneral Sekiyu KK	23,000	196,614
Total SA	5,089	262,385
TransCanada Corp.	2,273	111,713
Valero Energy Corp.	9,863	488,219
Woodside Petroleum Ltd.	2,606	81,016
		9,978,606
Financials 13.8%		
Banks 6.2%		
Aozora Bank Ltd.	90,174	279,859
Australia & New Zealand Banking Group Ltd.	8,236	214,241
Banco Bilbao Vizcaya Argentaria SA	9,682	91,122
Bank Hapoalim BM	89,396	421,612
Bank Leumi Le-Israel BM*	156,186	535,822
Bank of America Corp.	18,553	331,913

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

	Shares	Value ($)
Bank of East Asia Ltd.	21,938	88,132
Bank of Montreal (b)	5,328	376,876
Bank of Nova Scotia	5,646	322,247
Barclays PLC	38,749	145,677
BB&T Corp.	6,190	240,729
Bendigo & Adelaide Bank Ltd.	5,567	57,858
BNP Paribas SA	4,637	272,490
BOC Hong Kong (Holdings) Ltd.	93,627	311,122
Canadian Imperial Bank of Commerce	4,075	350,188
CIT Group, Inc.	5,582	266,987
Citigroup, Inc.	7,648	413,833
Comerica, Inc.	1,097	51,383
Commonwealth Bank of Australia	2,037	141,470
Credit Agricole SA	14,547	187,012
Danske Bank AS	11,160	300,367
DBS Group Holdings Ltd.	20,371	314,578
Fifth Third Bancorp.	20,603	419,786
Hang Seng Bank Ltd.	12,924	214,893
HSBC Holdings PLC	57,583	544,187
Huntington Bancshares, Inc.	17,000	178,840
ING Groep NV (CVA)*	3,416	44,229
JPMorgan Chase & Co.	6,967	435,995
KeyCorp	12,301	170,984
Lloyds Banking Group PLC*	166,742	196,900
M&T Bank Corp.	1,959	246,090
Mitsubishi UFJ Financial Group, Inc.	36,354	199,261
Mizrahi Tefahot Bank Ltd.*	15,580	163,424
Mizuho Financial Group, Inc.	238,273	400,370
National Australia Bank Ltd.	6,869	187,162
National Bank of Canada (b)	5,205	221,497
Natixis SA	12,868	84,618
Nordea Bank AB	21,868	252,564
Oversea-Chinese Banking Corp., Ltd.	25,855	203,204
PNC Financial Services Group, Inc.	4,780	436,079
Regions Financial Corp.	31,810	335,914
Resona Holdings, Inc.	47,156	238,002
Royal Bank of Canada	4,858	335,519
Royal Bank of Scotland Group PLC*	34,496	209,409
Shinsei Bank Ltd.	74,000	129,190
Skandinaviska Enskilda Banken AB "A"	13,319	168,479
Societe Generale	6,354	267,003
Standard Chartered PLC	28,317	424,670
Sumitomo Mitsui Financial Group, Inc.	5,407	195,368
SunTrust Banks, Inc.	9,077	380,326
Svenska Handelsbanken AB "A"	1,488	69,479
Swedbank AB "A"	8,410	209,266
The Bank of Yokohama Ltd.	2,744	14,893
The Chugoku Bank Ltd.	7,600	103,773
The Toronto-Dominion Bank (b)	8,229	393,176
U.S. Bancorp.	8,070	362,746
United Overseas Bank Ltd.	9,402	173,823
Wells Fargo & Co.	10,969	601,321
Westpac Banking Corp.	6,452	173,454
Yamaguchi Financial Group, Inc.	18,021	185,650
		15,287,062
Capital Markets 0.6%		
3i Group PLC	33,208	230,790
Ameriprise Financial, Inc.	627	82,921
Bank of New York Mellon Corp.	3,369	136,680
BlackRock, Inc.	314	112,274
Credit Suisse Group AG (Registered)	6,854	171,822
Morgan Stanley	8,070	313,116
State Street Corp.	1,724	135,334
The Goldman Sachs Group, Inc.	1,097	212,631
		1,395,568
Consumer Finance 0.4%		
Ally Financial, Inc.*	19,200	453,504
American Express Co.	549	51,079
Capital One Financial Corp.	3,526	291,071
Discover Financial Services	1,959	128,295
Navient Corp.	9,100	196,651
		1,120,600
Diversified Financial Services 0.5%		
Berkshire Hathaway, Inc. "B"*	1,534	230,330
CME Group, Inc.	2,038	180,669
EXOR SpA	5,932	242,010
Intercontinental Exchange, Inc.	314	68,857
Investor AB "B"	6,167	223,488
Leucadia National Corp.	627	14,057
Pargesa Holding SA (Bearer)	1,698	130,802
The NASDAQ OMX Group, Inc.	1,176	56,401
Voya Financial, Inc.	4,800	203,424
		1,350,038
Insurance 5.1%		
ACE Ltd.	3,526	405,067
Aegon NV	60,006	450,225
Aflac, Inc.	4,578	279,670
Ageas	3,743	132,741
Alleghany Corp.*	471	218,309
Allianz SE (Registered)	1,307	217,163
Allstate Corp.	6,582	462,386
American International Group, Inc.	7,444	416,938
Aon PLC	471	44,665
Arch Capital Group Ltd.*	2,586	152,833
Assurant, Inc.	3,134	214,460
AXA SA	10,958	253,092
Axis Capital Holdings Ltd.	7,914	404,326
Baloise Holding AG (Registered)	1,623	207,282
Chubb Corp.	3,213	332,449
CNP Assurances	6,858	121,440
Delta Lloyd NV	10,049	220,854
Direct Line Insurance Group PLC	30,764	138,756
Everest Re Group Ltd.	2,269	386,411
FNF Group	4,700	161,915
Great-West Lifeco, Inc.	4,466	129,121
Hannover Rueck SE	2,286	207,356
Hartford Financial Services Group, Inc.	6,626	276,238
Insurance Australia Group Ltd.	2,518	12,766
Intact Financial Corp.	3,134	226,189
Legal & General Group PLC	1,991	7,647
Lincoln National Corp.	4,351	250,922
Loews Corp.	5,877	246,952
Manulife Financial Corp.	4,100	78,273
Mapfre SA	24,168	81,387
Marsh & McLennan Companies, Inc.	1,097	62,792
MetLife, Inc.	6,836	369,759
Muenchener Rueckversicherungs-Gesellschaft AG (Registered)	1,302	260,845

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

	Shares	Value ($)
NN Group NV*	7,530	224,375
Old Mutual PLC	11,627	34,194
PartnerRe Ltd.	3,706	422,966
Power Corp. of Canada	7,229	197,618
Power Financial Corp.	4,075	126,901
Principal Financial Group, Inc.	1,097	56,978
Progressive Corp.	4,936	133,223
Prudential Financial, Inc.	2,351	212,671
RenaissanceRe Holdings Ltd. (b)	3,526	342,798
Sampo Oyj "A"	3,489	163,598
SCOR SE	8,888	268,975
Suncorp Group Ltd.	22,938	261,382
Swiss Life Holding AG (Registered)	1,932	456,559
Swiss Re AG.	5,222	436,942
The Travelers Companies, Inc.	3,918	414,720
Tokio Marine Holdings, Inc.	4,300	139,641
Torchmark Corp.	2,821	152,814
Unum Group	7,757	270,564
W.R. Berkley Corp.	5,015	257,069
XL Group PLC	6,504	223,543
Zurich Insurance Group AG	1,371	429,319
		12,658,079
Real Estate Investment Trusts 0.3%		
Dexus Property Group (REIT)	12,966	73,319
Federation Centres (REIT)	44,060	102,544
GPT Group (REIT)	19,958	70,511
H&R Real Estate Investment Trust (REIT) (Units)	5,686	106,349
Novion Property Group (REIT)	49,808	85,749
RioCan Real Estate Investment Trust (REIT)	4,858	110,516
Scentre Group (REIT)*	47,534	135,165
Westfield Corp. (REIT)	23,967	175,228
		859,381
Real Estate Management & Development 0.5%		
Cheung Kong (Holdings) Ltd.	4,670	78,044
First Capital Realty, Inc.	6,425	103,194
Henderson Land Development Co., Ltd.	14,774	102,364
New World Development Co., Ltd.	47,793	54,667
Sun Hung Kai Properties Ltd.	12,536	189,562
Swire Pacific Ltd. "A"	13,320	172,550
Swiss Prime Site AG (Registered)	3,231	236,741
Wharf Holdings Ltd.	7,835	56,265
Wheelock & Co., Ltd.	41,103	190,845
		1,184,232
Thrifts & Mortgage Finance 0.2%		
New York Community Bancorp., Inc. (b)	10,499	167,984
People's United Financial, Inc.	14,025	212,899
		380,883

Health Care 4.5%

	Shares	Value ($)
Biotechnology 1.0%		
Actelion Ltd. (Registered)	584	67,188
Alexion Pharmaceuticals, Inc.*	941	174,113
Amgen, Inc.	2,283	363,659
Biogen Idec, Inc.*	1,127	382,560
Celgene Corp.*	4,142	463,324
CSL Ltd.	4,391	309,175
Gilead Sciences, Inc.*	4,914	463,194
Regeneron Pharmaceuticals, Inc.*	500	205,125
		2,428,338
Health Care Equipment & Supplies 0.4%		
Abbott Laboratories	5,642	254,003
Baxter International, Inc.	2,664	195,244
Becton, Dickinson & Co.	862	119,956
Medtronic, Inc.	3,683	265,913
Stryker Corp.	1,190	112,253
Zimmer Holdings, Inc.	549	62,267
		1,009,636
Health Care Providers & Services 1.1%		
Aetna, Inc.	3,918	348,036
AmerisourceBergen Corp.	1,411	127,216
Anthem, Inc.	2,553	320,835
Cardinal Health, Inc.	1,959	158,150
CIGNA Corp.	2,508	258,098
Express Scripts Holding Co.*	3,134	265,356
HCA Holdings, Inc.*	1,213	89,022
Humana, Inc.	894	128,405
Laboratory Corp. of America Holdings*	862	93,010
McKesson Corp.	1,019	211,524
Omnicare, Inc.	941	68,627
Quest Diagnostics, Inc.	4,231	283,731
UnitedHealth Group, Inc.	3,201	323,589
		2,675,599
Life Sciences Tools & Services 0.1%		
Thermo Fisher Scientific, Inc.	2,038	**255,341**
Pharmaceuticals 1.9%		
AbbVie, Inc.	2,741	179,371
Actavis PLC*	1,019	262,301
Allergan, Inc.	1,000	212,590
AstraZeneca PLC	1,718	120,854
Bristol-Myers Squibb Co.	3,369	198,872
Eli Lilly & Co.	3,213	221,665
GlaxoSmithKline PLC	11,399	243,882
Indivior PLC*	1,733	4,035
Jazz Pharmaceuticals PLC*	1,100	180,103
Johnson & Johnson	3,605	376,975
Mallinckrodt PLC*	4,000	396,120
Merck & Co., Inc.	5,563	315,923
Mylan, Inc.*	1,176	66,291
Novartis AG (Registered)	3,719	342,027
Novo Nordisk AS ''B"	3,854	163,069
Perrigo Co. PLC	392	65,527
Pfizer, Inc.	13,555	422,238
Roche Holding AG (Genusschein)	1,112	301,397
Sanofi	1,531	139,529
Teva Pharmaceutical Industries Ltd.	5,337	306,633
Valeant Pharmaceuticals International, Inc.*	1,200	171,799
		4,691,201

Industrials 5.1%

	Shares	Value ($)
Aerospace & Defense 0.7%		
BAE Systems PLC	11,961	87,316
Boeing Co.	1,489	193,540
General Dynamics Corp.	67	9,220
Honeywell International, Inc.	2,821	281,874
L-3 Communications Holdings, Inc.	281	35,465
Lockheed Martin Corp.	767	147,701
Northrop Grumman Corp.	938	138,252
Precision Castparts Corp.	627	151,032
Raytheon Co.	2,664	288,165
Rockwell Collins, Inc.	941	79,496

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

	Shares	Value ($)
Thales SA	506	27,302
United Technologies Corp.	2,586	297,390
		1,736,753
Air Freight & Logistics 0.2%		
FedEx Corp.	784	136,149
Royal Mail PLC	23,937	159,394
United Parcel Service, Inc. "B"	1,176	130,736
		426,279
Airlines 0.9%		
American Airlines Group, Inc.	1,500	80,445
ANA Holdings, Inc.	59,000	145,221
Cathay Pacific Airways Ltd.	123,791	269,046
Delta Air Lines, Inc.	6,644	326,818
Deutsche Lufthansa AG (Registered)	22,684	379,884
easyJet PLC	3,918	101,129
Japan Airlines Co., Ltd.	14,700	429,396
Singapore Airlines Ltd.	6,474	56,573
Southwest Airlines Co.	9,753	412,747
United Continental Holdings, Inc.*	2,209	147,760
		2,349,019
Building Products 0.0%		
Congoleum Corp.*	3,800	**0**
Commercial Services & Supplies 0.2%		
G4S PLC	30	129
Quad Graphics, Inc.	13	298
Republic Services, Inc.	5,171	208,133
Tyco International PLC	2,351	103,115
Waste Management, Inc.	2,194	112,596
		424,271
Electrical Equipment 0.2%		
ABB Ltd. (Registered)	8,638	182,709
AMETEK, Inc.	1,332	70,103
Eaton Corp. PLC	421	28,611
Emerson Electric Co.	2,273	140,312
		421,735
Industrial Conglomerates 0.5%		
3M Co.	824	135,400
Danaher Corp.	2,664	228,331
General Electric Co.	9,038	228,390
Hutchison Whampoa Ltd.	18,021	206,547
Keppel Corp., Ltd.	21,000	140,126
Roper Industries, Inc.	862	134,774
Sembcorp Industries Ltd.	21,938	73,568
Siemens AG (Registered)	1,248	141,536
		1,288,672
Machinery 0.5%		
AGCO Corp.	3,761	169,997
Caterpillar, Inc.	862	78,899
Deere & Co.	3,996	353,526
Illinois Tool Works, Inc.	549	51,990
PACCAR, Inc.	1,254	85,284
Schindler Holding AG (Registered)	503	72,144
SKF AB "B"	29	610
Stanley Black & Decker, Inc.	1,332	127,979
Yangzijiang Shipbuilding Holdings Ltd.	286,107	259,837
		1,200,266
Marine 0.5%		
A P Moller-Maersk AS "A"	219	419,024
A P Moller-Maersk AS "B"	186	369,714

	Shares	Value ($)
Mitsui O.S.K Lines Ltd.	40,000	118,817
Nippon Yusen Kabushiki Kaisha	83,050	234,903
		1,142,458
Professional Services 0.1%		
Adecco SA (Registered)	393	26,922
Nielsen NV	4,145	185,406
		212,328
Road & Rail 0.3%		
Canadian National Railway Co.	236	16,255
CSX Corp.	3,840	139,123
East Japan Railway Co.	1,097	82,188
MTR Corp., Ltd.	27,814	113,598
Norfolk Southern Corp.	862	94,484
Union Pacific Corp.	2,194	261,371
West Japan Railway Co.	3,761	178,219
		885,238
Trading Companies & Distributors 1.0%		
ITOCHU Corp.	41,839	447,328
Marubeni Corp.	100,549	602,720
Mitsubishi Corp.	23,428	429,667
Mitsui & Co., Ltd.	39,851	532,735
Sumitomo Corp.	29,466	302,645
W.W. Grainger, Inc.	627	159,816
		2,474,911
Information Technology 6.1%		
Communications Equipment 0.9%		
Cisco Systems, Inc.	17,899	497,861
Harris Corp.	3,369	241,962
Juniper Networks, Inc.	7,764	173,292
Motorola Solutions, Inc.	2,990	200,569
Nokia Oyj	19,776	155,648
QUALCOMM, Inc.	8,070	599,843
Telefonaktiebolaget LM Ericsson "B"	19,294	233,668
		2,102,843
Electronic Equipment, Instruments & Components 0.5%		
Amphenol Corp. "A"	1,568	84,374
Arrow Electronics, Inc.*	2,528	146,346
Avnet, Inc.	6,660	286,513
Corning, Inc.	9,440	216,459
Flextronics International Ltd.*	14,608	163,318
Hitachi Ltd.	5,485	40,135
Murata Manufacturing Co., Ltd.	706	77,119
TE Connectivity Ltd.	4,388	277,541
		1,291,805
Internet Software & Services 0.5%		
eBay, Inc.*	2,942	165,105
Facebook, Inc. "A"*	5,469	426,691
Google, Inc. "A"*	792	420,283
Google, Inc. "C"*	484	254,778
LinkedIn Corp. "A"*	127	29,173
VeriSign, Inc.* (b)	521	29,697
		1,325,727
IT Services 1.8%		
Accenture PLC "A"	4,075	363,938
Alliance Data Systems Corp.*	549	157,041
AtoS	1,677	132,706
Automatic Data Processing, Inc.	3,232	269,452
CGI Group, Inc. "A"*	4,701	179,211
Cognizant Technology Solutions Corp. "A"*	3,291	173,304

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	Shares	Value ($)
Computer Sciences Corp.	3,840	242,112
Fidelity National Information Services, Inc.	5,798	360,636
Fiserv, Inc.*	3,761	266,918
Fujitsu Ltd.	26,000	138,498
International Business Machines Corp.	3,056	490,305
Itochu Techno-Solutions Corp.	627	22,217
MasterCard, Inc. "A"	3,134	270,025
Nomura Research Institute Ltd.	1,803	55,363
Paychex, Inc.	3,056	141,096
Total System Services, Inc.	5,250	178,290
Vantiv, Inc. "A"*	3,369	114,277
Visa, Inc. "A" (b)	1,046	274,261
Western Union Co. (b)	12,458	223,123
Xerox Corp.	22,704	314,677
		4,367,450
Semiconductors & Semiconductor Equipment 0.6%		
Analog Devices, Inc.	2,586	143,575
ASML Holding NV	15	1,607
Avago Technologies Ltd.	1,646	165,571
Broadcom Corp. "A"	1,409	61,052
Intel Corp.	10,673	387,323
KLA-Tencor Corp.	456	32,066
Lam Research Corp.	64	5,078
Marvell Technology Group Ltd.	4,623	67,033
Maxim Integrated Products, Inc.	4,388	139,846
Microchip Technology, Inc. (b)	3,291	148,457
Micron Technology, Inc.*	6,093	213,316
Texas Instruments, Inc.	1,646	88,003
		1,452,927
Software 0.9%		
Activision Blizzard, Inc.	10,127	204,059
ANSYS, Inc.*	784	64,288
CA, Inc.	7,236	220,336
GungHo Online Entertainment, Inc.*	10,734	39,129
Intuit, Inc.	1,034	95,324
Microsoft Corp.	10,949	508,581
Nexon Co., Ltd.	3,794	35,376
NICE Systems Ltd.	2,086	105,596
Oracle Corp.	10,813	486,261
SAP SE	751	53,100
Symantec Corp.	8,041	206,292
Synopsys, Inc.*	5,407	235,042
The Sage Group PLC	1,325	9,555
VMware, Inc. "A"*	784	64,696
		2,327,635
Technology Hardware, Storage & Peripherals 0.9%		
Apple, Inc.	6,278	692,966
Canon, Inc.	6,974	221,507
EMC Corp.	8,058	239,645
Hewlett-Packard Co.	9,206	369,437
NetApp, Inc.	2,586	107,190
Ricoh Co., Ltd.	12,047	122,381
Seagate Technology PLC	3,683	244,919
Western Digital Corp.	1,959	216,861
		2,214,906
Materials 1.7%		
Chemicals 0.7%		
Asahi Kasei Corp.	19,219	176,130
Ashland, Inc.	862	103,233

	Shares	Value ($)
BASF SE	8	676
CF Industries Holdings, Inc.	236	64,319
Dow Chemical Co.	3,784	172,588
E.I. du Pont de Nemours & Co.	1,489	110,097
Ecolab, Inc.	392	40,972
Israel Chemicals Ltd.	17,163	123,796
LyondellBasell Industries NV "A"	2,873	228,088
Mitsubishi Gas Chemical Co., Inc.	28,000	140,657
Monsanto Co.	1,019	121,740
Praxair, Inc.	549	71,129
Solvay SA	986	133,200
Sumitomo Chemical Co., Ltd.	41,000	162,329
Syngenta AG (Registered)	306	98,257
		1,747,211
Construction Materials 0.1%		
Fletcher Building Ltd.	8,805	56,792
Holcim Ltd. (Registered)	3,225	229,007
		285,799
Containers & Packaging 0.1%		
Rock-Tenn Co. "A"	2,356	**143,669**
Metals & Mining 0.7%		
Anglo American PLC	6,850	126,738
Barrick Gold Corp.	15,984	172,250
BHP Billiton Ltd.	1,942	46,081
BHP Billiton PLC	3,311	70,822
Freeport-McMoRan, Inc.	3,000	70,080
Glencore PLC	26,125	120,247
Goldcorp, Inc.	5,485	101,551
JFE Holdings, Inc.	3,600	80,130
Mitsubishi Materials Corp.	18,804	62,509
Newmont Mining Corp.	17,883	337,989
Nippon Steel & Sumitomo Metal Corp.	53,000	131,531
Nucor Corp.	4,075	199,879
Rio Tinto PLC	3,478	160,240
Silver Wheaton Corp.	9,011	183,276
		1,863,323
Paper & Forest Products 0.1%		
International Paper Co.	2,874	**153,989**
Telecommunication Services 2.8%		
Diversified Telecommunication Services 2.4%		
AT&T, Inc.	18,726	629,006
BCE, Inc.	7,365	337,758
Belgacom SA	1,992	72,130
BT Group PLC	57,981	359,921
CenturyLink, Inc.	5,691	225,250
Deutsche Telekom AG (Registered)	10,731	171,999
Elisa Oyj	800	21,773
HKT Trust & HKT Ltd. (Units)	147,000	190,887
Inmarsat PLC	11,052	136,961
Nippon Telegraph & Telephone Corp.	10,383	534,289
Orange SA	11,104	188,838
PCCW Ltd.	254,633	174,120
Singapore Telecommunications Ltd.	76,045	223,060
Spark New Zealand Ltd.	56,978	138,053
Swisscom AG (Registered)	606	318,211
TDC AS	33,026	251,680
Telecom Italia SpA (RSP)	248,767	207,928
Telefonica SA	14,181	202,845
Telenor ASA	8,848	178,405

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

	Shares	Value ($)
TeliaSonera AB	52,444	337,265
Telstra Corp., Ltd.	66,244	321,694
TELUS Corp.	7,287	262,741
Verizon Communications, Inc.	10,902	509,996
		5,994,810
Wireless Telecommunication Services 0.4%		
KDDI Corp.	4,780	299,086
Millicom International Cellular SA (SDR)	1,478	109,920
NTT DoCoMo, Inc.	16,169	236,684
Rogers Communications, Inc. "B" (b)	6,503	252,832
SoftBank Corp.	471	28,031
Vodafone Group PLC	36,381	124,658
		1,051,211
Utilities 4.5%		
Electric Utilities 2.3%		
American Electric Power Co., Inc.	4,388	266,439
Cheung Kong Infrastructure Holdings Ltd.	51,556	380,940
CLP Holdings Ltd.	36,469	316,462
Duke Energy Corp.	5,407	451,701
E.ON SE	3,110	53,405
Edison International	3,056	200,107
EDP — Energias de Portugal SA	53,479	206,826
Electricite de France SA	10,019	275,110
Enel SpA	13,335	59,624
Entergy Corp.	2,971	259,903
Exelon Corp.	10,603	393,159
FirstEnergy Corp.	4,936	192,455
Fortum Oyj	12,885	278,437
Iberdrola SA	14,717	99,019
NextEra Energy, Inc.	2,743	291,554
Northeast Utilities	3,369	180,309
OGE Energy Corp.	6,660	236,297
Pepco Holdings, Inc.	5,200	140,036
Pinnacle West Capital Corp.	2,555	174,532
Power Assets Holdings Ltd.	36,747	354,762
PPL Corp.	6,112	222,049
Southern Co.	6,245	306,692
SSE PLC	7,389	185,498
Tokyo Electric Power Co., Inc.*	17,300	70,495
Xcel Energy, Inc.	6,738	242,029
		5,837,840
Gas Utilities 0.1%		
Enagas SA	22	696
Osaka Gas Co., Ltd.	31,000	115,866
Tokyo Gas Co., Ltd.	22,000	118,716
		235,278
Independent Power & Renewable Eletricity Producers 0.3%		
AES Corp.	7,914	108,976
Calpine Corp.*	15,500	343,015
Electric Power Development Co., Ltd.	2,602	88,072
Meridian Energy Ltd.	132,189	181,237
		721,300
Multi-Utilities 1.7%		
AGL Energy Ltd.	20,375	221,497
Alliant Energy Corp.	2,508	166,581
Ameren Corp.	5,955	274,704
Atco Ltd. "I"	3,000	123,068
CenterPoint Energy, Inc.	8,900	208,527
Centrica PLC	42,247	181,829
CMS Energy Corp.	2,664	92,574
Consolidated Edison, Inc.	4,310	284,503
Dominion Resources, Inc.	3,291	253,078
DTE Energy Co.	2,194	189,496
GDF Suez	5,853	136,699
Integrys Energy Group, Inc.	3,045	237,053
National Grid PLC	19,631	279,856
NiSource, Inc.	5,250	222,705
PG&E Corp.	6,738	358,731
Public Service Enterprise Group, Inc.	5,720	236,865
SCANA Corp.	3,605	217,742
Sempra Energy	1,567	174,501
Wisconsin Energy Corp. (b)	5,132	270,662
		4,130,671
Water Utilities 0.1%		
American Water Works Co., Inc.	2,803	**149,400**
Total Common Stocks (Cost $118,757,854)		**131,358,991**

	Shares	Value ($)
Preferred Stocks 0.6%		
Consumer Discretionary 0.6%		
Bayerische Motoren Werke (BMW) AG	4,148	340,432
Porsche Automobil Holding SE	7,216	586,307
Volkswagen AG	1,914	427,534
		1,354,273
Financials 0.0%		
Ally Financial, Inc. Series G, 144A, 7.0%	75	**75,345**
Total Preferred Stocks (Cost $1,470,243)		**1,429,618**
Rights 0.0%		
Energy 0.0%		
Repsol SA, Expiration Date 1/8/2015*	5,901	**3,263**
Financials 0.0%		
Banco Bilbao Vizcaya Argentaria SA, Expiration Date 1/7/2015*	9,682	**926**
Total Rights (Cost $1,049)		**4,189**
Warrants 0.0%		
Materials		
GEO Specialty Chemicals, Inc., Expiration Date 3/31/2015*	19,324	12,671
Hercules Trust II, Expiration Date 3/31/2029*	170	1,670
Total Warrants (Cost $30,283)		**14,341**

	Principal Amount ($)(c)	Value ($)
Corporate Bonds 25.4%		
Consumer Discretionary 3.4%		
AmeriGas Finance LLC:		
6.75%, 5/20/2020	110,000	113,300
7.0%, 5/20/2022	195,000	201,825
Apex Tool Group LLC, 144A, 7.0%, 2/1/2021	50,000	42,750

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

		Principal Amount ($)(c)	Value ($)
APX Group, Inc., 6.375%, 12/1/2019		50,000	47,875
Ashtead Capital, Inc., 144A, 6.5%, 7/15/2022		80,000	85,000
Ashton Woods U.S.A. LLC, 144A, 6.875%, 2/15/2021		80,000	76,200
Avis Budget Car Rental LLC, 5.5%, 4/1/2023 (b)		50,000	51,000
Bed Bath & Beyond, Inc.:			
4.915%, 8/1/2034		80,000	82,550
5.165%, 8/1/2044		100,000	104,629
Block Communications, Inc., 144A, 7.25%, 2/1/2020		20,000	20,400
CCO Holdings LLC, 7.375%, 6/1/2020		10,000	10,600
Cequel Communications Holdings I LLC:			
144A, 5.125%, 12/15/2021		385,000	373,450
144A, 6.375%, 9/15/2020		285,000	294,975
Clear Channel Worldwide Holdings, Inc.:			
Series A, 6.5%, 11/15/2022		65,000	66,138
Series B, 6.5%, 11/15/2022		370,000	381,100
Series A, 7.625%, 3/15/2020		10,000	10,375
Series B, 7.625%, 3/15/2020		255,000	268,387
Cogeco Cable, Inc., 144A, 4.875%, 5/1/2020		5,000	5,000
Columbus International, Inc., 144A, 7.375%, 3/30/2021		450,000	468,000
Cumulus Media Holdings, Inc., 7.75%, 5/1/2019		50,000	50,500
Dana Holding Corp., 5.5%, 12/15/2024		80,000	80,800
Delphi Corp., 5.0%, 2/15/2023		70,000	74,724
DISH DBS Corp.:			
4.25%, 4/1/2018		70,000	71,487
5.0%, 3/15/2023		715,000	691,762
7.875%, 9/1/2019		270,000	306,450
Getty Images, Inc., 144A, 7.0%, 10/15/2020		60,000	47,100
Group 1 Automotive, Inc., 144A, 5.0%, 6/1/2022		40,000	39,100
Harron Communications LP, 144A, 9.125%, 4/1/2020		45,000	49,050
HD Supply, Inc., 11.5%, 7/15/2020		40,000	45,800
Hot Topic, Inc., 144A, 9.25%, 6/15/2021		40,000	42,800
iHeartCommunications, Inc.:			
9.0%, 12/15/2019		250,000	246,250
11.25%, 3/1/2021		70,000	72,100
Jo-Ann Stores Holdings, Inc., 144A, 9.75%, 10/15/2019 (PIK)		40,000	34,000
Live Nation Entertainment, Inc., 144A, 7.0%, 9/1/2020		90,000	94,950
MDC Partners, Inc., 144A, 6.75%, 4/1/2020		40,000	41,200
Mediacom Broadband LLC, 6.375%, 4/1/2023		35,000	35,875
MGM Resorts International:			
6.625%, 12/15/2021		250,000	262,500
6.75%, 10/1/2020		130,000	136,500
8.625%, 2/1/2019		240,000	272,100
Numericable-SFR:			
144A, 6.0%, 5/15/2022		200,000	201,100
144A, 6.25%, 5/15/2024		350,000	352,625
Pinnacle Entertainment, Inc., 6.375%, 8/1/2021		45,000	46,350
Quebecor Media, Inc., 5.75%, 1/15/2023		50,000	51,125
Schaeffler Finance BV, 144A, 7.75%, 2/15/2017		845,000	925,275
Seminole Hard Rock Entertainment, Inc., 144A, 5.875%, 5/15/2021		35,000	34,650
Serta Simmons Holdings LLC, 144A, 8.125%, 10/1/2020		55,000	58,163
Servicios Corporativos Javer SAPI de CV, 144A, 9.875%, 4/6/2021		100,000	105,000
Sirius XM Radio, Inc., 144A, 5.875%, 10/1/2020		60,000	61,800
Springs Industries, Inc., 6.25%, 6/1/2021		85,000	84,575
Starz LLC, 5.0%, 9/15/2019		40,000	40,300
Taylor Morrison Communities, Inc., 144A, 5.25%, 4/15/2021		65,000	64,025
Time Warner Cable, Inc., 7.3%, 7/1/2038		45,000	62,048
TRI Pointe Holdings, Inc., 144A, 4.375%, 6/15/2019		50,000	49,313
Unitymedia Hessen GmbH & Co., KG:			
144A, 5.5%, 1/15/2023		200,000	209,000
144A, 7.5%, 3/15/2019	EUR	400,000	508,850
Viking Cruises Ltd., 144A, 8.5%, 10/15/2022		50,000	54,125
			8,306,926
Consumer Staples 1.6%			
Big Heart Pet Brands, 7.625%, 2/15/2019		66,000	64,845
Cencosud SA, 144A, 4.875%, 1/20/2023		250,000	245,767
Chiquita Brands International, Inc., 7.875%, 2/1/2021		25,000	26,875
Corp. Lindley SA, 144A, 6.75%, 11/23/2021		500,000	535,000
Cott Beverages, Inc.:			
144A, 5.375%, 7/1/2022		85,000	77,987
144A, 6.75%, 1/1/2020		80,000	80,000
JBS Investments GmbH, 144A, 7.75%, 10/28/2020		250,000	258,875
JBS U.S.A. LLC:			
144A, 7.25%, 6/1/2021		145,000	149,350
144A, 8.25%, 2/1/2020		370,000	389,425
Marfrig Overseas Ltd., 144A, 9.5%, 5/4/2020		100,000	101,000
Minerva Luxembourg SA:			
144A, 7.75%, 1/31/2023		250,000	245,000
144A, 12.25%, 2/10/2022		250,000	287,750
Reynolds Group Issuer, Inc., 5.75%, 10/15/2020		1,145,000	1,173,625
Smithfield Foods, Inc., 6.625%, 8/15/2022		90,000	94,050
The WhiteWave Foods Co., 5.375%, 10/1/2022		80,000	82,400
Tonon Bioenergia SA, 144A, 9.25%, 1/24/2020		200,000	111,000
			3,922,949
Energy 3.4%			
Access Midstream Partners LP, 6.125%, 7/15/2022		15,000	15,938
Afren PLC, 144A, 10.25%, 4/8/2019		340,000	221,000
Antero Resources Corp., 144A, 5.125%, 12/1/2022		140,000	131,950

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	Principal Amount ($)(c)	Value ($)
Antero Resources Finance Corp., 5.375%, 11/1/2021	60,000	58,050
Baytex Energy Corp.:		
144A, 5.125%, 6/1/2021	30,000	25,500
144A, 5.625%, 6/1/2024	35,000	29,750
Berry Petroleum Co., LLC:		
6.375%, 9/15/2022	50,000	38,000
6.75%, 11/1/2020	50,000	40,000
BreitBurn Energy Partners LP, 7.875%, 4/15/2022	110,000	84,975
California Resources Corp.:		
144A, 5.0%, 1/15/2020	60,000	52,050
144A, 5.5%, 9/15/2021	143,000	122,265
144A, 6.0%, 11/15/2024	15,000	12,675
Chaparral Energy, Inc., 7.625%, 11/15/2022	85,000	55,675
DCP Midstream LLC, 144A, 9.75%, 3/15/2019	200,000	250,161
Delek & Avner Tamar Bond Ltd., 144A, 5.082%, 12/30/2023	850,000	848,142
Ecopetrol SA, 5.875%, 5/28/2045	700,000	647,500
Endeavor Energy Resources LP, 144A, 7.0%, 8/15/2021	85,000	75,225
EP Energy LLC, 6.875%, 5/1/2019	15,000	15,225
EV Energy Partners LP, 8.0%, 4/15/2019	385,000	327,250
GeoPark Latin America Ltd. Agencia en Chile, 144A, 7.5%, 2/11/2020	200,000	175,000
Halcon Resources Corp., 8.875%, 5/15/2021	450,000	338,625
Hilcorp Energy I LP, 144A, 5.0%, 12/1/2024	65,000	57,200
Holly Energy Partners LP, 6.5%, 3/1/2020	10,000	9,900
Jupiter Resources, Inc., 144A, 8.5%, 10/1/2022	80,000	60,200
Kinder Morgan, Inc.:		
3.05%, 12/1/2019	145,000	143,847
5.55%, 6/1/2045	90,000	92,181
Linn Energy LLC, 6.25%, 11/1/2019	145,000	122,525
MEG Energy Corp., 144A, 7.0%, 3/31/2024	435,000	393,675
Memorial Resource Development Corp., 144A, 5.875%, 7/1/2022	65,000	58,825
Midstates Petroleum Co., Inc., 9.25%, 6/1/2021	5,000	2,500
Murphy Oil U.S.A., Inc., 6.0%, 8/15/2023	85,000	88,825
Northern Oil & Gas, Inc., 8.0%, 6/1/2020	140,000	106,050
Nostrum Oil & Gas Finance BV, 144A, 6.375%, 2/14/2019	200,000	172,000
Offshore Drilling Holding SA, 144A, 8.625%, 9/20/2020	600,000	522,000
Pacific Rubiales Energy Corp., 144A, 5.625%, 1/19/2025 (b)	565,000	433,637
Petroleos de Venezuela SA:		
144A, 9.0%, 11/17/2021	250,000	109,375
144A, 9.75%, 5/17/2035	200,000	89,000
PT Pertamina Persero, 144A, 5.625%, 5/20/2043	600,000	564,000
QGOG Constellation SA, 144A, 6.25%, 11/9/2019	200,000	126,000
Regency Energy Partners LP, 5.0%, 10/1/2022	45,000	42,525
Reliance Holding U.S.A., Inc., 144A, 5.4%, 2/14/2022	250,000	270,827

		Principal Amount ($)(c)	Value ($)
RSP Permian, Inc., 144A, 6.625%, 10/1/2022		50,000	46,500
Sabine Pass Liquefaction LLC:			
5.625%, 2/1/2021		175,000	171,938
5.75%, 5/15/2024		200,000	196,250
SESI LLC, 7.125%, 12/15/2021		380,000	364,800
Seventy Seven Energy, Inc., 6.5%, 7/15/2022 (b)		15,000	8,775
Talisman Energy, Inc., 3.75%, 2/1/2021		120,000	116,044
Talos Production LLC, 144A, 9.75%, 2/15/2018		95,000	86,450
Targa Resources Partners LP, 144A, 4.125%, 11/15/2019		30,000	28,875
Transocean, Inc., 3.8%, 10/15/2022 (b)		370,000	299,820
Triangle U.S.A. Petroleum Corp., 144A, 6.75%, 7/15/2022		55,000	36,300
WPX Energy, Inc., 5.25%, 9/15/2024		60,000	55,800
			8,441,600
Financials 3.7%			
AerCap Ireland Capital Ltd., 144A, 3.75%, 5/15/2019		80,000	79,200
Aflac, Inc., 3.625%, 11/15/2024		145,000	147,844
Banco Continental SAECA, 144A, 8.875%, 10/15/2017		200,000	210,000
Banco do Brasil SA, 144A, 9.0%, 6/29/2049		700,000	651,000
Banco Santander Brasil SA, 144A, 8.0%, 3/18/2016	BRL	300,000	107,836
Barclays Bank PLC, 7.625%, 11/21/2022		250,000	273,356
BBVA Bancomer SA:			
144A, 6.008%, 5/17/2022		500,000	511,150
144A, 6.75%, 9/30/2022		150,000	165,000
CBL & Associates LP, (REIT), 4.6%, 10/15/2024		255,000	258,255
China Overseas Finance Cayman II Ltd., REG S, 5.5%, 11/10/2020		250,000	270,229
CIT Group, Inc.:			
5.0%, 5/15/2017		935,000	970,062
5.25%, 3/15/2018		10,000	10,425
Credito Real SAB de CV, 144A, 7.5%, 3/13/2019		200,000	202,500
Development Bank of Kazakhstan JSC, Series 3, REG S, 6.5%, 6/3/2020		500,000	508,750
E*TRADE Financial Corp., 6.375%, 11/15/2019		140,000	148,400
Everest Reinsurance Holdings, Inc., 4.868%, 6/1/2044		100,000	104,731
Fondo MIVIVIENDA SA, 144A, 3.5%, 1/31/2023		250,000	237,500
Hospitality Properties Trust, (REIT), 5.0%, 8/15/2022		230,000	242,369
HSBC Holdings PLC:			
5.625%, 12/29/2049		255,000	255,892
6.375%, 12/29/2049		285,000	287,850
International Lease Finance Corp.:			
3.875%, 4/15/2018		100,000	100,000
6.25%, 5/15/2019		410,000	447,925
8.75%, 3/15/2017		40,000	44,300

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	Principal Amount ($)(c)	Value ($)
Kaisa Group Holdings Ltd., 144A, 8.875%, 3/19/2018	250,000	166,875
Macquarie Group Ltd., 144A, 6.0%, 1/14/2020	235,000	266,178
MPT Operating Partnership LP, (REIT), 6.375%, 2/15/2022	40,000	42,500
Nationwide Financial Services, Inc., 144A, 5.3%, 11/18/2044	135,000	142,419
Navient Corp., 5.5%, 1/25/2023 (b)	125,000	119,688
Neuberger Berman Group LLC, 144A, 5.625%, 3/15/2020	10,000	10,450
Omega Healthcare Investors, Inc., (REIT), 4.95%, 4/1/2024	130,000	135,283
Popular, Inc., 7.0%, 7/1/2019	50,000	50,000
Royal Bank of Scotland Group PLC, 6.1%, 6/10/2023	100,000	108,460
Scentre Group Trust 1, 144A, 3.5%, 2/12/2025	330,000	331,291
Schahin II Finance Co. SPV Ltd., 144A, 5.875%, 9/25/2022 (b)	359,733	289,136
TIAA Asset Management Finance Co., LLC:		
144A, 2.95%, 11/1/2019	245,000	245,474
144A, 4.125%, 11/1/2024	200,000	204,883
Trust F/1401, (REIT), 144A, 5.25%, 12/15/2024	500,000	515,050
Turkiye Is Bankasi, 144A, 6.0%, 10/24/2022	250,000	250,875
		9,113,136
Health Care 1.8%		
Aviv Healthcare Properties LP, 7.75%, 2/15/2019	10,000	10,420
Biomet, Inc.:		
6.5%, 8/1/2020	85,000	90,950
6.5%, 10/1/2020	25,000	26,375
Community Health Systems, Inc.:		
5.125%, 8/15/2018	290,000	300,150
6.875%, 2/1/2022 (b)	620,000	656,813
7.125%, 7/15/2020	170,000	181,263
Endo Finance LLC, 144A, 5.375%, 1/15/2023	80,000	78,400
Fresenius Medical Care U.S. Finance II, Inc., 144A, 5.625%, 7/31/2019	10,000	10,675
Fresenius Medical Care U.S. Finance, Inc., 144A, 6.5%, 9/15/2018	10,000	11,050
HCA, Inc.:		
5.25%, 4/15/2025	60,000	62,700
6.5%, 2/15/2020	880,000	986,040
7.5%, 2/15/2022	725,000	828,312
Hologic, Inc., 6.25%, 8/1/2020	40,000	41,600
IMS Health, Inc., 144A, 6.0%, 11/1/2020	60,000	61,800
Mallinckrodt International Finance SA, 4.75%, 4/15/2023	110,000	105,600
Medtronic, Inc., 144A, 4.625%, 3/15/2045	80,000	86,719
Par Pharmaceutical Companies, Inc., 7.375%, 10/15/2020	90,000	94,050
Physio-Control International, Inc., 144A, 9.875%, 1/15/2019	14,000	14,840
Tenet Healthcare Corp., 6.25%, 11/1/2018	230,000	249,550
Valeant Pharmaceuticals International, 144A, 6.375%, 10/15/2020	90,000	94,050
Valeant Pharmaceuticals International, Inc., 144A, 7.5%, 7/15/2021	450,000	486,000
		4,477,357
Industrials 2.6%		
ADT Corp.:		
3.5%, 7/15/2022 (b)	50,000	42,625
5.25%, 3/15/2020	130,000	131,625
6.25%, 10/15/2021	45,000	46,238
Artesyn Embedded Technologies, Inc., 144A, 9.75%, 10/15/2020	70,000	66,325
Avianca Holdings SA, 144A, 8.375%, 5/10/2020	200,000	206,000
Belden, Inc., 144A, 5.5%, 9/1/2022	85,000	84,362
Bombardier, Inc., 144A, 5.75%, 3/15/2022 (b)	328,000	332,100
DigitalGlobe, Inc., 144A, 5.25%, 2/1/2021	35,000	33,250
Empresas ICA SAB de CV, 144A, 8.875%, 5/29/2024	200,000	183,000
FTI Consulting, Inc., 6.0%, 11/15/2022	50,000	51,125
Gates Global LLC, 144A, 6.0%, 7/15/2022	65,000	62,251
GenCorp, Inc., 7.125%, 3/15/2021	120,000	125,676
Grupo KUO SAB de CV, 144A, 6.25%, 12/4/2022	600,000	590,700
Kazakhstan Temir Zholy Finance BV, 144A, 6.375%, 10/6/2020	500,000	492,500
Kenan Advantage Group, Inc., 144A, 8.375%, 12/15/2018	100,000	103,000
Meritor, Inc., 6.75%, 6/15/2021	55,000	57,475
Mersin Uluslararasi Liman Isletmeciligi AS, 144A, 5.875%, 8/12/2020	500,000	534,500
Navios Maritime Holdings, Inc., 144A, 7.375%, 1/15/2022	450,000	411,750
Noble Group Ltd., 144A, 6.625%, 8/5/2020	250,000	256,250
Nortek, Inc., 8.5%, 4/15/2021	155,000	165,850
OAS Finance Ltd., 144A, 8.0%, 7/2/2021	200,000	64,000
Odebrecht Offshore Drilling Finance Ltd., 144A, 6.75%, 10/1/2022	188,500	172,477
Ply Gem Industries, Inc., 144A, 6.5%, 2/1/2022	60,000	55,800
SBA Communications Corp., 5.625%, 10/1/2019	50,000	51,125
TAM Capital 3, Inc., 144A, 8.375%, 6/3/2021	200,000	205,500
Titan International, Inc., 6.875%, 10/1/2020	170,000	149,600
TransDigm, Inc.:		
6.0%, 7/15/2022	210,000	209,475
7.5%, 7/15/2021	275,000	292,875
United Rentals North America, Inc.:		
6.125%, 6/15/2023	10,000	10,500
7.375%, 5/15/2020	25,000	27,000
7.625%, 4/15/2022	620,000	681,690
Votorantim Cimentos SA, 144A, 7.25%, 4/5/2041	500,000	515,000
XPO Logistics, Inc., 144A, 7.875%, 9/1/2019	40,000	41,800
		6,453,444

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	Principal Amount ($)(c)	Value ($)
Information Technology 1.3%		
ACI Worldwide, Inc., 144A, 6.375%, 8/15/2020	30,000	31,350
Activision Blizzard, Inc., 144A, 5.625%, 9/15/2021	330,000	346,500
Alliance Data Systems Corp., 144A, 5.25%, 12/1/2017	60,000	61,800
Audatex North America, Inc., 144A, 6.0%, 6/15/2021	15,000	15,450
BMC Software Finance, Inc., 144A, 8.125%, 7/15/2021	100,000	94,000
Cardtronics, Inc., 144A, 5.125%, 8/1/2022	55,000	53,625
CDW LLC:		
6.0%, 8/15/2022	90,000	92,925
8.5%, 4/1/2019	242,000	255,008
CyrusOne LP, 6.375%, 11/15/2022	25,000	26,688
EarthLink Holdings Corp., 7.375%, 6/1/2020	70,000	71,050
Equinix, Inc., 5.375%, 4/1/2023	175,000	175,000
First Data Corp.:		
144A, 6.75%, 11/1/2020	237,000	252,998
144A, 7.375%, 6/15/2019	725,000	763,062
Hughes Satellite Systems Corp.:		
6.5%, 6/15/2019	60,000	64,350
7.625%, 6/15/2021	190,000	209,000
KLA-Tencor Corp., 4.65%, 11/1/2024	240,000	248,459
NXP BV, 144A, 3.75%, 6/1/2018	90,000	90,000
Seagate HDD Cayman, 144A, 5.75%, 12/1/2034	250,000	263,658
Tencent Holdings Ltd., 144A, 3.375%, 5/2/2019	200,000	203,287
		3,318,210
Materials 2.3%		
Alpek SAB de CV, 144A, 5.375%, 8/8/2023	200,000	209,500
Anglo American Capital PLC:		
144A, 4.125%, 4/15/2021	200,000	200,672
144A, 4.125%, 9/27/2022	250,000	247,557
Berry Plastics Corp., 5.5%, 5/15/2022	320,000	324,800
Cascades, Inc., 144A, 5.5%, 7/15/2022	50,000	49,750
Cemex SAB de CV, 144A, 6.5%, 12/10/2019	200,000	204,900
Clearwater Paper Corp., 144A, 5.375%, 2/1/2025	110,000	108,350
First Quantum Minerals Ltd.:		
144A, 6.75%, 2/15/2020	259,000	234,395
144A, 7.0%, 2/15/2021	111,000	99,900
FMG Resources (August 2006) Pty Ltd., 144A, 6.0%, 4/1/2017 (b)	195,000	186,469
Fresnillo PLC, 144A, 5.5%, 11/13/2023	500,000	490,000
Glencore Funding LLC, 144A, 4.125%, 5/30/2023	50,000	48,788
GTL Trade Finance, Inc., 144A, 5.893%, 4/29/2024	600,000	579,000
Hexion U.S. Finance Corp.:		
6.625%, 4/15/2020	425,000	416,500
8.875%, 2/1/2018	90,000	80,100
Kaiser Aluminum Corp., 8.25%, 6/1/2020	40,000	43,400
Novelis, Inc., 8.75%, 12/15/2020	955,000	1,012,300

	Principal Amount ($)(c)	Value ($)
Plastipak Holdings, Inc., 144A, 6.5%, 10/1/2021	70,000	69,650
Polymer Group, Inc., 7.75%, 2/1/2019	229,000	237,301
Sealed Air Corp., 144A, 8.375%, 9/15/2021	10,000	11,175
Tronox Finance LLC, 6.375%, 8/15/2020	55,000	55,138
Turkiye Sise ve Cam Fabrikalari AS, 144A, 4.25%, 5/9/2020	200,000	195,189
Vedanta Resources PLC, 144A, 8.25%, 6/7/2021	200,000	198,000
WR Grace & Co-Conn:		
144A, 5.125%, 10/1/2021	40,000	41,000
144A, 5.625%, 10/1/2024	20,000	20,850
Yamana Gold, Inc., 4.95%, 7/15/2024	250,000	243,994
		5,608,678
Telecommunication Services 4.7%		
Bharti Airtel International Netherlands BV, 144A, 5.35%, 5/20/2024	1,000,000	1,081,920
CenturyLink, Inc., Series V, 5.625%, 4/1/2020	25,000	25,938
Cincinnati Bell, Inc.:		
8.375%, 10/15/2020	775,000	813,750
8.75%, 3/15/2018 (b)	206,000	211,665
Digicel Group Ltd.:		
144A, 7.125%, 4/1/2022	250,000	232,500
144A, 8.25%, 9/30/2020	400,000	388,000
Digicel Ltd., 144A, 8.25%, 9/1/2017	750,000	759,375
Frontier Communications Corp.:		
6.25%, 9/15/2021	60,000	60,300
6.875%, 1/15/2025	60,000	60,000
7.125%, 1/15/2023	390,000	396,825
8.5%, 4/15/2020	290,000	323,350
Intelsat Jackson Holdings SA:		
5.5%, 8/1/2023	265,000	263,384
7.25%, 10/15/2020	690,000	728,812
7.5%, 4/1/2021	340,000	363,800
Intelsat Luxembourg SA:		
7.75%, 6/1/2021	165,000	165,413
8.125%, 6/1/2023	25,000	25,500
Level 3 Communications, Inc., 8.875%, 6/1/2019	205,000	217,341
Level 3 Escrow II, Inc., 144A, 5.375%, 8/15/2022	265,000	266,325
Level 3 Financing, Inc.:		
6.125%, 1/15/2021	100,000	103,500
7.0%, 6/1/2020	185,000	194,944
8.625%, 7/15/2020	450,000	485,437
Millicom International Cellular SA, 144A, 4.75%, 5/22/2020	200,000	188,500
MTN Mauritius Investments Ltd., 144A, 4.755%, 11/11/2024	250,000	245,000
Sprint Communications, Inc.:		
6.0%, 11/15/2022	85,000	78,200
144A, 7.0%, 3/1/2020	85,000	91,800
144A, 9.0%, 11/15/2018	420,000	477,708
Sprint Corp., 7.125%, 6/15/2024	285,000	265,050
T-Mobile U.S.A., Inc., 6.625%, 11/15/2020	655,000	666,462
Turk Telekomunikasyon AS, 144A, 4.875%, 6/19/2024	200,000	201,051

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	Principal Amount ($)(c)	Value ($)
UPCB Finance III Ltd., 144A, 6.625%, 7/1/2020	370,000	388,500
UPCB Finance V Ltd., 144A, 7.25%, 11/15/2021	280,000	306,250
Wind Acquisition Finance SA, 144A, 6.5%, 4/30/2020	50,000	51,125
Windstream Corp.:		
6.375%, 8/1/2023	60,000	56,100
7.5%, 4/1/2023	20,000	19,900
7.75%, 10/15/2020	1,075,000	1,107,250
7.75%, 10/1/2021	185,000	188,700
7.875%, 11/1/2017	130,000	140,725
		11,640,400

Utilities 0.6%

	Principal Amount ($)(c)	Value ($)
AES Corp.:		
8.0%, 10/15/2017	6,000	6,735
8.0%, 6/1/2020	30,000	34,275
Calpine Corp.:		
5.375%, 1/15/2023	85,000	85,850
5.75%, 1/15/2025	85,000	86,063
Dynegy Finance I, Inc., 144A, 7.625%, 11/1/2024	20,000	20,400
Empresa Electrica Angamos SA, 144A, 4.875%, 5/25/2029	200,000	196,500
Hrvatska Elektroprivreda, 144A, 6.0%, 11/9/2017	250,000	260,750
Inkia Energy Ltd., 144A, 8.375%, 4/4/2021	250,000	265,000
NGL Energy Partners LP, 144A, 5.125%, 7/15/2019	65,000	62,400
NRG Energy, Inc., 144A, 6.25%, 5/1/2024	360,000	366,300
RJS Power Holdings LLC, 144A, 5.125%, 7/15/2019	70,000	69,125
		1,453,398
Total Corporate Bonds (Cost $64,602,426)		**62,736,098**

Asset-Backed 0.6%

Automobile Receivables 0.2%

	Principal Amount ($)(c)	Value ($)
AmeriCredit Automobile Receivables Trust, "E", Series 2011-2, 144A, 5.48%, 9/10/2018	528,181	**540,748**

Miscellaneous 0.4%

	Principal Amount ($)(c)	Value ($)
ARES CLO Ltd., "D", Series 2012-3A, 144A, 4.878%**, 1/17/2024	250,000	250,000
Hilton Grand Vacations Trust, "B", Series 2014-AA, 144A, 2.07%, 11/25/2026	443,771	436,528
VOLT XXIV LLC, "A1", Series 2014-NPL3, 144A, 3.25%, 11/25/2053	271,105	271,361
		957,889
Total Asset-Backed (Cost $1,512,738)		**1,498,637**

Mortgage-Backed Securities Pass-Throughs 1.0%

	Principal Amount ($)(c)	Value ($)
Federal Home Loan Mortgage Corp., 6.0%, 3/1/2038	8,936	10,072
Federal National Mortgage Association:		
3.0%, 7/1/2042 (d)	1,000,000	1,012,109
4.0%, 3/1/2042 (d)	1,200,000	1,281,188
4.5%, 9/1/2035	23,962	26,182
6.0%, 1/1/2024	27,969	31,649
6.5%, with various maturities from 5/1/2017 until 1/1/2038	5,256	5,585
Total Mortgage-Backed Securities Pass-Throughs (Cost $2,346,856)		**2,366,785**

Commercial Mortgage-Backed Securities 0.4%

	Principal Amount ($)(c)	Value ($)
Del Coronado Trust, "M", Series 2013-HDMZ, 144A, 5.161%**, 3/15/2018	120,000	120,096
JPMorgan Chase Commercial Mortgage Securities Corp.:		
"C", Series 2012-HSBC, 144A, 4.021%, 7/5/2032	380,000	397,379
"A4", Series 2007-C1, 5.716%, 2/15/2051	224,071	240,985
LB-UBS Commercial Mortgage Trust, "A4", Series 2007-C6, 5.858%, 7/15/2040	243,621	257,071
Total Commercial Mortgage-Backed Securities (Cost $1,007,094)		**1,015,531**

Collateralized Mortgage Obligations 1.0%

	Principal Amount ($)(c)	Value ($)
Federal Home Loan Mortgage Corp.:		
"HI", Series 3979, Interest Only, 3.0%, 12/15/2026	585,155	62,276
"IK", Series 4048, Interest Only, 3.0%, 5/15/2027	690,184	87,996
"ZG", Series 4213, 3.5%, 6/15/2043	91,121	91,302
"LI", Series 3720, Interest Only, 4.5%, 9/15/2025	1,142,707	166,748
"PI", Series 3843, Interest Only, 4.5%, 5/15/2038	620,269	67,187
"H", Series 2278, 6.5%, 1/15/2031	138	154
Federal National Mortgage Association:		
"WO", Series 2013-27, Principal Only, Zero Coupon, 12/25/2042	220,000	116,937
"I", Series 2003-84, Interest Only, 6.0%, 9/25/2033	204,522	40,564
"PI", Series 2006-20, Interest Only, 6.511%***, 11/25/2030	379,977	63,212
Freddie Mac Structured Agency Credit Risk Debt Notes, "M3", Series 2014-DN4, 4.705%**, 10/25/2024	240,000	235,017
Government National Mortgage Association:		
"ZJ", Series 2013-106, 3.5%, 7/20/2043	73,498	73,485
"QI", Series 2011-112, Interest Only, 4.0%, 5/16/2026	647,059	67,707
"NI", Series 2011-80, Interest Only, 4.5%, 5/16/2038	836,136	52,654
"BI", Series 2010-30, Interest Only, 4.5%, 7/20/2039	114,078	15,504

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

		Principal Amount ($)(c)	Value ($)
"ND", Series 2010-130, 4.5%, 8/16/2039		600,000	661,715
"IQ", Series 2011-18, Interest Only, 5.5%, 1/16/2039		267,617	29,357
"IV", Series 2009-69, Interest Only, 5.5%, 8/20/2039		479,467	82,780
"IN", Series 2009-69, Interest Only, 5.5%, 8/20/2039		486,851	80,524
"IJ", Series 2009-75, Interest Only, 6.0%, 8/16/2039		359,353	64,584
"AI", Series 2007-38, Interest Only, 6.299%***, 6/16/2037		83,386	13,381
Residential Funding Mortgage Securities I, Inc., "M1", Series 2003-S17, 5.5%, 9/25/2033		412,134	384,885
Total Collateralized Mortgage Obligations (Cost $2,147,057)			**2,457,969**

Government & Agency Obligations 7.7%

Other Government Related (e) 0.1%

Banco de Costa Rica, 144A, 5.25%, 8/12/2018		200,000	201,500
TMK OAO, 144A, 6.75%, 4/3/2020		200,000	112,000
			313,500

Sovereign Bonds 3.7%

Government of New Zealand:			
Series 0427, REG S, 4.5%, 4/15/2027	NZD	1,380,000	1,148,216
5.5%, 4/15/2023	NZD	1,710,000	1,432,273
Series 1217, REG S, 6.0%, 12/15/2017	NZD	3,100,000	2,582,976
Perusahaan Penerbit SBSN, 144A, 6.125%, 3/15/2019		500,000	552,500
Republic of Belarus, REG S, 8.75%, 8/3/2015		100,000	94,170
Republic of Costa Rica, 144A, 4.25%, 1/26/2023		200,000	183,000
Republic of El Salvador:			
144A, 6.375%, 1/18/2027		100,000	100,250
144A, 7.65%, 6/15/2035		200,000	212,000
Republic of Hungary, Series 19/A, 6.5%, 6/24/2019	HUF	16,900,000	73,811
Republic of Italy, REG S, 144A, 4.75%, 9/1/2044	EUR	1,040,000	1,629,872
Republic of Peru, 144A, 5.7%, 8/12/2024	PEN	300,000	100,461
Republic of Slovenia, 144A, 5.5%, 10/26/2022		200,000	221,750
Republic of South Africa:			
5.875%, 9/16/2025 (b)		100,000	112,625
Series R204, 8.0%, 12/21/2018	ZAR	1,300,000	115,147
Republic of Sri Lanka, 144A, 5.125%, 4/11/2019		200,000	201,500
United Mexican States:			
Series M, 4.75%, 6/14/2018	MXN	2,000,000	135,257
Series M 20, 8.5%, 5/31/2029	MXN	1,000,000	81,901
			8,977,709

	Principal Amount ($)(c)	Value ($)
U.S. Government Sponsored Agency 0.4%		
Federal National Mortgage Association, 3.0%, 11/15/2027	1,000,000	**966,413**
U.S. Treasury Obligations 3.5%		
U.S. Treasury Bills:		
0.035%****, 2/12/2015 (f)	1,327,000	1,326,974
0.085%****, 6/11/2015 (f)	241,000	240,930
U.S. Treasury Bonds:		
3.125%, 8/15/2044	70,000	75,359
3.625%, 2/15/2044	251,000	295,376
5.375%, 2/15/2031	1,071,000	1,492,790
U.S. Treasury Notes:		
1.0%, 8/31/2016 (g) (h)	3,400,000	3,425,500
1.0%, 9/30/2016	1,200,000	1,208,813
2.25%, 11/15/2024	432,000	434,903
2.5%, 5/15/2024	170,000	175,126
		8,675,771
Total Government & Agency Obligations (Cost $18,952,432)		**18,933,393**

Municipal Bonds and Notes 0.1%

Kentucky, Asset/Liability Commission, General Fund Revenue, 3.165%, 4/1/2018 (Cost $323,761)	323,761	**333,613**

Convertible Bond 0.1%

Materials

GEO Specialty Chemicals, Inc., 144A 7.5%, 3/31/2015 (PIK) (Cost $208,728)	209,283	**361,536**

Preferred Security 0.0%

Materials

Hercules, Inc., 6.5%, 6/30/2029 (Cost $20,611)	40,000	**36,000**

	Shares	Value ($)
Securities Lending Collateral 2.7%		
Daily Assets Fund Institutional, 0.10% (i) (j) (Cost $6,638,160)	6,638,160	**6,638,160**
Cash Equivalents 10.8%		
Central Cash Management Fund, 0.06% (i) (Cost $26,756,478)	26,756,478	**26,756,478**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $244,775,770)†	103.5	**255,941,339**
Other Assets and Liabilities, Net	(3.5)	**(8,771,110)**
Net Assets	100.0	**247,170,229**

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

* Non-income producing security.

** 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, 2014.

*** These securities are shown at their current rate as of December 31, 2014.

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

† The cost for federal income tax purposes was $245,230,335. At December 31, 2014, net unrealized appreciation for all securities based on tax cost was $10,711,004. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $18,617,211 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $7,906,207.

(a) The Fund may purchase securities that are subject to legal or contractual restrictions on resale ("restricted securities"). Restricted securities are securities which have not been registered with the Securities and Exchange Commission under the Securities Act of 1933. The Fund may be unable to sell a restricted security and it may be more difficult to determine a market value for a restricted security. Moreover, if adverse market conditions were to develop during the period between the Fund's decision to sell a restricted security and the point at which the Fund is permitted or able to sell such security, the Fund might obtain a price less favorable than the price that prevailed when it decided to sell. This investment practice, therefore, could have the effect of increasing the level of illiquidity of the Fund. The future value of these securities is uncertain and there may be changes in the estimated value of these securities.

Schedule of Restricted Securities	**Acquisition Date**	**Cost ($)**	**Value ($)**	**Value as % of Net Assets**
Dawn Holdings, Inc.	August 2013	2,342	1,831	0.001

(b) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at December 31, 2014 amounted to $6,355,717, which is 2.6% of net assets.

(c) Principal amount stated in U.S. dollars unless otherwise noted.

(d) When-issued or delayed delivery security included.

(e) Government-backed debt issued by financial companies or government sponsored enterprises.

(f) At December 31, 2014, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

(g) At December 31, 2014, this security has been pledged, in whole or in part, as collateral for open over-the-counter derivatives.

(h) At December 31, 2014, this security has been pledged, in whole or in part, to cover initial margin requirements for open centrally cleared swap contracts.

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

(j) 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.

CLO: Collateralized Loan Obligation

CVA: Certificaten Van Aandelen (Certificate of Stock)

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.

Principal Only: Principal Only (PO) bonds represent the "principal only" portion of payments on a pool of underlying mortgages or mortgage-backed securities.

REG S: Securities sold under Regulation S may not be offered, sold or delivered within the United States or to, or for the account or benefit of, 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

RSP: Risparmio (Convertible Savings Shares)

SDR: Swedish Depositary Receipt

Included in the portfolio are investments in mortgage- or asset-backed securities which are interests in separate pools of mortgages or assets. Effective maturities of these investments may be shorter than stated maturities due to prepayments. Some separate investments in the Federal National Mortgage Association issues which have similar coupon rates have been aggregated for presentation purposes in this investment portfolio.

At December 31, 2014, open futures contracts purchased were as follows:

Futures	**Currency**	**Expiration Date**	**Contracts**	**Notional Value ($)**	**Unrealized Appreciation ($)**
10 Year U.S. Treasury Note	USD	3/20/2015	100	12,679,688	62,304
United Kingdom Long Gilt Bond	GBP	3/27/2015	6	1,117,798	25,613
Total unrealized appreciation					**87,917**

At December 31, 2014, open futures contracts sold were as follows:

Futures	**Currency**	**Expiration Date**	**Contracts**	**Notional Value ($)**	**Unrealized (Depreciation) ($)**
10 Year Australian Bond	AUD	3/16/2015	11	1,150,793	(17,293)
10 Year U.S. Treasury Note	USD	3/20/2015	107	13,567,266	(18,600)
Euro-BTP Italian Government Bond	EUR	3/6/2015	22	3,609,822	(24,632)
U.S. Treasury Long Bond	USD	3/20/2015	20	2,891,250	(73,311)
Total unrealized depreciation					**(133,836)**

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

At December 31, 2014, open written options contracts were as follows:

Options on Interest Rate Swap Contracts	Swap Effective/ Expiration Date	Contract Amount	Option Expiration Date	Premiums Received ($)	Value ($) (k)
Call Options					
Receive Fixed — 4.48% – Pay Floating — LIBOR	5/9/2016 5/11/2026	2,100,000[1]	5/5/2016	23,572	(3,629)
Receive Fixed — 5.132% – Pay Floating — LIBOR	3/17/2016 3/17/2026	2,100,000[1]	3/15/2016	15,173	(602)
Receive Fixed — 5.132% – Pay Floating — LIBOR	3/17/2016 3/17/2026	2,100,000[2]	3/15/2016	24,780	(602)
Total Call Options				**63,525**	**(4,833)**
Put Options					
Pay Fixed — 1.132% – Receive Floating — LIBOR	3/17/2016 3/17/2026	2,100,000[1]	3/15/2016	15,172	(1,991)
Pay Fixed — 1.132% – Receive Floating — LIBOR	3/17/2016 3/17/2026	2,100,000[2]	3/15/2016	5,355	(1,991)
Pay Fixed — 2.48% – Receive Floating — LIBOR	5/9/2016 5/11/2026	2,100,000[1]	5/5/2016	23,573	(54,362)
Pay Fixed — 2.615% – Receive Floating — LIBOR	12/2/2015 12/4/2045	4,900,000[3]	12/2/2015	106,330	(184,937)
Pay Fixed — 2.64% – Receive Floating — LIBOR	8/10/2015 8/10/2045	1,900,000[1]	8/6/2015	17,765	(62,547)
Pay Fixed — 2.675% – Receive Floating — LIBOR	11/9/2015 11/12/2045	4,900,000[3]	11/9/2015	98,245	(209,501)
Pay Fixed — 2.796% – Receive Floating — LIBOR	6/5/2015 6/5/2045	1,900,000[2]	6/3/2015	20,330	(77,619)
Pay Fixed — 2.88% – Receive Floating — LIBOR	9/30/2015 9/30/2045	4,900,000[4]	9/28/2015	102,523	(298,855)
Pay Fixed — 3.005% – Receive Floating — LIBOR	3/6/2015 3/6/2045	1,900,000[1]	3/4/2015	19,950	(117,363)
Pay Fixed — 3.035% – Receive Floating — LIBOR	2/15/2015 2/3/2045	1,900,000[2]	1/30/2015	23,465	(129,596)
Pay Fixed — 3.088% – Receive Floating — LIBOR	1/28/2015 1/28/2045	2,100,000[5]	1/26/2015	21,184	(162,148)
Total Put Options				**453,892**	**(1,300,910)**
Total				**517,417**	**(1,305,743)**

(k) Unrealized depreciation on written options on interest rate swap contracts at December 31, 2014 was $788,326.

At December 31, 2014, open interest rate swap contracts were as follows:

Centrally Cleared Swaps

Effective/ Expiration Dates	Notional Amount ($)	Cash Flows Paid by the Fund	Cash Flows Received by the Fund	Value ($)	Unrealized Appreciation/ (Depreciation) ($)
12/16/2015 9/18/2017	700,000	Fixed — 1.557%	Floating — LIBOR	861	5
12/16/2015 9/18/2045	4,300,000	Fixed — 2.998%	Floating — LIBOR	(138,264)	(99)
12/16/2015 9/17/2035	400,000	Fixed — 2.938%	Floating — LIBOR	(8,397)	(9)
12/16/2015 9/16/2020	17,900,000	Floating — LIBOR	Fixed — 2.214%	(9,560)	(27)
12/16/2015 9/16/2025	800,000	Fixed — 2.64%	Floating — LIBOR	(4,737)	(10)
Total net unrealized depreciation					**(140)**

Bilateral Swap

Effective/ Expiration Dates	Notional Amount ($)	Cash Flows Paid by the Fund	Cash Flows Received by the Fund	Value ($)	Upfront Payment Paid/(Received) ($)	Unrealized Depreciation ($)
6/3/2013 6/3/2025	2,100,000[1]	Floating — LIBOR	Fixed — 3.0%	(8,267)	—	**(8,267)**

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

Counterparties:

1 Nomura International PLC

2 BNP Paribas

3 Citigroup, Inc.

4 Morgan Stanley

5 Barclays Bank PLC

LIBOR: London Interbank Offered Rate

As of December 31, 2014, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
EUR	2,000,000	JPY	296,244,000	1/5/2015	53,134	Barclays Bank PLC
AUD	2,200,000	NZD	2,343,260	1/5/2015	31,780	BNP Paribas
CAD	2,891,632	GBP	1,600,000	1/5/2015	4,997	Societe Generale
USD	23,260	JPY	2,788,000	1/5/2015	16	Societe Generale
EUR	1,900,000	USD	2,379,131	1/5/2015	80,035	Barclays Bank PLC
USD	3,114,711	NZD	4,000,000	1/5/2015	5,489	Australia & New Zealand Banking Group Ltd.
MXN	7,950,000	USD	576,495	1/15/2015	37,976	JPMorgan Chase Securities, Inc.
EUR	421,000	USD	533,181	1/15/2015	23,695	Citigroup, Inc.
EUR	2,391,400	USD	3,008,432	1/20/2015	114,255	Societe Generale
SGD	4,592,490	USD	3,612,450	1/20/2015	146,897	Australia & New Zealand Banking Group Ltd.
CAD	1,902,000	USD	1,684,886	1/20/2015	48,401	Societe Generale
CAD	1,659,070	USD	1,468,105	1/20/2015	40,637	Australia & New Zealand Banking Group Ltd.
NZD	2,400,000	USD	1,872,943	2/5/2015	6,331	Australia & New Zealand Banking Group Ltd.
NZD	2,301,200	AUD	2,200,000	2/5/2015	2,262	Australia & New Zealand Banking Group Ltd.
USD	10,445	RUB	697,740	2/17/2015	802	Barclays Bank PLC
Total unrealized appreciation					**596,707**	

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
GBP	1,600,000	CAD	2,869,232	1/5/2015	(24,276)	UBS AG
NZD	2,386,549	AUD	2,200,000	1/5/2015	(65,548)	Australia & New Zealand Banking Group Ltd.
JPY	299,032,000	EUR	2,000,000	1/5/2015	(76,410)	Barclays Bank PLC
NZD	2,322,188	AUD	2,200,000	1/5/2015	(15,343)	Morgan Stanley
USD	2,432,768	JPY	290,000,000	1/5/2015	(11,662)	UBS AG
USD	2,315,483	EUR	1,900,000	1/5/2015	(16,387)	Societe Generale
AUD	2,200,000	NZD	2,299,279	1/5/2015	(2,527)	Australia & New Zealand Banking Group Ltd.
USD	17,904	NZD	22,909	1/5/2015	(34)	Citigroup, Inc.
USD	19,335	CAD	22,400	1/5/2015	(56)	Citigroup, Inc.
NZD	4,000,000	USD	3,069,940	1/5/2015	(50,260)	Australia & New Zealand Banking Group Ltd.
USD	470,448	ZAR	5,350,000	1/15/2015	(8,693)	UBS AG
USD	57,358	ZAR	650,000	1/15/2015	(1,257)	Commonwealth Bank of Australia
USD	412,960	ZAR	4,700,000	1/15/2015	(7,306)	Citigroup, Inc.
USD	618,140	ZAR	7,050,000	1/15/2015	(9,659)	BNP Paribas
USD	1,167,997	MXN	15,900,000	1/15/2015	(90,959)	JPMorgan Chase Securities, Inc.
USD	3,508,189	SGD	4,592,490	1/20/2015	(42,636)	BNP Paribas
NZD	3,259,000	USD	2,524,187	1/20/2015	(14,500)	Australia & New Zealand Banking Group Ltd.
USD	1,434,717	EUR	1,121,400	1/20/2015	(77,550)	Citigroup, Inc.
USD	1,464,655	CAD	1,659,070	1/20/2015	(37,188)	Societe Generale
GBP	1,600,000	CAD	2,892,846	2/5/2015	(5,006)	Societe Generale
USD	43,093	ZAR	500,000	2/10/2015	(118)	Citigroup, Inc.
RUB	697,740	USD	10,839	2/17/2015	(407)	Barclays Bank PLC
Total unrealized depreciation					**(557,782)**	

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

Currency Abbreviations

AUD	Australian Dollar	HUF	Hungarian Forint	RUB	Russian Ruble
BRL	Brazilian Real	JPY	Japanese Yen	SGD	Singapore Dollar
CAD	Canadian Dollar	MXN	Mexican Peso	USD	United States Dollar
EUR	Euro	NZD	New Zealand Dollar	ZAR	South African Rand
GBP	British Pound	PEN	Peruvian Nuevo Sol		

For information on the Fund's policy and additional disclosures regarding futures contracts, interest rate swap contracts, forward foreign currency exchange contracts and written options 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 level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

The following is a summary of the inputs used as of December 31, 2014 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				
Consumer Discretionary	$ 8,819,129	$ 4,814,855	$ 1,831	$ 13,635,815
Consumer Staples	8,517,064	3,081,043	—	11,598,107
Energy	6,123,576	4,745,811	—	10,869,387
Financials	18,372,205	15,863,638	—	34,235,843
Health Care	9,062,326	1,997,789	0	11,060,115
Industrials	5,970,983	6,590,947	—	12,561,930
Information Technology	13,639,688	1,443,605	—	15,083,293
Materials	2,274,849	1,919,142	—	4,193,991
Telecommunication Services	2,217,583	4,828,438	—	7,046,021
Utilities	7,469,443	3,605,046	—	11,074,489
Preferred Stocks (l)	—	1,429,618	—	1,429,618
Rights (l)	—	4,189	—	4,189
Warrants (l)	—	—	14,341	14,341
Fixed Income Investments (l)				
Corporate Bonds	—	62,736,098	—	62,736,098
Asset-Backed	—	1,498,637	—	1,498,637
Mortgage-Backed Securities Pass-Throughs	—	2,366,785	—	2,366,785
Commercial Mortgage-Backed Securities	—	1,015,531	—	1,015,531
Collateralized Mortgage Obligations	—	2,457,969	—	2,457,969
Government & Agency Obligations	—	18,933,393	—	18,933,393
Municipal Bonds and Notes	—	333,613	—	333,613
Convertible Bond	—	—	361,536	361,536
Preferred Security	—	36,000	—	36,000
Short-Term Investments (l)	33,394,638	—	—	33,394,638
Derivatives (m)				
Futures Contracts	87,917	—	—	87,917
Interest Rate Swap Contracts	—	5	—	5
Forward Foreign Currency Exchange Contracts	—	596,707	—	596,707
Total	**$115,949,401**	**$140,298,859**	**$ 377,708**	**$256,625,968**

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivatives (m)				
Futures Contracts	$ (133,836)	$ —	$ —	$ (133,836)
Written Options	—	(1,305,743)	—	(1,305,743)
Interest Rate Swap Contracts	—	(8,412)	—	(8,412)
Forward Foreign Currency Exchange Contracts	—	(557,782)	—	(557,782)
Total	**$ (133,836)**	**$ (1,871,937)**	**$ —**	**$ (2,005,773)**

There have been no transfers between fair value measurement levels during the year ended December 31, 2014.

(l) See Investment Portfolio for additional detailed categorizations.

(m) Derivatives include value of unrealized appreciation (depreciation) on open futures contracts, interest rate swap contracts and forward foreign currency exchange contracts, and written options, at value.

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

Statement of Assets and Liabilities

as of December 31, 2014

Assets	
Investments:	
Investments in non-affiliated securities, at value (cost 211,381,132) — including $6,355,717 of securities loaned	$ 222,546,701
Investment in Daily Assets Fund Institutional (cost $6,638,160)*	6,638,160
Investment in Central Cash Management Fund (cost $26,756,478)	26,756,478
Total investments in securities, at value (cost $244,775,770)	255,941,339
Cash	316,324
Foreign currency, at value (cost $499,953)	494,773
Receivable for investments sold	168,801
Receivable for investments sold — when-issued/delayed delivery security	1,251,204
Receivable for Fund shares sold	95,425
Dividends receivable	197,959
Interest receivable	1,158,208
Receivable for variation margin on centrally cleared swaps	43,090
Unrealized appreciation on forward foreign currency exchange contracts	596,707
Foreign taxes recoverable	111,037
Other assets	5,166
Total assets	260,380,033

Liabilities	
Payable upon return of securities loaned	6,638,160
Payable for investments purchased	702,534
Payable for investments purchased — when-issued/delayed delivery securities	3,528,052
Payable for Fund shares redeemed	140,520
Payable for variation margin on futures contracts	39,418
Options written, at value (premium received $517,417)	1,305,743
Unrealized depreciation on bilateral swap contracts	8,267
Unrealized depreciation on forward foreign currency exchange contracts	557,782
Accrued management fee	78,270
Accrued Trustees' fees	5,701
Other accrued expenses and payables	205,357
Total liabilities	13,209,804
Net assets, at value	**$ 247,170,229**

Net Assets Consist of	
Undistributed net investment income	7,197,938
Net unrealized appreciation (depreciation) on:	
Investments	11,165,569
Swap contracts	(8,407)
Futures	(45,919)
Foreign currency	23,222
Written options	(788,326)
Accumulated net realized gain (loss)	5,835,531
Paid-in capital	223,790,621
Net assets, at value	**$ 247,170,229**
Class A	
Net Asset Value, offering and redemption price per share ($247,170,229 ÷ 10,040,081 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 24.62**

* Represents collateral on securities loaned.

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

Statement of Operations

for the year ended December 31, 2014

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $213,282)	$ 4,370,167
Interest	4,530,878
Income distributions — Central Cash Management Fund	13,280
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	71,864
Total income	8,986,189
Expenses:	
Management fee	961,149
Administration fee	260,499
Services to shareholders	1,636
Custodian fee	121,687
Professional fees	98,388
Reports to shareholders	63,323
Trustees' fees and expenses	15,477
Other	84,295
Total expenses	1,606,454
Net investment income	**7,379,735**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	6,967,711
Swap contracts	(1,346,021)
Futures	860,875
Written options	219,730
Foreign currency	556,145
	7,258,440
Change in net unrealized appreciation (depreciation) on:	
Investments	(2,573,833)
Swap contracts	67,369
Futures	(1,038,811)
Written options	(904,713)
Foreign currency	(203,244)
	(4,653,232)
Net gain (loss)	**2,605,208**
Net increase (decrease) in net assets resulting from operations	**$ 9,984,943**

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, 2014	2013
Operations:		
Net investment income	$ 7,379,735	$ 8,106,989
Net realized gain (loss)	7,258,440	30,650,529
Change in net unrealized appreciation (depreciation)	(4,653,232)	1,922,701
Net increase (decrease) in net assets resulting from operations	9,984,943	40,680,219
Distributions to shareholders from:		
Net investment income: Class A	(8,047,271)	(5,498,634)
Net realized gains: Class A	(26,528,998)	—
Total distributions	(34,576,269)	(5,498,634)
Fund share transactions:		
Class A		
Proceeds from shares sold	5,731,970	7,161,669
Shares issued to shareholders in reinvestment of distributions	34,576,269	5,498,634
Payments for shares redeemed	(37,629,458)	(39,157,373)
Net increase (decrease) in net assets from Class A share transactions	2,678,781	(26,497,070)
Increase (decrease) in net assets	(21,912,545)	8,684,515
Net assets at beginning of period	269,082,774	260,398,259
Net assets at end of period (including undistributed net investment income of $7,197,938 and $7,643,314, respectively)	**$ 247,170,229**	**$ 269,082,774**

Other Information		
Class A		
Shares outstanding at beginning of period	9,857,478	10,896,924
Shares sold	223,936	284,532
Shares issued to shareholders in reinvestment of distributions	1,433,510	220,917
Shares redeemed	(1,474,843)	(1,544,895)
Net increase (decrease) in Class A shares	182,603	(1,039,446)
Shares outstanding at end of period	10,040,081	9,857,478

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

Financial Highlights

Class A	2014	Years Ended December 31, 2013	2012	2011	2010
Selected Per Share Data					
Net asset value, beginning of period	**$27.30**	**$23.90**	**$21.49**	**$22.13**	**$20.52**
Income (loss) from investment operations:					
Net investment income[a]	.72	.78	.57	.46	.39
Net realized and unrealized gain (loss)	.25	3.14	2.20	(.75)	1.88
Total from investment operations	.97	3.92	2.77	(.29)	2.27
Less distributions from:					
Net investment income	(.85)	(.52)	(.36)	(.35)	(.66)
Net realized gains	(2.80)	—	—	—	—
Total distributions	(3.65)	(.52)	(.36)	(.35)	(.66)
Net asset value, end of period	**$24.62**	**$27.30**	**$23.90**	**$21.49**	**$22.13**
Total Return (%)	3.83	16.63	12.98	(1.42)	11.22
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	247	269	260	264	308
Ratio of expenses (%)	.62	.60	.59	.58	.65
Ratio of net investment income (%)	2.83	3.07	2.48	2.09	1.89
Portfolio turnover rate (%)	88	182	188	109	203

[a] Based on average shares outstanding during the period.

Notes to Financial Statements

A. Organization and Significant Accounting Policies

Deutsche Global Income Builder VIP (formerly DWS Global Income Builder VIP) (the "Fund") is a diversified series of Deutsche Variable Series II (formerly 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 level assigned to the securities valuations may not be an indication of the risk or liquidity 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. 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. Equity securities are generally categorized as Level 1. 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 are valued at prices supplied by independent pricing services approved by the Fund's Board. 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, prepayment speeds and other data, as well as broker quotes. If the pricing services are unable to provide valuations, debt securities are valued at the average of the most recent reliable bid quotations or evaluated prices, as applicable, obtained from broker-dealers. 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.

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 at prices supplied by a Board approved pricing vendor, if available, and otherwise are valued at the price provided by the broker-dealer with which the option was traded. Over-the-counter written or purchased options 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 considered 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.

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. Deutsche Bank AG, as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains the benefits of owning the securities it has loaned and continues to receive interest and dividends generated by the 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. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. 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.

As of December 31, 2014, the Fund had securities on loan. The value of the related collateral exceeded the value of the securities loaned at period end.

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. Additionally, the Fund may be required to post securities and/or cash collateral in accordance with the terms 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, the Fund may be subject to taxes imposed by the governments of countries in which it invests and are generally based on income and/or capital gains earned or repatriated. Estimated tax liabilities on certain foreign securities are recorded on an accrual basis and are reflected as components of interest income or net change in unrealized gain/loss on investments. Tax liabilities realized as a result of security sales are reflected as a component of net realized gain/loss on investments.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2014 and has determined that no provision for income tax and/or uncertain tax provisions 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 from net investment income of the Fund, if any, are 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, 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, 2014, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 11,604,615
Undistributed net long-term capital gains	$ 1,847,642
Unrealized appreciation (depreciation) on investments	$ 10,711,004

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

	Years Ended December 31, 2014	2013
Distributions from ordinary income*	$ 12,402,934	$ 5,498,634
Distributions from long-term capital gains	$ 22,173,335	$ —

* 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 based upon the relative net assets or other appropriate measures.

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. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments. 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

Swaps. A swap is a contract between two parties to exchange future cash flows at periodic intervals based on the notional amount of the swap. A bilateral swap is a transaction between the fund and a counterparty where cash flows are exchanged between the two parties. A centrally cleared swap is a transaction executed between the fund and a counterparty, then cleared by a clearing member through a central clearinghouse. The central clearinghouse serves as the counterparty, with whom the fund exchanges cash flows.

The value of a 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. Gains or losses are realized when the swap expires or is closed. Certain risks may arise when entering into swap transactions including counterparty default; liquidity; or unfavorable changes in interest rates or the value of the underlying reference security, commodity or index. In connection with bilateral swaps, securities and/or cash may be identified as collateral in accordance with the terms of the swap agreement 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 swap, 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. Upon entering into a centrally cleared swap, 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 notional amount of the swap. Subsequent payments ("variation margin") are made or received by the Fund dependent upon the daily fluctuations in the value of the swap. In a cleared swap transaction, counterparty risk is minimized as the central clearinghouse acts as the counterparty.

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.

Interest Rate Swaps. Interest rate swaps are agreements in which the Fund agrees to pay to 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. For the year ended December 31, 2014, the Fund entered into interest rate swap agreements to gain exposure to different parts of the yield curve while managing overall duration.

A summary of the open interest rate swap contracts as of December 31, 2014 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2014, the investment in interest rate swap contracts had a total notional amount generally indicative of a range from approximately $10,500,000 to $26,200,000.

Credit Default Swaps. Credit default swaps are agreements between a buyer and a seller of protection against predefined credit events for the reference entity. The Fund may enter into credit default swaps to gain exposure to an underlying issuer's credit quality characteristics without directly investing in that issuer or to hedge against the risk of a credit event on debt securities. As a seller of a credit default swap, 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 swap 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 swaps, in which case the Fund functions as the counterparty referenced above. This involves the risk that the swap 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, 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 swaps sold by the Fund. For the year ended December 31, 2014, the Fund entered into credit default swap agreements to gain exposure to the underlying issuer's credit quality characteristics.

Under the terms of a credit default swap, the Fund receives or makes periodic 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 swap 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, 2014. For the year ended December 31, 2014, the investment in credit default swap contracts sold had a total notional value of generally indicative of a range from $0 to $125,000.

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, 2014, the Fund entered into interest rate futures to gain exposure to different parts of the yield curve while managing overall duration. The Fund also entered into interest rate 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 disclosed in the Statement of Assets and Liabilities.

A summary of the open futures contracts as of December 31, 2014 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2014, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $7,994,000 to $43,210,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from approximately $5,641,000 to $57,469,000.

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. The Fund may write or purchase interest rate swaption agreements which are options to enter into a pre-defined swap agreement. The interest rate swaption agreement will specify whether the buyer of the swaption will be a fixed-rate receiver or a fixed-rate payer upon exercise. Certain options, including options on indices and interest rate options, will require cash settlement by the Fund if exercised. For the year ended December 31, 2014, the Fund entered into options on interest rate swaps in order to hedge 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. For exchange traded contracts, the counterparty risk is minimized as the exchange's clearinghouse acts as the counterparty, and guarantees the futures against default. 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 open written option contracts is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2014, the investment in written option contracts had a total value generally indicative of a range from approximately $133,000 to $1,306,000.

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, 2014, 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.

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, 2014 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2014, the investment in forward currency contracts short vs. U.S. dollars had a total contract value generally indicative of a range from approximately $11,372,000 to $30,883,000, and the investment in forward currency contracts long vs. U.S. dollars had a total contract value generally indicative of a range from approximately $4,127,000 to $29,316,000. The investment in forward currency contracts long vs. other foreign currencies sold had a total contract value generally indicative of a range from $0 to approximately $21,540,000.

The following tables summarize the value of the Fund's derivative instruments held as of December 31, 2014 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivatives	Forward Contracts	Swap Contracts	Futures Contracts	Total
Interest Rate Contracts (a)	$ —	$ 5	$ 87,917	$ 87,922
Foreign Exchange Contracts (b)	596,707	—	—	596,707
	$ 596,707	**$ 5**	**$ 87,917**	**$ 684,629**

Each of the above derivatives is located in the following Statement of Assets and Liabilities accounts:

(a) Includes cumulative appreciation of futures and centrally cleared swap 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	Written Options	Forward Contracts	Swap Contracts	Futures Contracts	Total
Interest Rate Contracts (a) (b)	$ (1,305,743)	$ —	$ (8,412)	$ (133,836)	$ (1,447,991)
Foreign Exchange Contracts (c)	—	(557,782)	—	—	(557,782)
	$ (1,305,743)	**$ (557,782)**	**$ (8,412)**	**$ (133,836)**	**$ (2,005,773)**

Each of the above derivatives is located in the following Statement of Assets and Liabilities accounts:

(a) Includes cumulative depreciation of futures and centrally cleared swap 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 bilateral swap contracts, respectively

(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, 2014 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	Written Options	Forward Contracts	Swap Contracts	Futures Contracts	Total
Interest Rate Contracts (a)	$ 219,730	$ —	$ (1,355,195)	$ 860,875	$ (274,590)
Credit Contracts (a)	—	—	9,174	—	9,174
Foreign Exchange Contracts (b)	—	770,535	—	—	770,535
	$ 219,730	**$ 770,535**	**$ (1,346,021)**	**$ 860,875**	**$ 505,119**

Each of the above derivatives is located in the following Statement of Operations accounts:

(a) Net realized gain (loss) from 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)	Written Options	Forward Contracts	Swap Contracts	Futures Contracts	Total
Interest Rate Contracts (a)	$ (904,713)	$ —	$ 78,376	$ (1,038,811)	$ (1,865,148)
Credit Contracts (a)	—	—	(11,007)	—	(11,007)
Foreign Exchange Contracts (b)	—	(184,668)	—	—	(184,668)
	$ (904,713)	**$ (184,668)**	**$ 67,369**	**$ (1,038,811)**	**$ (2,060,823)**

Each of the above derivatives is located in the following Statement of Operations accounts:

(a) Change in net unrealized appreciation (depreciation) on 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)

As of December 31, 2014, the Fund has transactions subject to enforceable master netting agreements. A reconciliation of the gross amounts on the Statement of Assets and Liabilities to the net amounts by counterparty, including any collateral exposure, is included in the following tables:

Counterparty	Gross Amounts of Assets Presented in the Statement of Assets and Liabilities	Financial Instruments and Derivatives Available for Offset	Cash Collateral Received	Non-Cash Collateral Received	Net Amount of Derivative Assets
Australia & New Zealand Banking Group Ltd	$ 201,616	$ (132,835)	$ —	$ —	$ 68,781
Barclays Bank PLC	133,971	(133,971)	—	—	—
BNP Paribas	31,780	(31,780)	—	—	—
Citigroup. Inc.	23,695	(23,695)	—	—	—
JPMorgan Chase Securities, Inc.	37,976	(37,976)	—	—	—
Societe Generale	167,669	(58,581)	—	—	109,088
	$ 596,707	**$ (418,838)**	**$ —**	**$ —**	**$ 177,869**

Counterparty	Gross Amounts of Liabilities Presented in the Statement of Assets and Liabilities	Financial Instruments and Derivatives Available for Offset	Cash Collateral Pledged	Non-Cash Collateral Pledged (a)	Net Amount of Derivative Liabilities
Australia & New Zealand Banking Group Ltd	$ 132,835	$ (132,835)	$ —	$ —	$ —
Barclays Bank PLC	238,965	(133,971)	—	—	104,994
BNP Paribas	262,103	(31,780)	—	—	230,323
Citigroup. Inc.	479,502	(23,695)	—	(141,050)	314,757
Commonwealth Bank of Australia	1,257	—	—	—	1,257
JPMorgan Chase Securities, Inc.	90,959	(37,976)	—	—	52,983
Morgan Stanley	314,198	—	—	(312,325)	1,873
Nomura International PLC	248,761	—	—	(248,761)	—
Societe Generale	58,581	(58,581)	—	—	—
UBS AG	44,631	—	—	—	44,631
	$ 1,871,792	**$ (418,838)**	**$ —**	**$ (702,136)**	**$ 750,818**

(a) The actual collateral pledged may be more than the amount shown.

C. Purchases and Sales of Securities

During the year ended December 31, 2014, purchases and sales of investment transactions (excluding short-term investments and U.S. Treasury obligations) aggregated $196,455,463 and $237,438,164, respectively. Purchases and sales of U.S. Treasury obligations aggregated $11,693,534 and $9,385,783, respectively.

For the year ended December 31, 2014, transactions for written options on interest rate swap contracts were as follows:

	Contract Amount	Premium
Outstanding, beginning of period	26,600,000	$ 280,210
Options written	28,600,000	456,937
Options closed	(16,100,000)	(204,242)
Options expired	(2,100,000)	(15,488)
Outstanding, end of period	**37,000,000**	**$ 517,417**

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.

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, 2014, the fee pursuant to the Investment Management Agreement was equivalent to an annual rate (exclusive of any applicable waivers/reimbursements) of 0.37% of the Fund's average daily net assets.

For the period from January 1, 2014 through September 30, 2014, the Advisor had contractually agreed to waive its fees and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of Class A shares at 0.71%.

Effective October 1, 2014 through September 30, 2015, the Advisor has contractually agreed to waive its fees and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of Class A shares at 0.73%.

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, 2014, the Administration Fee was $260,499, of which $21,158 is unpaid.

Service Provider Fees. DeAWM Service Company ("DSC"), 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 DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it receives from the Fund. For the year ended December 31, 2014, the amounts charged to the Fund by DSC aggregated $395, of which $66 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, 2014, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $20,383, of which $8,500 is unpaid.

Trustees' Fees and Expenses. The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and Vice Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicles. The Fund may invest uninvested cash balances in Central Cash Management Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. Each affiliated money market fund seeks to provide a high level of current income consistent with liquidity and the preservation of capital. Each affiliated money market fund is managed in accordance with Rule 2a-7 under the Investment Company Act of 1940, which governs the quality, maturity, diversity and liquidity of instruments in which a money market fund may invest. Central Cash Management Fund seeks to maintain a stable net asset value, and Deutsche Variable NAV Money Fund maintains a floating net asset value. The Fund indirectly bears its proportionate share of the expenses of each affiliated money market fund in which it invests. Central Cash Management Fund does not pay the Advisor an investment management fee. To the extent that Deutsche Variable NAV Money Fund pays an investment management fee to the Advisor, the Advisor will waive an amount of the investment management fee payable to the Advisor by the Fund equal to the amount of the investment management fee payable on the Fund's assets invested in Deutsche Variable NAV Money Fund.

Securities Lending Agent Fees. Deutsche Bank AG serves as securities lending agent for the Fund. For the year ended December 31, 2014, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $6,261.

E. Ownership of the Fund

At December 31, 2014, three participating insurance companies were owners of record of 10% or more of the total outstanding shares of the Fund, each owning 44%, 21 and 16%.

F. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 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, 2014.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Deutsche Variable Series II and the Shareholders of Deutsche Global Income Builder VIP:

We have audited the accompanying statement of assets and liabilities, including the investment portfolio, of Deutsche Global Income Builder VIP (formerly DWS Global Income Builder VIP) (the "Fund") (one of the series constituting Deutsche Variable Series II (formerly DWS Variable Series II)), as of December 31, 2014, 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 periods indicated therein. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. 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, 2014, 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 Deutsche Global Income Builder VIP at December 31, 2014, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the periods indicated therein, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Boston, Massachusetts
February 13, 2015

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, 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, 2014 to December 31, 2014).

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, 2014

Actual Fund Return	**Class A**
Beginning Account Value 7/1/14	$1,000.00
Ending Account Value 12/31/14	$ 985.20
Expenses Paid per $1,000*	$ 3.15

Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 7/1/14	$1,000.00
Ending Account Value 12/31/14	$1,022.03
Expenses Paid per $1,000*	$ 3.21

* Expenses are equal to the Fund's annualized expense ratio, multiplied by the average account value over the period, multiplied by 184 (the number of days in the most recent six-month period), then divided by 365.

Annualized Expense Ratio	**Class A**
Deutsche Variable Series II — Deutsche Global Income Builder VIP	.63%

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.

For an analysis of the fees associated with an investment in the fund or similar funds, please refer to the current and hypothetical expense calculators for Variable Insurance Products which can be found at deutschefunds.com/EN/resources/calculators.jsp.

Tax Information

(Unaudited)

The Fund paid distributions of $2.34 per share from net long-term capital gains during its year ended December 31, 2014.

Pursuant to Section 852 of the Internal Revenue Code, the Fund designates $2,022,000 as capital gain dividends for its year ended December 31, 2014.

For corporate shareholders, 13% of the ordinary dividends (i.e., income dividends plus short-term capital gains) paid during the Fund's fiscal year ended December 31, 2014 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 — deutschefunds.com (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — 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.

Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of Deutsche Global Income Builder VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2014.

In terms of the process that the Board followed prior to approving the Agreement, shareholders should know that:

— In September 2014, all of the Fund's Trustees were independent of DIMA 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 Asset Allocation Oversight Committee, reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly meet privately with counsel to discuss contract review and other matters. In addition, the Independent Trustees were advised by the Fee Consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the Fee Consultant in connection with their deliberations.

— 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 DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG ("DB"), a major global banking institution that is engaged in a wide range of financial services. The Board believes that there are 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.

As part of the contract review process, the Board carefully considered the fees and expenses of each Deutsche fund overseen by the Board in light of the fund's performance. In many cases, this led to the negotiation and implementation of expense caps. As part of these negotiations, the Board indicated that it would consider relaxing these caps in future years following sustained improvements in performance, among other considerations.

In 2012, DB combined its Asset Management (of which DIMA was a part) and Wealth Management divisions into a new Asset and Wealth Management ("AWM") division. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that DB will continue to invest in AWM a significant portion of the savings it has realized by combining its Asset and Wealth Management divisions, including ongoing enhancements to AWM's investment capabilities. DB also has confirmed its commitment to maintaining strong legal and compliance groups within the AWM division.

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

Nature, Quality and Extent of Services. The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market index(es) and a peer universe compiled by the Fee Consultant using information supplied by Morningstar Direct ("Morningstar"), an independent fund data service. The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to a peer universe), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's 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, 2013, the Fund's performance (Class A shares) was in the 1st quartile of the applicable Morningstar 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, 2013.

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 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 DIMA under the Fund's administrative services agreement, were lower than the median (1st quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2013). 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, 2013, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). 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 noted that the expense limitation agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to a comparable fund and considered differences between the Fund and the comparable fund. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts and funds offered primarily to European investors ("Deutsche Europe funds") managed by DIMA and its affiliates. The Board noted that DIMA indicated that it does not manage any institutional accounts or Deutsche Europe funds comparable to the Fund.

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

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the Deutsche U.S. mutual funds ("Deutsche 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 DIMA and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable.

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

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to Deutsche Funds advertising and cross-selling opportunities among DIMA products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of DIMA's and the Fund's chief compliance officer; (ii) the large number of DIMA compliance personnel; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.

Based on all of the information considered and the conclusions reached, the Board 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 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.

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund. 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 Kenneth C. Froewiss, Chairman, Deutsche Mutual Funds, P.O. Box 390601, Cambridge, MA 02139. 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.

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 Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Kenneth C. Froewiss (1945) Chairperson since 2013, and 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)	105	—
William McClayton (1944) Vice Chairperson since 2013, and 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	105	—
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); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (provider of disease and care management services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International	105	Portland General Electric[2] (utility company) (2003–present)
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); North Bennett Street School (Boston); former Directorships: Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College	105	Lead Director, Becton Dickinson and Company[2] (medical technology company)
Dawn-Marie Driscoll (1946) Board Member since 1987	Emeritus Executive Fellow, Center for Business Ethics, Bentley University; formerly: President, Driscoll Associates (consulting firm); Partner, Palmer & Dodge (law firm) (1988–1990); Vice President of Corporate Affairs and General Counsel, Filene's (retail) (1978–1988). Directorships: Director of ICI Mutual Insurance Company (since 2007); Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	105	—
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); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies; former Directorships: BoxTop Media Inc. (advertising); Sun Capital Advisers Trust (mutual funds) (2011–2012)	105	—

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 Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Paul K. Freeman (1950) Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Chair, Independent Directors Council; Investment Company Institute (executive and nominating committees); formerly, Chairman of Education Committee of Independent Directors Council; Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998); Directorships: Denver Zoo Foundation (December 2012–present); former Directorships: Prisma Energy International	105	—
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; 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)	105	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
Rebecca W. Rimel (1951) Board Member since 1995	President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 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); Director, Viasys Health Care[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	105	Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc.[2] (health care) (2009–present)
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); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	105	—
Jean Gleason Stromberg (1943) Board Member since 1997	Retired. Formerly, Consultant (1997–2001); Director, Financial Markets U.S. Government Accountability Office (1996–1997); Partner, Norton Rose Fulbright, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation (charitable organization); former Directorships: Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	105	—
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	105	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Brian E. Binder[8] (1972) President and Chief Executive Officer, 2013–present	Managing Director[3] and Head of Fund Administration, Deutsche Asset & Wealth Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012); Chief Administrative Officer, Van Kampen Funds Inc. (2008–2010); and Chief Administrative Officer, Morgan Stanley Investment Management Americas Distribution (2003–2008)
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset & Wealth Management
Melinda Morrow[6] (1970) Vice President, 2012–present	Director,[3] Deutsche Asset & Wealth Management

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset & Wealth 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 & Wealth Management; formerly: Assistant Secretary for DWS family of funds (1997–2010)
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director,[3] Deutsche Asset & Wealth Management
Wayne Salit[6] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset & Wealth Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Hepsen Uzcan[7] (1974) Assistant Secretary, 2013–present	Director,[3] Deutsche Asset & Wealth Management
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management

1 The length of time served represents the year in which the Board Member joined the board of one or more Deutsche 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 Deutsche funds.

6 Address: 60 Wall Street, New York, NY 10005.

7 Address: One Beacon Street, Boston, MA 02108.

8 Address: 222 South Riverside Plaza, Chicago, IL 60606.

* Robert H. Wadsworth retired from the Board effective December 31, 2014.

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.

Deutsche Asset
& Wealth Management

DeAWM Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2GIB-2 (R-025825-4 2/15)

Deutsche Asset
& Wealth Management

December 31, 2014

Annual Report

Deutsche Variable Series I

(formerly DWS Variable Series I)

Deutsche Global Small Cap VIP

(formerly DWS Global Small Cap VIP
and DWS Global Small Cap Growth VIP)

Contents

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. The Fund may lend securities to approved institutions. Smaller company stocks tend to be more volatile than medium-sized or large company stocks. Stocks may decline in value. See the prospectus for details.

Deutsche Asset & Wealth Management represents the asset management and wealth management activities conducted by Deutsche Bank AG or any of its subsidiaries, including the Advisor and DeAWM Distributors, Inc.

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

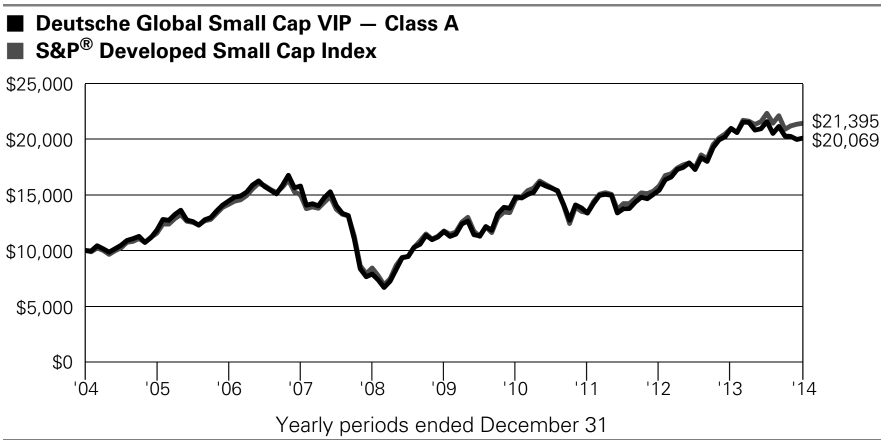
Performance Summary

December 31, 2014 (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, 2014 are 1.14% 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 comprises the stocks representing the lowest 15% of float-adjusted market cap in each developed country. It Is a subset of the S&P® Global BMI, a comprehensive, rules-based index measuring global stock market performance.

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

Comparative Results

Deutsche Global Small Cap VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$9,587	$15,036	$17,157	$20,069
	Average annual total return	–4.13%	14.56%	11.40%	7.21%
S&P Developed Small Cap Index	Growth of $10,000	$10,221	$15,998	$18,200	$21,395
	Average annual total return	2.21%	16.96%	12.72%	7.90%

Deutsche Global Small Cap VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$9,567	$14,927	$16,964	$19,565
	Average annual total return	–4.33%	14.29%	11.15%	6.94%
S&P Developed Small Cap Index	Growth of $10,000	$10,221	$15,998	$18,200	$21,395
	Average annual total return	2.21%	16.96%	12.72%	7.90%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2014 (Unaudited)

Deutsche Global Small Cap VIP returned –4.13% in 2014 (Class A shares, unadjusted for contract charges), underperforming the 2.21% return of the S&P® Developed SmallCap Index.[1]

As is typically the case, individual stock selection was the most important factor in fund performance. Although we added value via strong stock selection in Asia and in the consumer staples sector, this was more than offset by the negative impact of stock selection in financials and industrials.[2] The Fund's regional allocation also played a part in its underperformance. Our emphasis on reasonably valued growth stocks led us to hold overweight positions in Europe and Asia.[3] As a result, the Fund was affected not just by the underperformance of these markets, but also by the sharp downturn in the euro and the Japanese yen.

Among individual stocks, the top contributors to performance included health care stocks such as Zeltiq Aesthetics, Inc., Flamel Technologies SA and Furiex Pharmaceuticals, Inc.[4] Zeltiq has developed a method of non-invasive fat reduction called "CoolSculpting" that has begun to gain traction among dermatologists and plastic surgeons, leading analysts to raise their earnings estimates. Outside of health care, one of our top performers was Kusuri No Aoki Co., Ltd., a Japanese pharmacy chain that has boosted earnings by expanding both its geographic footprint and its product offerings.

Our stock selection in the financial sector detracted from performance, with REXlot Holdings Ltd. and Ocwen Financial Corp.* leading the way on the downside. A position in Constellium NV, a leading supplier of value-added aluminum products that performed very well through the first half of the year, also lost ground due to its high exposure to the slumping European economy.

The Fund remained overweight in the international markets, as we continued to find a higher representation of reasonably valued growth companies overseas. While the strength of the U.S. economy translates to faster earnings growth for many domestic companies, we believe this is already reflected to a large degree in valuations. We continued to hold a modest overweight to Europe, with a focus on companies poised to deliver robust earnings growth despite the weakness in the region's economy. Many of these stocks saw their 12-month returns pressured by the broader underperformance of the European markets, which we saw as an opportunity to own fast-growing companies at attractive prices. On a sector basis, we found a growing number of ideas in the consumer sector during the second half of the year, as falling oil prices led to an improved outlook for personal spending.

Joseph Axtell, CFA
Portfolio Manager

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.

1 The S&P Developed SmallCap Index tracks the performance of small-capitalization stocks in 22 countries. Index returns do not reflect fees or expenses and it is not possible to invest directly in an index.

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

3 "Overweight" means that the Fund holds a higher weighting in a given sector or stock compared with its benchmark index."Underweight" means that the Fund holds a lower weighting in a given sector or stock.

4 Contribution incorporates both a stock's total return and its weighting in the Fund.

* Not held in the portfolio as of December 31, 2014.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/14**	**12/31/13**
Common Stocks	95%	99%
Cash Equivalents	5%	1%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/14**	**12/31/13**
United States	47%	44%
Continental Europe	16%	18%
United Kingdom	13%	14%
Asia (excluding Japan)	10%	11%
Japan	8%	8%
Canada	3%	2%
Latin America	1%	1%
Australia	1%	0%
Other	1%	2%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/14**	**12/31/13**
Consumer Discretionary	25%	23%
Industrials	24%	25%
Financials	15%	17%
Health Care	14%	14%
Information Technology	10%	10%
Consumer Staples	8%	6%
Energy	3%	4%
Materials	1%	1%
	100%	100%

Portfolio holdings and characteristics 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 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 deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

	Shares	Value ($)
Common Stocks 94.8%		
Australia 0.5%		
Austal Ltd.* (Cost $696,239)	541,414	**662,173**
Bermuda 1.1%		
Lazard Ltd. "A" (a) (Cost $731,238)	29,292	**1,465,479**
Canada 2.7%		
Quebecor, Inc. "B"	69,468	1,909,802
SunOpta, Inc.*	153,983	1,824,699
(Cost $2,634,775)		**3,734,501**
China 1.1%		
Minth Group Ltd. (Cost $253,136)	735,349	**1,516,630**
Cyprus 0.5%		
Prosafe SE (Cost $1,575,775)	211,552	**647,245**
Finland 0.6%		
Cramo Oyj (Cost $1,182,847)	54,410	**795,154**
France 2.1%		
Flamel Technologies SA (ADR)*	98,152	1,681,344
JC Decaux SA	34,309	1,178,146
(Cost $1,431,524)		**2,859,490**
Germany 4.9%		
M.A.X. Automation AG	153,246	781,898
Patrizia Immobilien AG	75,850	1,118,678
Rational AG	3,657	1,149,375
United Internet AG (Registered)	57,417	2,603,748
Vib Vermoegen AG	64,037	1,097,847
(Cost $3,126,391)		**6,751,546**
Hong Kong 4.1%		
K Wah International Holdings Ltd.	2,474,090	1,309,832
Playmates Toys Ltd.	3,153,522	668,117
REXLot Holdings Ltd.	15,076,429	1,197,890
Sun Hung Kai & Co., Ltd. (b)	1,302,026	993,059
Techtronic Industries Co., Ltd.	454,179	1,455,503
(Cost $4,146,689)		**5,624,401**
Indonesia 0.7%		
PT Arwana Citramulia Tbk (Cost $901,457)	13,160,709	**917,839**
Ireland 3.2%		
Greencore Group PLC	227,537	1,007,049
Paddy Power PLC (c)	16,940	1,410,098
Paddy Power PLC (c)	409	33,448
Ryanair Holdings PLC*	172,074	2,039,423
(Cost $1,651,790)		**4,490,018**
Italy 0.7%		
Prysmian SpA (Cost $1,091,058)	56,545	**1,029,187**
Japan 7.5%		
Ai Holdings Corp.	72,317	1,276,826
Avex Group Holdings, Inc.	73,692	1,207,549
Kusuri No Aoki Co., Ltd.	44,895	2,441,031
MISUMI Group, Inc.	28,358	931,486
Nippon Seiki Co., Ltd.	101,964	2,299,293
United Arrows Ltd.	28,757	804,215
Universal Entertainment Corp. (b)	50,014	746,235
UT Holdings Co., Ltd.	140,224	595,161
(Cost $7,296,372)		**10,301,796**
Malaysia 1.1%		
Hartalega Holdings Bhd.	497,544	996,310
Tune Ins Holdings Bhd.	1,232,521	594,185
(Cost $1,234,462)		**1,590,495**
Netherlands 2.5%		
Brunel International NV	43,398	711,235
Constellium NV "A"* (d)	98,875	1,624,516
SBM Offshore NV* (b)	88,952	1,054,848
(Cost $4,231,099)		**3,390,599**
Panama 0.8%		
Banco Latinoamericano de Comercio Exterior SA "E" (Cost $925,589)	38,354	**1,154,455**
Philippines 0.8%		
Alliance Global Group, Inc. (Cost $656,182)	2,172,150	**1,084,139**
Singapore 0.9%		
Lian Beng Group Ltd. (Cost $974,223)	2,828,193	**1,290,810**
Switzerland 1.0%		
Dufry AG (Registered)* (b) (Cost $1,062,095)	9,129	**1,353,287**
Taiwan 0.6%		
Kinpo Electronics, Inc.* (Cost $743,413)	1,851,124	**851,259**
Thailand 0.4%		
Malee Sampran PCL (Foreign Registered) (Cost $998,514)	613,080	**512,453**
United Kingdom 12.6%		
Arrow Global Group PLC	363,026	1,279,957
Babcock International Group PLC	129,548	2,119,528
Clinigen Healthcare Ltd.	102,427	838,673
Crest Nicholson Holdings PLC	228,740	1,377,716
Domino's Pizza Group PLC	96,305	1,054,058
Hargreaves Lansdown PLC	69,349	1,081,269
HellermannTyton Group PLC	237,370	1,160,611
Howden Joinery Group PLC	221,622	1,378,064
IG Group Holdings PLC	109,476	1,220,223
Jardine Lloyd Thompson Group PLC	55,096	764,296
John Wood Group PLC	81,162	746,479
Monitise PLC* (b)	778,867	302,766
Nanoco Group PLC*	382,198	867,391
Polypipe Group PLC	306,543	1,174,726
Rotork PLC	28,212	1,015,216
Spirax-Sarco Engineering PLC	21,443	952,938
(Cost $12,932,224)		**17,333,911**
United States 44.4%		
Advance Auto Parts, Inc.	10,804	1,720,861
Affiliated Managers Group, Inc.*	7,575	1,607,718
Altra Industrial Motion Corp.	24,102	684,256
BE Aerospace, Inc.*	12,747	739,581

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

	Shares	Value ($)
Cancer Genetics, Inc.*	30,760	205,477
Cardtronics, Inc.*	36,954	1,425,685
Casey's General Stores, Inc.	18,483	1,669,385
Cognex Corp.*	22,207	917,815
CONMED Corp.	21,566	969,607
DigitalGlobe, Inc.*	30,247	936,750
Encore Capital Group, Inc.*	35,373	1,570,561
Fox Factory Holding Corp.*	80,139	1,300,656
Gentherm, Inc.*	36,575	1,339,376
Hain Celestial Group, Inc.*	19,416	1,131,759
HeartWare International, Inc.*	12,342	906,273
Jack in the Box, Inc.	21,093	1,686,596
Jarden Corp.* (b)	30,002	1,436,472
Kindred Healthcare, Inc. (b)	59,137	1,075,111
KLX, Inc.*	1	21
Leucadia National Corp.	49,500	1,109,790
Manitowoc Co., Inc. (b)	48,895	1,080,579
Middleby Corp.*	18,754	1,858,521
Molina Healthcare, Inc.* (b)	35,391	1,894,480
Oil States International, Inc.*	17,975	878,978
Pacific Ethanol, Inc.* (b)	58,693	606,299
Pacira Pharmaceuticals, Inc.*	14,692	1,302,593
PAREXEL International Corp.*	23,928	1,329,440
Primoris Services Corp.	54,074	1,256,680
Providence Service Corp.*	47,675	1,737,277
PTC, Inc.*	27,410	1,004,576
Retrophin, Inc.*	69,233	847,412
Roadrunner Transportation Systems, Inc.*	38,048	888,421
Sinclair Broadcast Group, Inc. "A"	45,498	1,244,825
Sunshine Heart, Inc.*	131,907	559,286
Tenneco, Inc.*	27,225	1,541,207
The WhiteWave Foods Co.*	37,668	1,318,003
Thoratec Corp.*	47,072	1,527,957
TiVo, Inc.*	79,937	946,454
TriNet Group, Inc.*	46,336	1,449,390
TriState Capital Holdings, Inc.*	67,982	696,136
Ultra Clean Holdings, Inc.*	95,973	890,629
United Rentals, Inc.*	17,895	1,825,469
Urban Outfitters, Inc.*	36,282	1,274,587
VeriFone Systems, Inc.*	43,467	1,616,972
WABCO Holdings, Inc.*	16,086	1,685,491
Waddell & Reed Financial, Inc. "A"	29,772	1,483,241
WageWorks, Inc.*	18,592	1,200,485
Zeltiq Aesthetics, Inc.*	101,877	2,843,387
Zions Bancorp.	40,070	1,142,396
Zoe's Kitchen, Inc.*	24,012	718,199
(Cost $42,668,497)		**61,083,120**
Total Common Stocks (Cost $93,145,589)		**130,439,987**

Rights 0.1%

United States

	Shares	Value ($)
Furiex Pharmaceuticals, Inc.* (Cost $104,334)	10,679	**104,334**

Warrants 0.0%

Malaysia

	Shares	Value ($)
Hartalega Holdings Bhd., Expiration Date 5/29/2015* (Cost $0)	68,733	**52,683**

Securities Lending Collateral 5.7%

	Shares	Value ($)
Daily Assets Fund Institutional, 0.10% (e) (f) (Cost $7,866,134)	7,866,134	**7,866,134**

Cash Equivalents 4.9%

	Shares	Value ($)
Central Cash Management Fund, 0.06% (e) (Cost $6,657,330)	6,657,330	**6,657,330**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $107,773,387)†	105.5	**145,120,468**
Other Assets and Liabilities, Net	(5.5)	**(7,571,281)**
Net Assets	100.0	**137,549,187**

* Non-income producing security.

† The cost for federal income tax purposes was $110,045,849. At December 31, 2014, net unrealized appreciation for all securities based on tax cost was $35,074,619. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $44,815,773 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $9,741,154.

(a) Listed on the NASDAQ Stock Market, Inc.

(b) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at December 31, 2014 amounted to $7,494,770, which is 5.4% of net assets.

(c) Securities with the same description are the same corporate entity but trade on different stock exchanges.

(d) Listed on the New York Stock Exchange.

(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 level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

The following is a summary of the inputs used as of December 31, 2014 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, Rights & Warrants				
Australia	$ —	$ 662,173	$ —	$ 662,173
Bermuda	1,465,479	—	—	1,465,479
Canada	3,734,501	—	—	3,734,501
China	—	1,516,630	—	1,516,630
Cyprus	—	647,245	—	647,245
Finland	—	795,154	—	795,154
France	1,681,344	1,178,146	—	2,859,490
Germany	—	6,751,546	—	6,751,546
Hong Kong	—	5,624,401	—	5,624,401
Indonesia	—	917,839	—	917,839
Ireland	—	4,490,018	—	4,490,018
Italy	—	1,029,187	—	1,029,187
Japan	—	10,301,796	—	10,301,796
Malaysia	—	1,643,178	—	1,643,178
Netherlands	1,624,516	1,766,083	—	3,390,599
Panama	1,154,455	—	—	1,154,455
Philippines	—	1,084,139	—	1,084,139
Singapore	—	1,290,810	—	1,290,810
Switzerland	—	1,353,287	—	1,353,287
Taiwan	—	851,259	—	851,259
Thailand	—	512,453	—	512,453
United Kingdom	—	17,333,911	—	17,333,911
United States	61,083,120	—	104,334	61,187,454
Short-Term Investments (g)	14,523,464	—	—	14,523,464
Total	**$ 85,266,879**	**$ 59,749,255**	**$ 104,334**	**$145,120,468**

There have been no transfers between fair value measurement levels during the year ended December 31, 2014.

(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, 2014

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $93,249,923) — including $7,494,770 of securities loaned	$	130,597,004
Investment in Daily Assets Fund Institutional (cost $7,866,134)*		7,866,134
Investment in Central Cash Management Fund (cost $6,657,330)		6,657,330
Total investments in securities, at value (cost $107,773,387)		145,120,468
Cash		57
Foreign currency, at value (cost $242,853)		238,902
Receivable for investments sold		77,264
Receivable for Fund shares sold		36,208
Dividends receivable		48,527
Interest receivable		4,955
Foreign taxes recoverable		98,344
Other assets		2,678
Total assets		145,627,403

Liabilities		
Payable upon return of securities loaned		7,866,134
Payable for Fund shares redeemed		12,375
Accrued management fee		83,778
Accrued Trustees' fees		1,976
Other accrued expenses and payables		113,953
Total liabilities		8,078,216
Net assets, at value	**$**	**137,549,187**

Net Assets Consist of		
Distributions in excess of net investment income		(353,727)
Net unrealized appreciation (depreciation) on:		
Investments		37,347,081
Foreign currency		(10,316)
Accumulated net realized gain (loss)		13,491,856
Paid-in capital		87,074,293
Net assets, at value	**$**	**137,549,187**
Class A		
Net Asset Value, offering and redemption price per share ($134,772,460 ÷ 9,224,528 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**14.61**
Class B		
Net Asset Value, offering and redemption price per share ($2,776,727 ÷ 194,372 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**14.29**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2014

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $76,694)	$	1,789,603
Income distributions — Central Cash Management Fund		2,209
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		65,677
Total income		1,857,489
Expenses:		
Management fee		1,329,782
Administration fee		149,414
Services to shareholders		1,876
Distribution service fee (Class B)		7,270
Record keeping fee (Class B)		698
Custodian fee		67,184
Professional fees		75,442
Reports to shareholders		33,155
Trustees' fees and expenses		7,680
Other		27,059
Total expenses before expense reductions		1,699,560
Expense reductions		(237,192)
Total expenses after expense reductions		1,462,368
Net investment income (loss)		**395,121**

Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		14,213,645
Foreign currency		(31,655)
		14,181,990
Change in net unrealized appreciation (depreciation) on:		
Investments		(20,720,996)
Foreign currency		(15,959)
		(20,736,955)
Net gain (loss)		**(6,554,965)**
Net increase (decrease) in net assets resulting from operations	**$**	**(6,159,844)**

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, 2014	2013
Operations:		
Net investment income (loss)	$ 395,121	$ 392,707
Net realized gain (loss)	14,181,990	17,021,484
Change in net unrealized appreciation (depreciation)	(20,736,955)	25,576,735
Net increase (decrease) in net assets resulting from operations	(6,159,844)	42,990,926
Distributions to shareholders from:		
Net investment income:		
Class A	(1,278,879)	(881,158)
Class B	(17,935)	(8,337)
Net realized gains:		
Class A	(16,572,319)	(9,356,181)
Class B	(315,539)	(145,558)
Total distributions	(18,184,672)	(10,391,234)
Fund share transactions:		
Class A		
Proceeds from shares sold	5,579,529	7,422,087
Reinvestment of distributions	17,851,198	10,237,339
Payments for shares redeemed	(18,702,818)	(19,526,673)
Net increase (decrease) in net assets from Class A share transactions	4,727,909	(1,867,247)
Class B		
Proceeds from shares sold	1,189,539	496,180
Reinvestment of distributions	333,474	153,895
Payments for redeemed	(885,837)	(384,768)
Net increase (decrease) in net assets from Class B share transactions	637,176	265,307
Increase (decrease) in net assets	(18,979,431)	30,997,752
Net assets at beginning of period	156,528,618	125,530,866
Net assets at end of period (including distributions in excess of net investment income and undistributed net investment income of $353,727 and $347,385, respectively)	**$ 137,549,187**	**$ 156,528,618**

Other Information		
Class A		
Shares outstanding at beginning of period	8,893,756	8,977,791
Shares sold	350,707	479,388
Shares issued to shareholders in reinvestment of distributions	1,182,981	718,410
Shares redeemed	(1,202,916)	(1,281,833)
Net increase (decrease) in Class A shares	330,772	(84,035)
Shares outstanding at end of period	**9,224,528**	**8,893,756**
Class B		
Shares outstanding at beginning of period	154,023	136,607
Shares sold	77,557	32,424
Shares issued to shareholders in reinvestment of distributions	22,563	11,000
Shares redeemed	(59,771)	(26,008)
Net increase (decrease) in Class B shares	40,349	17,416
Shares outstanding at end of period	**194,372**	**154,023**

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

Financial Highlights

Class A	2014	2013	2012	2011	2010
			Years Ended December 31,		
Selected Per Share Data					
Net asset value, beginning of period	**$17.31**	**$13.78**	**$12.67**	**$14.28**	**$11.32**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.04	.04	.09	.08	.05
Net realized and unrealized gain (loss)	(.69)	4.66	1.83	(1.45)	2.96
Total from investment operations	(.65)	4.70	1.92	(1.37)	3.01
Less distributions from:					
Net investment income	(.15)	(.10)	(.09)	(.24)	(.05)
Net realized gains	(1.90)	(1.07)	(.72)	—	—
Total distributions	(2.05)	(1.17)	(.81)	(.24)	(.05)
Net asset value, end of period	**$14.61**	**$17.31**	**$13.78**	**$12.67**	**$14.28**
Total Return (%)[b]	(4.13)	35.94	15.37	(9.90)	26.64
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	135	154	124	123	158
Ratio of expenses before expense reductions (%)	1.13	1.14	1.11	1.12	1.12
Ratio of expenses after expense reductions (%)	.97	.94	.98	1.00	1.04
Ratio of net investment income (loss) (%)	.27	.28	.69	.57	.42
Portfolio turnover rate (%)	33	39	36	31	39

a Based on average shares outstanding during the period.

b Total return would have been lower had certain expenses not been reduced.

Class B	2014	2013	2012	2011	2010
			Years Ended December 31,		
Selected Per Share Data					
Net asset value, beginning of period	**$16.97**	**$13.52**	**$12.45**	**$14.03**	**$11.11**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.00*	.01	.06	.05	.03
Net realized and unrealized gain (loss)	(.67)	4.57	1.79	(1.43)	2.90
Total from investment operations	(.67)	4.58	1.85	(1.38)	2.93
Less distributions from:					
Net investment income	(.11)	(.06)	(.06)	(.20)	(.01)
Net realized gains	(1.90)	(1.07)	(.72)	—	—
Total distributions	(2.01)	(1.13)	(.78)	(.20)	(.01)
Net asset value, end of period	**$14.29**	**$16.97**	**$13.52**	**$12.45**	**$14.03**
Total Return (%)[b]	(4.33)	35.67	15.01	(10.08)	26.38
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	3	3	2	2	2
Ratio of expenses before expense reductions (%)	1.41	1.34	1.43	1.38	1.34
Ratio of expenses after expense reductions (%)	1.25	1.15	1.23	1.25	1.26
Ratio of net investment income (loss) (%)	.02	.07	.44	.32	.20
Portfolio turnover rate (%)	33	39	36	31	39

a Based on average shares outstanding during the period.

b Total return would have been lower had certain expenses not been reduced.

* Amount is less than $.005.

Notes to Financial Statements

A. Organization and Significant Accounting Policies

Deutsche Variable Series I (formerly 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: Deutsche Bond VIP, Deutsche Core Equity VIP, Deutsche Capital Growth VIP, Deutsche Global Small Cap VIP and Deutsche International VIP (individually or collectively hereinafter referred to as a "Fund" or the "Funds" and formerly known as DWS Bond VIP, DWS Core Equity VIP, DWS Capital Growth VIP, DWS Global Small Cap Growth VIP and DWS International VIP, respectively). These financial statements report on Deutsche Global Small Cap 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 level assigned to the securities valuations may not be an indication of the risk or liquidity 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. 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. Equity securities are generally categorized as Level 1 securities. 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.

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 considered 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.

Securities Lending. Deutsche Bank AG, as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains the benefits of owning the securities it has loaned and continues to receive interest and dividends generated by the 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. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. 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.

As of December 31, 2014, the Fund had securities on loan. The value of the related collateral exceeded the value of the securities loaned at period end.

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, the Fund may be subject to taxes imposed by the governments of countries in which it invests and are generally based on income and/or capital gains earned or repatriated. Estimated tax liabilities on certain foreign securities are recorded on an accrual basis and are reflected as components of interest income or net change in unrealized gain/loss on investments. Tax liabilities realized as a result of security sales are reflected as a component of net realized gain/loss on investments.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2014 and has determined that no provision for income tax and/or uncertain tax provisions 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 from net investment income of the Fund, if any, are 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 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, 2014, the Fund's components of distributable earnings (accumulated losses) on a tax basis are as follows:

Undistributed ordinary income*	$ 1,265,158
Undistributed long-term capital gains	$ 14,142,577
Net unrealized appreciation (depreciation) on investments	$ 35,074,619

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

	Years Ended December 31, 2014	2013
Distributions from ordinary Income*	$ 2,266,228	$ 889,495
Distributions from long-term capital gains	$ 15,918,444	$ 9,501,739

* 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 based upon the relative net assets or other appropriate measures.

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. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments.

B. Purchases and Sales of Securities

During the year ended December 31, 2014, purchases and sales of investment securities (excluding short-term investments) aggregated $47,245,088 and $62,228,168, 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%

Accordingly, for the year ended December 31, 2014, the fee pursuant to the Investment Management agreement was equivalent to an annual rate (exclusive of any applicable waivers/reimbursements) of 0.89% of the Fund's average daily net assets.

For the period from January 1, 2014 through April 30, 2014, the Advisor had contractually agreed to waive all or a portion of its fees and/or reimburse certain operating expenses of the Fund to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest) of each class as follows:

Class A	.94%
Class B	1.19%

For the period from May 1, 2014 through September 30, 2014, the Advisor had contractually agreed to waive all or a portion of its fees and/or reimburse certain operating expenses of the Fund to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest) of each class as follows:

Class A	.99%
Class B	1.38%

Effective October 1, 2014 through September 30, 2015, the Advisor had contractually agreed to waive all or a portion of its fees and/or reimburse certain operating expenses of the Fund to the extent necessary to maintain the total annual 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%

For the year ended December 31, 2014, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 232,584
Class B	4,608
	$ 237,192

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, 2014, the Administration Fee was $149,414, of which $11,612 is unpaid.

Service Provider Fees. DeAWM Service Company ("DSC"), 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 DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it receives from the Fund. For the year ended December 31, 2014, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at December 31, 2014
Class A	$ 446	$ 76
Class B	171	32
	$ 617	**$ 108**

Distribution Service Agreement. DeAWM Distributors, Inc. ("DDI"), also an affiliate of the Advisor, is the Series' Distributor. In accordance with the Master Distribution Plan, DDI receives 12b-1 fees of 0.25% of average daily net assets of Class B shares. Pursuant to the Master Distribution Plan, DDI 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, 2014, the Distribution Service Fee aggregated $7,270, of which $585 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, 2014, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $15,554, of which $4,410 is unpaid.

Trustees' Fees and Expenses. The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and Vice Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicles. The Fund may invest uninvested cash balances in Central Cash Management Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. Each affiliated money market fund seeks to provide a high level of current income consistent with liquidity and the preservation of capital. Each affiliated money market fund is managed in accordance with Rule 2a-7 under the Investment Company Act of 1940, which governs the quality, maturity, diversity and liquidity of instruments in which a money market fund may invest. Central Cash Management Fund seeks to maintain a stable net asset value, and Deutsche Variable NAV Money Fund maintains a floating net asset value. The Fund indirectly bears its proportionate share of the expenses of each affiliated money market fund in which it invests.

Central Cash Management Fund does not pay the Advisor an investment management fee. To the extent that Deutsche Variable NAV Money Fund pays an investment management fee to the Advisor, the Advisor will waive an amount of the investment management fee payable to the Advisor by the Fund equal to the amount of the investment management fee payable on the Fund's assets invested in Deutsche Variable NAV Money Fund.

Securities Lending Agent Fees. Deutsche Bank AG serves as securities lending agent for the Fund. For the year ended December 31, 2014, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $5,757.

D. Ownership of the Fund

At December 31, 2014, four participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 55%, 15%, 10% and 10%, respectively. Three participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, each owning 69%, 24% and 11%, respectively.

E. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 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, 2014.

Report of Independent Registered Public Accounting Firm

To the Trustees of Deutsche Variable Series I and the Shareholders of Deutsche Global Small Cap 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 Deutsche Global Small Cap VIP (formerly DWS Global Small Cap Growth VIP) (the "Fund") at December 31, 2014 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, 2014 by correspondence with the custodian, brokers and transfer agent, and the application of alternative auditing procedures where such confirmations had not been received, provide a reasonable basis for our opinion.

Boston, Massachusetts
February 13, 2015

PricewaterhouseCoopers LLP

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, 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, 2014 to December 31, 2014).

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, 2014

Actual Fund Return	Class A	Class B
Beginning Account Value 7/1/14	$1,000.00	$1,000.00
Ending Account Value 12/31/14	$ 931.80	$ 930.90
Expenses Paid per $1,000*	$ 4.82	$ 6.23

Hypothetical 5% Fund Return	Class A	Class B
Beginning Account Value 7/1/14	$1,000.00	$1,000.00
Ending Account Value 12/31/14	$1,020.21	$1,018.75
Expenses Paid per $1,000*	$ 5.04	$ 6.51

* 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 184 (the number of days in the most recent six-month period), then divided by 365.

Annualized Expense Ratios	Class A	Class B
Deutsche Variable Series I — Deutsche Global Small Cap VIP	.99%	1.28%

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.

For an analysis of the fees associated with an investment in the fund or similar funds, please refer to the current and hypothetical expense calculators for Variable Insurance Products which can be found at deutschefunds.com/EN/resources/calculators.jsp.

Tax Information

(Unaudited)

The Fund paid distributions of $1.79 per share from net long-term capital gains during its year ended December 31, 2014.

Pursuant to Section 852 of the Internal Revenue Code, the Fund designates $15,557,000 as capital gain dividends for its year ended December 31, 2014.

For corporate shareholders of the Fund, 8% of the ordinary dividends (i.e., income dividends plus short-term capital gains) paid during the Fund's fiscal year ended December 31, 2014 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 — deutschefunds.com (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — 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.

Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of Deutsche Global Small Cap VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2014.

In terms of the process that the Board followed prior to approving the Agreement, shareholders should know that:

— In September 2014, all of the Fund's Trustees were independent of DIMA 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 DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly meet privately with counsel to discuss contract review and other matters. In addition, the Independent Trustees were advised by the Fee Consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the Fee Consultant in connection with their deliberations.

— 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 DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG ("DB"), a major global banking institution that is engaged in a wide range of financial services. The Board believes that there are 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.

As part of the contract review process, the Board carefully considered the fees and expenses of each Deutsche fund overseen by the Board in light of the fund's performance. In many cases, this led to the negotiation and implementation of expense caps. As part of these negotiations, the Board indicated that it would consider relaxing these caps in future years following sustained improvements in performance, among other considerations.

In 2012, DB combined its Asset Management (of which DIMA was a part) and Wealth Management divisions into a new Asset and Wealth Management ("AWM") division. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that DB will continue to invest in AWM a significant portion of the savings it has realized by combining its Asset and Wealth Management divisions, including ongoing enhancements to AWM's investment capabilities. DB also has confirmed its commitment to maintaining strong legal and compliance groups within the AWM division.

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

Nature, Quality and Extent of Services. The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including a market index and a peer universe compiled by the Fee Consultant using information supplied by Morningstar Direct ("Morningstar"), an independent fund data service.

The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to a peer universe), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's 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, 2013, the Fund's performance (Class A shares) was in the 1st quartile, 2nd quartile and 1st quartile, respectively, of the applicable Morningstar 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, 2013.

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 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 DIMA under the Fund's administrative services agreement, were higher than the median (4th quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2013). 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, 2013) ("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 also considered how the Fund's total (net) operating expenses compared to the total (net) operating expenses of a more customized peer group selected by Lipper (based on such factors as asset size). The Board also noted that the expense limitations agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable funds and considered differences between the Fund and the comparable funds.

The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts and funds offered primarily to European investors ("Deutsche Europe funds") managed by DIMA and its affiliates. The Board noted that DIMA indicated that it manages an institutional account comparable to the Fund, but does not manage any comparable Deutsche Europe funds. The Board took note of the differences in services provided to Deutsche U.S. mutual funds ("Deutsche Funds") as compared to institutional accounts and that such differences made comparison difficult.

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

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the Deutsche 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 DIMA and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable.

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

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to Deutsche Funds advertising and cross-selling opportunities among DIMA products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of DIMA's and the Fund's chief compliance officer; (ii) the large number of DIMA compliance personnel; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.

Based on all of the information considered and the conclusions reached, the Board 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 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.

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund. 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 Kenneth C. Froewiss, Chairman, Deutsche Mutual Funds, P.O. Box 390601, Cambridge, MA 02139. 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.

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 Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Kenneth C. Froewiss (1945) Chairperson since 2013, and 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)	105	—
William McClayton (1944) Vice Chairperson since 2013, and 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	105	—
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); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (provider of disease and care management services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International	105	Portland General Electric[2] (utility company) (2003–present)
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); North Bennett Street School (Boston); former Directorships: Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College	105	Lead Director, Becton Dickinson and Company[2] (medical technology company)
Dawn-Marie Driscoll (1946) Board Member since 1987	Emeritus Executive Fellow, Center for Business Ethics, Bentley University; formerly: President, Driscoll Associates (consulting firm); Partner, Palmer & Dodge (law firm) (1988–1990); Vice President of Corporate Affairs and General Counsel, Filene's (retail) (1978–1988). Directorships: Director of ICI Mutual Insurance Company (since 2007); Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	105	—
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); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies; former Directorships: BoxTop Media Inc. (advertising); Sun Capital Advisers Trust (mutual funds) (2011–2012)	105	—

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 Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Paul K. Freeman (1950) Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Chair, Independent Directors Council; Investment Company Institute (executive and nominating committees); formerly, Chairman of Education Committee of Independent Directors Council; Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998); Directorships: Denver Zoo Foundation (December 2012–present); former Directorships: Prisma Energy International	105	—
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; 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)	105	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
Rebecca W. Rimel (1951) Board Member since 1995	President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 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); Director, Viasys Health Care[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	105	Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc.[2] (health care) (2009–present)
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); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	105	—
Jean Gleason Stromberg (1943) Board Member since 1997	Retired. Formerly, Consultant (1997–2001); Director, Financial Markets U.S. Government Accountability Office (1996–1997); Partner, Norton Rose Fulbright, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation (charitable organization); former Directorships: Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	105	—
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	105	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Brian E. Binder[8] (1972) President and Chief Executive Officer, 2013–present	Managing Director[3] and Head of Fund Administration, Deutsche Asset & Wealth Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012); Chief Administrative Officer, Van Kampen Funds Inc. (2008–2010); and Chief Administrative Officer, Morgan Stanley Investment Management Americas Distribution (2003–2008)
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset & Wealth Management
Melinda Morrow[6] (1970) Vice President, 2012–present	Director,[3] Deutsche Asset & Wealth Management

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset & Wealth 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 & Wealth Management; formerly: Assistant Secretary for DWS family of funds (1997–2010)
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director,[3] Deutsche Asset & Wealth Management
Wayne Salit[6] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset & Wealth Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Hepsen Uzcan[7] (1974) Assistant Secretary, 2013–present	Director,[3] Deutsche Asset & Wealth Management
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management

1 The length of time served represents the year in which the Board Member joined the board of one or more Deutsche 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 Deutsche funds.

6 Address: 60 Wall Street, New York, NY 10005.

7 Address: One Beacon Street, Boston, MA 02108.

8 Address: 222 South Riverside Plaza, Chicago, IL 60606.

* Robert H. Wadsworth retired from the Board effective December 31, 2014.

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

Notes

Deutsche Asset
& Wealth Management

DeAWM Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS1glosc-2 (R-025821-4 2/15)

Deutsche Asset
& Wealth Management

December 31, 2014

Annual Report

Deutsche Variable Series II

(formerly DWS Variable Series II)

Deutsche Government & Agency Securities VIP

(formerly DWS Government & Agency Securities VIP)

Contents

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, credit, liquidity and market risks to varying degrees. 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 lend securities to approved institutions. 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. See the prospectus for details.

Deutsche Asset & Wealth Management represents the asset management and wealth management activities conducted by Deutsche Bank AG or any of its subsidiaries, including the Advisor and DeAWM Distributors, Inc.

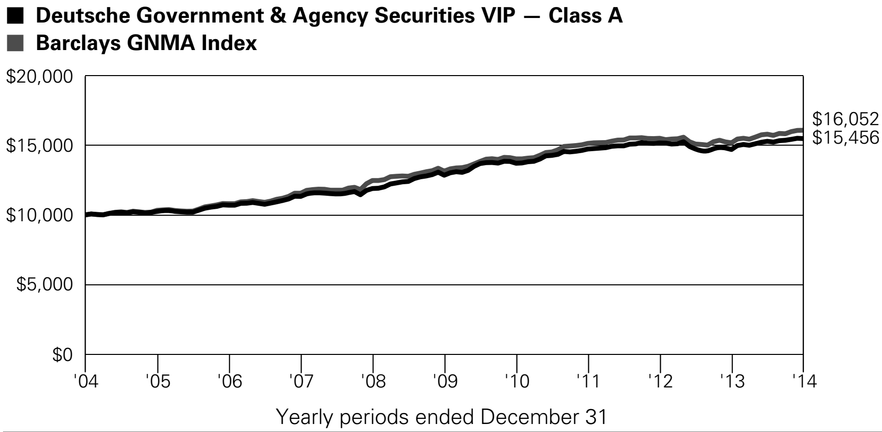
Performance Summary

December 31, 2014 (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, 2014 are 0.71% and 1.06% 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 Deutsche Government & Agency Securities VIP



The Barclays 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

Deutsche Government & Agency Securities VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,529	$10,508	$12,039	$15,456
	Average annual total return	5.29%	1.66%	3.78%	4.45%
Barclays GNMA Index	Growth of $10,000	$10,597	$10,624	$12,228	$16,052
	Average annual total return	5.97%	2.04%	4.11%	4.85%

Deutsche Government & Agency Securities VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,495	$10,406	$11,846	$14,923
	Average annual total return	4.95%	1.34%	3.45%	4.08%
Barclays GNMA Index	Growth of $10,000	$10,597	$10,624	$12,228	$16,052
	Average annual total return	5.97%	2.04%	4.11%	4.85%

The growth of $10,000 is cumulative.

Management Summary

During the 12-month period ended December 31, 2014, the Fund provided a total return of 5.29% (Class A shares, unadjusted for contract charges), compared with the 5.97% return of its benchmark, the Barclays GNMA Index.[1]

During the period, the U.S. Federal Reserve Board (the Fed) continued to maintain its benchmark short-term rate at or near zero levels, while feeling free to wind down its bond purchases designed to lower longer-term interest rates in view of a gradually improving U.S. economy. Nonetheless, longer-term U.S. Treasury yields declined substantially over the 12-month period, as markets remained comfortable with the pace of the Fed's inevitable unwinding of its extraordinary monetary support. For much of 2014, U.S. assets generally were supported by geopolitical tensions abroad and concern over possible deflation in other major economies. In addition, a sharp decline in energy prices over the second half of 2014 provided a boost to the U.S. consumer and to the economy. GNMAs benefited from prepayment rates on underlying mortgages, which remained modest despite falling rates, and provided positive returns in keeping with the broader bond market for the full period.

The Fund's performance benefited from exposure to longer-duration collateralized mortgage obligations (CMOs) structured to protect against prepayment, which benefited from falling rates. With respect to pass-through holdings, our focus on higher-coupon, seasoned and low-balance mortgage pools with characteristics that defend against increasing prepayments added to the portfolio's income stream. We had a meaningful position in interest-only securities in the belief that voluntary prepayments would remain manageable. Interest-only securities are particularly vulnerable to rising prepayments, as the investor is threatened with the loss of an income stream without receiving any return of principal. This allocation worked well as the Fund earned the higher income offered by these issues and experienced modest prepayments despite the decline in interest rate levels. The Fund was positioned with an overall duration and corresponding interest rate sensitivity above that of the benchmark for much of the period, which helped returns as rates fell. The Fund had a relatively high cash equivalent position for much of the period as we sought to be positioned to take advantage of opportunities provided by volatility, and this acted as a constraint on returns as mortgage-backed securities performed well. Throughout the period, we used derivative positions to hedge against potential adverse interest rate movements on portfolio assets. With inflation remaining below target, there would not appear to be any urgency for the Fed to raise rates, and mortgage rates may well be somewhat range-bound over the near term. Given this backdrop, we are comfortable with our focus on maximizing current income in the Fund. That said, there is much more room for rates to rise than to fall, and we are keeping enough liquidity in the Fund to reposition fairly quickly should higher mortgage rates become a reality.

William Chepolis, CFA
Scott Agi, CFA
Portfolio Managers

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.

[1] The Barclays 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.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Net Assets)	**12/31/14**	**12/31/13**
Mortgage-Backed Securities Pass-Throughs	71%	89%
Collateralized Mortgage Obligations	26%	15%
Government & Agency Obligations	19%	21%
Cash Equivalents and Other Assets and Liabilities, net	–17%	–25%
Short-Term US Treasury Obligations	1%	—
	100%	100%

Coupons*	**12/31/14**	**12/31/13**
Less than 4.5%	50%	32%
4.5%–5.49%	34%	43%
5.5%–6.49%	14%	21%
6.5%–7.49%	2%	3%
7.5% and Greater	0%	1%
	100%	100%

Interest Rate Sensitivity	**12/31/14**	**12/31/13**
Effective Maturity	9.7 years	10.0 years
Effective Duration	7.8 years	6.3 years

* Excludes Cash Equivalents, Securities Lending Collateral, U.S. Treasury Bills and Options Purchased.

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.

Portfolio holdings and characteristics 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 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 deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

	Principal Amount ($)	Value ($)
Mortgage-Backed Securities Pass-Throughs 71.2%		
Federal Home Loan Mortgage Corp.:		
4.5%, 8/1/2039 (a)	6,000,000	6,505,781
Federal National Mortgage Association:		
3.0%, 7/1/2042 (a)	5,000,000	5,060,547
4.5%, 2/1/2040 (a)	2,000,000	2,171,719
Government National Mortgage Association:		
3.0%, 10/20/2044	1,989,737	2,037,848
3.5%, with various maturities from 4/15/2042 until 7/20/2044	7,578,874	7,970,263
4.0%, with various maturities from 9/20/2040 until 6/20/2043	4,399,979	4,756,259
4.5%, with various maturities from 6/20/2033 until 2/20/2043 (a)	6,942,405	7,602,370
4.55%, 1/15/2041	356,874	393,161
4.625%, 5/15/2041	192,279	212,057
5.0%, with various maturities from 11/20/2032 until 4/15/2042	11,004,430	12,166,105
5.5%, with various maturities from 10/15/2032 until 7/20/2040	6,603,331	7,423,919
6.0%, with various maturities from 2/15/2034 until 2/15/2039	5,743,687	6,542,002
6.5%, with various maturities from 9/15/2036 until 2/15/2039	736,294	840,749
7.0%, with various maturities from 2/20/2027 until 11/15/2038	147,630	172,233
7.5%, 10/20/2031	7,173	8,577
Total Mortgage-Backed Securities Pass-Throughs (Cost $62,363,656)		**63,863,590**

Collateralized Mortgage Obligations 26.2%

	Principal Amount ($)	Value ($)
Federal Home Loan Mortgage Corp.:		
"OA", Series 3179, Principal Only, Zero Coupon, 7/15/2036	167,252	156,380
"KO", Series 4180, Principal Only, Zero Coupon, 1/15/2043	1,276,853	823,901
"YI", Series 3936, Interest Only, 3.0%, 6/15/2025	95,829	6,665
"AI", Series 4016, Interest Only, 3.0%, 9/15/2025	1,093,385	98,492
"WI", Series 3939, Interest Only, 3.0%, 10/15/2025	389,678	29,516
"EI", Series 3953, Interest Only, 3.0%, 11/15/2025	565,059	50,086
"IO", Series 3974, Interest Only, 3.0%, 12/15/2025	172,533	15,228
"DI", Series 4010, Interest Only, 3.0%, 2/15/2027	141,438	14,075
"IK", Series 4048, Interest Only, 3.0%, 5/15/2027	1,380,367	175,992
"PZ", Series 4094, 3.0%, 8/15/2042	414,741	385,177
"CZ", Series 4113, 3.0%, 9/15/2042	375,860	364,289
"GZ", Series 4184, 3.0%, 3/15/2043	391,559	373,291
"IK", Series 3754, Interest Only, 3.5%, 6/15/2025	805,758	79,166
"VZ", Series 4303, 3.5%, 8/15/2042	1,029,552	1,060,734
"DZ", Series 4199, 3.5%, 5/15/2043	247,161	256,729
"ZG", Series 4213, 3.5%, 6/15/2043	303,737	304,340
"KZ", Series 4328, 4.0%, 4/15/2044	257,120	262,072
"UZ", Series 4341, 4.0%, 5/15/2044	690,627	705,093
"UA", Series 4298, 4.0%, 2/15/2054	432,706	443,835
"22", Series 243, Interest Only, 4.385%*, 6/15/2021	361,108	17,731
"NI", Series 3657, Interest Only, 4.5%, 8/15/2027	136,595	1,622
"PI", Series 2535, Interest Only, 6.0%, 9/15/2032	32,819	284
"MI", Series 3871, Interest Only, 6.0%, 4/15/2040	123,841	16,503
"A", Series 172, Interest Only, 6.5%, 1/1/2024	17,750	3,290
"DS", Series 3199, Interest Only, 6.989%*, 8/15/2036	1,774,772	383,946
"S", Series 2416, Interest Only, 7.939%*, 2/15/2032	251,373	54,478
"ST", Series 2411, Interest Only, 8.589%*, 6/15/2021	516,926	41,878
"KS", Series 2064, Interest Only, 9.989%*, 5/15/2022	249,304	54,252
Federal National Mortgage Association:		
"DI", Series 2011-136, Interest Only, 3.0%, 1/25/2026	165,269	15,069
"DZ", Series 2013-136, 3.0%, 1/25/2044	824,333	768,593
"HI", Series 2010-123, Interest Only, 3.5%, 3/25/2024	276,503	17,871
"KI", Series 2011-72, Interest Only, 3.5%, 3/25/2025	837,302	51,378
''IO", Series 2012-146, Interest Only, 3.5%, 1/25/2043	1,932,482	411,803
"ZB", Series 2010-136, 4.0%, 12/25/2040	266,532	273,930
"AZ", Series 2012-29, 4.0%, 4/25/2042	1,482,038	1,644,323
"HZ", Series 2013-20, 4.0%, 3/25/2043	1,553,419	1,755,220
"25", Series 351, Interest Only, 4.5%, 5/25/2019	118,389	8,247
"IN", Series 2003-49, Interest Only, 4.75%, 3/25/2018	395,422	7,879
"21", Series 334, Interest Only, 5.0%, 3/25/2018	48,743	2,849
"20", Series 334, Interest Only, 5.0%, 3/25/2018	76,104	4,417
''23", Series 339, Interest Only, 5.0%, 6/25/2018	108,761	6,485
"26", Series 381, Interest Only, 5.0%, 12/25/2020	39,896	3,499
"ZA", Series 2008-24, 5.0%, 4/25/2038	735,247	810,489
"30", Series 381, Interest Only, 5.5%, 11/25/2019	228,188	20,938

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

	Principal Amount ($)	Value ($)
"PI", Series 2009-14, Interest Only, 5.5%, 3/25/2024	398,010	46,617
"PJ", Series 2004-46, Interest Only, 5.831%*, 3/25/2034	291,517	37,574
"WI", Series 2011-59, Interest Only, 6.0%, 5/25/2040	249,214	25,003
"101", Series 383, Interest Only, 6.5%, 9/25/2022	819,286	120,887
"SJ", Series 2007-36, Interest Only, 6.601%*, 4/25/2037	164,098	26,628
"KI", Series 2005-65, Interest Only, 6.831%*, 8/25/2035	84,051	16,670
"SA", Series G92-57, IOette, 83.244%*, 10/25/2022	31,250	59,483
Government National Mortgage Association:		
"KZ", Series 2014-102, 3.5%, 7/16/2044	1,826,404	1,874,567
"ZK", Series 2014-119, 3.5%, 8/16/2044	1,517,577	1,557,743
"BI", Series 2014-22, Interest Only, 4.0%, 2/20/2029	1,006,033	139,712
"JY", Series 2010-20, 4.0%, 12/20/2033	2,095,886	2,224,368
"LI", Series 2009-104, Interest Only, 4.5%, 12/16/2018	154,994	10,108
"NI", Series 2010-44, Interest Only, 4.5%, 10/20/2037	433,184	33,520
"CI", Series 2010-87, Interest Only, 4.5%, 11/20/2038	1,251,588	284,614
"MI", Series 2010-169, Interest Only, 4.5%, 8/20/2040	640,712	87,185
"GZ", Series 2005-24, 5.0%, 3/20/2035	544,908	647,140
"ZA", Series 2005-75, 5.0%, 10/16/2035	613,013	710,486
"MZ", Series 2009-98, 5.0%, 10/16/2039	1,099,964	1,334,034
"Z", Series 2009-112, 5.0%, 11/20/2039	1,288,706	1,443,205
"AI", Series 2008-46, Interest Only, 5.5%, 5/16/2023	158,009	12,252
"GI", Series 2003-19, Interest Only, 5.5%, 3/16/2033	661,799	133,415
"IB", Series 2010-130, Interest Only, 5.5%, 2/20/2038	191,212	34,294
"BS", Series 2011-93, Interest Only, 5.939%*, 7/16/2041	1,041,966	178,830
"DI", Series 2009-10, Interest Only, 6.0%, 4/16/2038	252,488	42,903
"SA", Series 2012-84, Interest Only, 6.135%*, 12/20/2038	1,192,234	171,839
"QA", Series 2007-57, Interest Only, 6.335%*, 10/20/2037	248,497	39,480
"IP", Series 2009-118, Interest Only, 6.5%, 12/16/2039	71,764	13,760
"IC", Series 1997-4, Interest Only, 7.5%, 3/16/2027	489,915	125,573
"SK", Series 2003-11, Interest Only, 7.539%*, 2/16/2033	416,060	76,452
Total Collateralized Mortgage Obligations (Cost $20,756,837)		**23,490,377**

	Principal Amount ($)	Value ($)
Government & Agency Obligations 18.5%		
U.S. Government Sponsored Agency 9.4%		
Federal Home Loan Bank, 3.25%, 6/9/2023	8,000,000	**8,458,664**
U.S. Treasury Obligations 9.1%		
U.S. Treasury Bonds:		
2.875%, 5/15/2043	1,500,000	1,534,218
3.375%, 5/15/2044	1,000,000	1,125,781
U.S. Treasury Notes:		
1.0%, 8/31/2016 (b)	3,450,000	3,475,875
1.0%, 9/30/2016	2,000,000	2,014,688
		8,150,562
Total Government & Agency Obligations (Cost $16,302,403)		**16,609,226**

	Principal Amount ($)	Value ($)
Short-Term U.S. Treasury Obligation 1.2%		
U.S. Treasury Bill, 0.035%**, 2/12/2015 (c) (Cost $1,044,957)	1,045,000	**1,044,979**

	Contract Amount ($)	Value ($)
Call Options Purchased 0.1%		
Options on Interest Rate Swap Contracts		
Pay Fixed Rate — 3.72% – Receive Floating — LIBOR, Swap Expiration Date 4/22/2026, Option Expiration Date 4/20/2016[1]	2,600,000	15,923
Pay Fixed Rate — 4.32% – Receive Floating — LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017[2]	6,000,000	42,132
Total Call Options Purchased (Cost $390,446)		**58,055**
Put Options Purchased 0.1%		
Options on Interest Rate Swap Contracts		
Receive Fixed Rate — 2.32% – Pay Floating — LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017[2] (Cost $203,884)	6,000,000	**144,208**

	Shares	Value ($)
Cash Equivalents 5.2%		
Central Cash Management Fund, 0.06% (d) (Cost $4,706,582)	4,706,582	**4,706,582**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $105,768,765)†	122.5	**109,917,017**
Other Assets and Liabilities, Net	(22.5)	**(20,220,787)**
Net Assets	100.0	**89,696,230**

* These securities are shown at their current rate as of December 31, 2014.

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

† The cost for federal income tax purposes was $105,792,319. At December 31, 2014, net unrealized appreciation for all securities based on tax cost was $4,124,698. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $5,290,247 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $1,165,549.

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

(a) When-issued or delayed delivery securities included.

(b) At December 31, 2014, this security has been pledged, in whole or in part, as collateral for open over-the-counter derivatives.

(c) At December 31, 2014, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts and open centrally cleared swap contracts.

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

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.

LIBOR: London Interbank Offered Rate

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 Government National Mortgage Association issues which have similar coupon rates have been aggregated for presentation purposes in this investment portfolio.

At December 31, 2014, open futures contracts purchased were as follows:

Futures	**Currency**	**Expiration Date**	**Contracts**	**Notional Value ($)**	**Unrealized Appreciation ($)**
10 Year U.S. Treasury Note	USD	3/20/2015	50	6,339,844	**10,065**

Currency Abbreviation	
USD	United States Dollar

At December 31, 2014, open written options contracts were as follows:

Options on Interest Rate Swap Contracts	**Swap Effective/ Expiration Dates**	**Contract Amount**	**Option Expiration Date**	**Premiums Received ($)**	**Value ($) (e)**
Call Options					
Receive Fixed — 3.32% – Pay Floating — LIBOR	2/3/2017 2/3/2027	3,000,000[2]	2/1/2017	216,990	(68,959)
Receive Fixed — 4.22% – Pay Floating — LIBOR	4/22/2016 4/22/2026	2,600,000[1]	4/20/2016	92,690	(6,524)
Receive Fixed — 4.48% – Pay Floating — LIBOR	5/9/2016 5/11/2026	2,400,000[1]	5/5/2016	26,940	(4,147)
Receive Fixed — 5.132% – Pay Floating — LIBOR	3/17/2016 3/17/2026	2,400,000[1]	3/15/2016	17,340	(688)
Receive Fixed — 5.132% – Pay Floating — LIBOR	3/17/2016 3/17/2026	2,400,000[2]	3/15/2016	28,320	(688)
Total Call Options				**382,280**	**(81,006)**

Options on Interest Rate Swap Contracts	Swap Effective/ Expiration Dates	Contract Amount	Option Expiration Date	Premiums Received ($)	Value ($) (e)
Put Options					
Pay Fixed — 1.132% – Receive Floating — LIBOR	3/17/2016 3/17/2026	2,400,000[1]	3/15/2016	17,340	(2,275)
Pay Fixed — 1.132% – Receive Floating — LIBOR	3/17/2016 3/17/2026	2,400,000[2]	3/15/2016	6,120	(2,275)
Pay Fixed — 2.48% – Receive Floating — LIBOR	5/9/2016 5/11/2026	2,400,000[1]	5/5/2016	26,940	(62,128)
Pay Fixed — 2.615% – Receive Floating — LIBOR	12/4/2015 12/4/2045	1,900,000[5]	12/2/2015	41,230	(71,710)
Pay Fixed — 2.64% – Receive Floating — LIBOR	8/10/2015 8/10/2045	2,200,000[1]	8/6/2015	20,570	(72,423)
Pay Fixed — 2.675% – Receive Floating — LIBOR	11/9/2015 11/12/2045	1,900,000[5]	11/9/2015	38,095	(81,235)
Pay Fixed — 2.796% – Receive Floating — LIBOR	6/5/2015 6/5/2045	2,200,000[2]	6/3/2015	23,540	(89,875)
Pay Fixed — 2.88% – Receive Floating — LIBOR	9/30/2015 9/30/2045	1,900,000[3]	9/28/2015	39,754	(115,883)
Pay Fixed — 3.005% – Receive Floating — LIBOR	3/6/2015 3/6/2045	2,200,000[1]	3/4/2015	23,100	(135,894)
Pay Fixed — 3.035% – Receive Floating — LIBOR	2/15/2015 2/3/2045	2,200,000[2]	1/30/2015	27,170	(150,059)
Pay Fixed — 3.088% – Receive Floating — LIBOR	1/28/2015 1/28/2045	2,400,000[4]	1/26/2015	24,210	(185,312)
Pay Fixed — 3.32% – Receive Floating — LIBOR	2/3/2017 2/3/2027	3,000,000[2]	2/1/2017	216,990	(212,452)
Total Put Options				**505,059**	**(1,181,521)**
Total				**887,339**	**(1,262,527)**

(e) Unrealized depreciation on written options on interest rate swap contracts at December 31, 2014 was $375,188.

At December 31, 2014, open interest rate swap contracts were as follows:

Centrally Cleared Swaps

Effective/ Expiration Dates	Notional Amount ($)	Cash Flows Paid by the Fund	Cash Flows Received by the Fund	Value ($)	Unrealized Appreciation/ Depreciation ($)
12/16/2015 9/18/2017	26,200,000	Fixed — 1.557%	Floating — LIBOR	32,232	194
12/16/2015 9/16/2020	2,100,000	Fixed — 2.214%	Floating — LIBOR	2,165	6
12/16/2015 9/16/2025	10,600,000	Fixed — 2.64%	Floating — LIBOR	(62,763)	(128)
12/16/2015 9/17/2035	1,000,000	Fixed — 2.938%	Floating — LIBOR	(20,991)	(22)
12/16/2015 9/18/2045	1,000,000	Fixed — 2.998%	Floating — LIBOR	(32,154)	(23)
Total net unrealized appreciation					**27**

Bilateral Swap

Effective/ Expiration Dates	Notional Amount ($)	Cash Flows Paid by the Fund	Cash Flows Received by the Fund	Value ($)	Upfront Payments Paid/ (Received) ($)	Unrealized Depreciation ($)
6/3/2013 6/3/2025	2,300,000[1]	Floating — LIBOR	Fixed — 3.0%	(9,055)	—	**(9,055)**

Counterparties:

1 Nomura International PLC

2 BNP Paribas

3 Morgan Stanley

4 Barclays Bank PLC

5 Citigroup, Inc.

For information on the Fund's policy and additional disclosures regarding futures contracts, purchased and written options contracts, and interest rate 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 level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

The following is a summary of the inputs used as of December 31, 2014 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 (f)				
Mortgage-Backed Securities Pass-Throughs	$ —	$ 63,863,590	$ —	$ 63,863,590
Collateralized Mortgage Obligations	—	23,490,377	—	23,490,377
Government & Agency Obligations	—	16,609,226	—	16,609,226
Short-Term U.S. Treasury Obligations	—	1,044,979	—	1,044,979
Short-Term Investments	4,706,582	—	—	4,706,582
Derivatives (g)				
Purchased Options	—	202,263	—	202,263
Futures Contracts	10,065	—	—	10,065
Interest Rate Swap Contracts	—	200	—	200
Total	**$ 4,716,647**	**$105,210,635**	**$ —**	**$109,927,282**

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivatives (g)				
Written Options	$ —	$ (1,262,527)	$ —	$ (1,262,527)
Interest Rate Swap Contracts	—	(9,228)	—	(9,228)
Total	**$ —**	**$ (1,271,755)**	**$ —**	**$ (1,271,755)**

There have been no transfers between fair value measurement levels during the year ended December 31, 2014.

(f) See Investment Portfolio for additional detailed categorizations.

(g) Derivatives include value of purchased options, unrealized appreciation (depreciation) on open futures contracts and interest rate swap contracts, and written options, at value.

Statement of Assets and Liabilities

as of December 31, 2014

Assets	
Investments	
Investments in non-affiliated securities, at value (cost $101,062,183)	$ 105,210,435
Investment in Central Cash Management Fund (cost $4,706,582)	4,706,582
Total investments in securities, at value (cost $105,768,765)	109,917,017
Cash	13,322
Receivable for investments sold — when-issued/delayed delivery securities	14,610,698
Receivable for Fund shares sold	399
Interest receivable	378,121
Receivable for variation margin on futures contracts	10,935
Receivable for variation margin on centrally cleared swaps	36,428
Other assets	2,646
Total assets	124,969,566
Liabilities	
Payable for investments purchased	8,447,418
Payable for investments purchased — when-issued/delayed delivery securities	25,015,052
Payable for Fund shares redeemed	391,122
Options written, at value (premiums received $887,339)	1,262,527
Unrealized depreciation on bilateral swap contracts	9,055
Accrued management fee	35,973
Accrued Trustees' fees	2,095
Other accrued expenses and payables	110,094
Total liabilities	35,273,336
Net assets, at value	**$ 89,696,230**
Net Assets Consist of	
Undistributed net investment income	2,332,582
Unrealized appreciation (depreciation) on:	
Investments	4,148,252
Swap contracts	(9,028)
Futures	10,065
Written options	(375,188)
Accumulated net realized gain (loss)	(888,626)
Paid-in capital	84,478,173
Net assets, at value	**$ 89,696,230**
Class A	
Net Asset Value, offering and redemption price per share ($86,676,341 ÷ 7,344,193 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 11.80**
Class B	
Net Asset Value, offering and redemption price per share ($3,019,889 ÷ 256,223 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 11.79**

Statement of Operations

for the year ended December 31, 2014

Investment Income	
Income:	
Interest	$ 3,061,370
Income distributions — Central Cash Management Fund	4,219
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	3,921
Total income	3,069,510
Expenses:	
Management fee	433,499
Administration fee	96,333
Services to shareholders	1,277
Distribution service fees (Class B)	8,216
Record keeping fees (Class B)	2,841
Custodian fee	33,346
Professional fees	82,819
Reports to shareholders	28,202
Trustees' fees and expenses	6,016
Other	10,035
Total expenses before expense reductions	702,584
Expense reductions	(18,239)
Total expenses after expense reductions	684,345
Net investment income	**2,385,165**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	1,766,204
Swap contracts	(1,919,349)
Futures	(778,304)
Written options	153,070
	(778,379)
Change in net unrealized appreciation (depreciation) on:	
Investments	3,520,444
Swap contracts	112,422
Futures	273,643
Written options	(468,452)
	3,438,057
Net gain (loss)	**2,659,678**
Net increase (decrease) in net assets resulting from operations	**$ 5,044,843**

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, 2014	2013
Operations:		
Net investment income	$ 2,385,165	$ 2,293,792
Net realized gain (loss)	(778,379)	(119,888)
Change in net unrealized appreciation (depreciation)	3,438,057	(5,696,113)
Net increase (decrease) in net assets resulting from operations	5,044,843	(3,522,209)
Distributions to shareholders from:		
Net investment income:		
Class A	(2,179,180)	(3,325,537)
Class B	(66,035)	(119,146)
Net realized gain:		
Class A	—	(4,523,083)
Class B	—	(185,024)
Total distributions	(2,245,215)	(8,152,790)
Fund share transactions:		
Class A		
Proceeds from shares sold	11,625,548	9,306,924
Reinvestment of distributions	2,179,180	7,848,620
Payments for shares redeemed	(25,367,687)	(31,059,765)
Net increase (decrease) in net assets from Class A share transactions	(11,562,959)	(13,904,221)
Class B		
Proceeds from shares sold	277,916	311,619
Reinvestment of distributions	66,035	304,170
Payments for shares redeemed	(1,055,485)	(1,961,191)
Net increase (decrease) in net assets from Class B share transactions	(711,534)	(1,345,402)
Increase (decrease) in net assets	(9,474,865)	(26,924,622)
Net assets at beginning of period	99,171,095	126,095,717
Net assets at end of period (including undistributed net investment income of $2,332,582 and $2,192,301, respectively)	**$ 89,696,230**	**$ 99,171,095**

Other Information		
Class A		
Shares outstanding at beginning of period	8,328,640	9,511,241
Shares sold	994,555	782,217
Shares issued to shareholders in reinvestment of distributions	189,659	660,658
Shares redeemed	(2,168,661)	(2,625,476)
Net increase (decrease) in Class A shares	(984,447)	(1,182,601)
Shares outstanding at end of period	**7,344,193**	**8,328,640**
Class B		
Shares outstanding at beginning of period	317,145	428,962
Shares sold	23,866	26,355
Shares issued to shareholders in reinvestment of distributions	5,742	25,582
Shares redeemed	(90,530)	(163,754)
Net increase (decrease) in Class B shares	(60,922)	(111,817)
Shares outstanding at end of period	**256,223**	**317,145**

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

Financial Highlights

Class A	2014	2013	2012	2011	2010
	Years Ended December 31,				
Selected Per Share Data					
Net asset value, beginning of period	**$11.47**	**$12.69**	**$13.12**	**$12.98**	**$12.78**
Income (loss) from investment operations:					
Net investment income[a]	.29	.24	.34	.48	.50
Net realized and unrealized gain (loss)	.31	(.59)	.03	.45	.32
Total from investment operations	.60	(.35)	.37	.93	.82
Less distributions from:					
Net investment income	(.27)	(.37)	(.52)	(.57)	(.62)
Net realized gains	—	(.50)	(.28)	(.22)	—
Total distributions	(.27)	(.87)	(.80)	(.79)	(.62)
Net asset value, end of period	**$11.80**	**$11.47**	**$12.69**	**$13.12**	**$12.98**
Total Return (%)	5.29[b]	(3.04)[b]	2.93[b]	7.46	6.61
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	87	96	121	146	157
Ratio of expenses before expense reductions (%)	.72	.71	.68	.67	.64
Ratio of expenses after expense reductions (%)	.70	.67	.66	.67	.64
Ratio of net investment income (%)	2.49	2.05	2.65	3.68	3.86
Portfolio turnover rate (%)	393	794	796	673	423

a Based on average shares outstanding during the period.

b Total return would have been lower had certain expenses not been reduced.

Class B	2014	2013	2012	2011	2010
	Years Ended December 31,				
Selected Per Share Data					
Net asset value, beginning of period	**$11.46**	**$12.67**	**$13.10**	**$12.95**	**$12.75**
Income (loss) from investment operations:					
Net investment income[a]	.25	.20	.29	.43	.46
Net realized and unrealized gain (loss)	.31	(.59)	.03	.46	.31
Total from investment operations	.56	(.39)	.32	.89	.77
Less distributions from:					
Net investment income	(.23)	(.32)	(.47)	(.52)	(.57)
Net realized gains	—	(.50)	(.28)	(.22)	—
Total distributions	(.23)	(.82)	(.75)	(.74)	(.57)
Net asset value, end of period	**$11.79**	**$11.46**	**$12.67**	**$13.10**	**$12.95**
Total Return (%)	4.95[b]	(3.25)[b]	2.48[b]	7.15	6.24
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	3	4	5	7	6
Ratio of expenses before expense reductions (%)	1.06	1.06	1.03	1.01	.99
Ratio of expenses after expense reductions (%)	1.03	.99	1.01	1.01	.99
Ratio of net investment income (%)	2.16	1.71	2.29	3.34	3.51
Portfolio turnover rate (%)	393	794	796	673	423

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

Deutsche Government & Agency Securities VIP (formerly DWS Government & Agency Securities VIP) (the "Fund") is a diversified series of Deutsche Variable Series II (formerly 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 level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

Debt securities are valued at prices supplied by independent pricing services approved by the Fund's Board. 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, prepayment speeds and other data, as well as broker quotes. If the pricing services are unable to provide valuations, debt securities are valued at the average of the most recent reliable bid quotations or evaluated prices, as applicable, obtained from broker-dealers. 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. Over-the-counter written or purchased options are valued at prices supplied by a Board approved pricing vendor, if available, and otherwise are valued at the price provided by the broker-dealer with which the option was traded. Over-the-counter written or purchased options 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 considered 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.

Securities Lending. Deutsche Bank AG, as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains the benefits of owning the securities it has loaned and continues to receive interest and dividends generated by the 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. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. 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, 2014.

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. Additionally, the Fund may be required to post securities and/or cash collateral in accordance with the terms 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.

At December 31, 2014, the Fund had approximately $806,000 of net tax basis capital loss carryforwards, which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($723,000) and long-term losses ($83,000).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2014 and has determined that no provision for income tax and/or uncertain tax provisions 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 from net investment income of the Fund, if any, are 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, 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, 2014, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 2,337,514
Capital loss carryforward	$ (806,000)
Unrealized appreciation (depreciation) on investments	$ 4,124,698

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

	Years Ended December 31, 2014	2013
Distributions from ordinary income*	$ 2,245,215	$ 5,193,028
Distributions from long-term capital gains	$ —	$ 2,959,762

* 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 based upon the relative net assets or other appropriate measures.

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. All discounts and premiums are accreted/amortized for both tax and financial reporting purposes for the Fund.

B. Derivative Instruments

Swaps. A swap is a contract between two parties to exchange future cash flows at periodic intervals based on the notional amount of the swap. A bilateral swap is a transaction between the fund and a counterparty where cash flows are exchanged between the two parties. A centrally cleared swap is a transaction executed between the fund and a counterparty, then cleared by a clearing member through a central clearinghouse. The central clearinghouse serves as the counterparty, with whom the fund exchanges cash flows.

The value of a 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. Gains or losses are realized when the swap expires or is closed. Certain risks may arise when entering into swap transactions including counterparty default; liquidity; or unfavorable changes in interest rates or the value of the underlying reference security, commodity or index. In connection with bilateral swaps, securities and/or cash may be identified as collateral in accordance with the terms of the swap agreement 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 swap, 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. Upon entering into a centrally cleared swap, 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 notional amount of the swap. Subsequent payments ("variation margin") are made or received by the Fund dependent upon the daily fluctuations in the value of the swap. In a cleared swap transaction, counterparty risk is minimized as the central clearinghouse acts as the counterparty.

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.

Interest rate swaps are agreements in which the Fund agrees to pay to 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. For the year ended December 31, 2014, the Fund entered into interest rate swap agreements to gain exposure to different parts of the yield curve while managing overall duration.

For the year ended December 31, 2014, the investment in interest rate swap contracts had a total notional amount generally indicative of a range from $31,300,000 to $43,200,000.

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. The Fund may write or purchase interest rate swaption agreements which are options to enter into a pre-defined swap agreement. The interest rate swaption agreement will specify whether the buyer of the swaption will be a fixed-rate receiver or a fixed-rate payer upon exercise. Certain options, including options on indices and interest rate options, will require cash settlement by the Fund if exercised. For the year ended December 31, 2014, the Fund entered into options on interest rate swap contracts in order to hedge 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. For exchange-traded contracts, the counterparty risk is minimized as the exchange's clearinghouse acts as the counterparty, and guarantees the futures against default. 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, 2014 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, 2014, the investment in written option contracts had a total value generally indicative of a range from approximately $472,000 to $1,263,000, and purchased option contracts had a total value generally indicative of a range from approximately $202,000 to $551,000.

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, 2014, 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 disclosed in the Statement of Assets and Liabilities.

A summary of the open futures contracts as of December 31, 2014, is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2014, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $3,940,000 to $22,313,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from $0 to approximately $10,835,000.

The following tables summarize the value of the Fund's derivative instruments held as of December 31, 2014 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivatives	**Purchased Options**	**Futures Contracts**	**Swap Contracts**	**Total**
Interest Rate Contracts (a) (b)	$ 202,263	$ 10,065	$ 200	$ 212,528

Each of the above derivatives is located in the following Statement of Assets and Liabilities accounts:

(a) Investments in securities, at value (includes purchased options)

(b) Includes cumulative appreciation of futures and centrally cleared swap 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**	**Total**
Interest Rate Contracts (a) (b)	$ (1,262,527)	$ (9,228)	$ (1,271,755)

Each of the above derivatives is located in the following Statement of Assets and Liabilities accounts:

(a) Options written, at value and unrealized depreciation on bilateral swap contracts

(b) Includes cumulative depreciation of centrally cleared swap 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, 2014 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	**Written Options**	**Swap Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (a)	$ 153,070	$ (1,919,349)	$ (778,304)	$ (2,544,583)

Each of the above derivatives is located in the following Statement of Operations accounts:

(a) Net realized gain (loss) from 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)	$ 349,176	$ (468,452)	$ 112,422	$ 273,643	$ 266,789

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

As of December 31, 2014, the Fund has transactions subject to enforceable master netting agreements. A reconciliation of the gross amounts on the Statement of Assets and Liabilities to the net amounts by counterparty, including any collateral exposure, is included in the following tables:

Counterparty	**Gross Amounts of Assets Presented in the Statement of Assets and Liabilities**	**Financial Instruments and Derivatives Available for Offset**	**Cash Collateral Received**	**Non-Cash Collateral Received**	**Net Amount of Derivative Assets**
BNP Paribas	$ 186,340	$ (186,340)	$ —	$ —	$ —
Nomura International PLC	15,923	(15,923)	—	—	—
	$ 202,263	**$ (202,263)**	**$ —**	**$ —**	**$ —**

Counterparty	Gross Amounts of Liabilities Presented in the Statement of Assets and Liabilities	Financial Instruments and Derivatives Available for Offset	Cash Collateral Pledged	Non-Cash Collateral Pledged (a)	Net Amount of Derivative Liabilities
Barclays Bank PLC	$ 185,312	$ —	$ —	$ —	$ 185,312
BNP Paribas	524,308	(186,340)	—	—	337,968
Citigroup, Inc.	152,945	—	—	—	152,945
Morgan Stanley	115,883	—	—	—	115,883
Nomura International PLC	293,134	(15,923)	—	(277,211)	—
	$ 1,271,582	**$ (202,263)**	**$ —**	**$ (277,211)**	**$ 792,108**

(a) The actual collateral pledged may be more than the amount shown.

C. Purchases and Sales of Securities

During the year ended December 31, 2014, purchases and sales of investment securities (excluding short-term investments and U.S. Treasury securities) aggregated $410,110,065 and $430,914,132, respectively. Purchases and sales of U.S. Treasury securities aggregated $37,869,545 and $40,041,363, respectively.

For the year ended December 31, 2014, transactions for written options on interest rate swap contracts were as follows:

	Contract Amount	Premiums
Outstanding, beginning of period	31,600,000	$ 748,861
Options written	21,700,000	291,548
Options closed	(11,000,000)	(135,370)
Options expired	(2,400,000)	(17,700)
Outstanding, end of period	**39,900,000**	**$ 887,339**

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, 2014, the fee pursuant to the Investment Management Agreement was equivalent to an annual rate (exclusive of any applicable waivers/reimbursements) of 0.45% of the Fund's average daily net assets.

For the period from January 1, 2014 through April 30, 2014, the Advisor had contractually agreed to waive all or a portion of its fees and/or reimburse certain operating expenses of the Fund 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	.67%
Class B	.99%

For the period from May 1, 2014 through September 30, 2014, the Advisor had contractually agreed to waive all or a portion of its fees and/or reimburse certain operating expenses of the Fund to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest) of each class as follows:

Class A	.75%
Class B	1.10%

Effective October 1, 2014 through September, 2015, the Advisor has contractually agreed to waive all or a portion of its fees and/or reimburse certain operating expenses of the Fund to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest) of each class as follows:

Class A	.71%
Class B	1.06%

For the year ended December 31, 2014, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$	17,280
Class B		959
	$	**18,239**

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, 2014, the Administration Fee was $96,333, of which $7,735 is unpaid.

Service Provider Fees. DeAWM Service Company ("DSC"), 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 DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it receives from the Fund. For the year ended December 31, 2014, the amounts charged to the Fund by DSC were as follows:

	Total Aggregated	**Unpaid at December 31, 2014**
Class A	$ 294	$ 48
Class B	71	12
	$ 365	**$ 60**

Distribution Service Agreement. Under the Fund's Class B 12b-1 plan, DeAWM Distributors, Inc. ("DDI") received a fee ("Distribution Service Fee") of 0.25% of average daily net assets of Class B shares. For the year ended December 31, 2014, the Distribution Service Fee aggregated $8,216, of which $642 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, 2014, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $15,200, of which $5,682 is unpaid.

Trustees' Fees and Expenses. The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and Vice Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicles. The Fund may invest uninvested cash balances in Central Cash Management Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. Each affiliated money market fund seeks to provide a high level of current income consistent with liquidity and the preservation of capital. Each affiliated money market fund is managed in accordance with Rule 2a-7 under the Investment Company Act of 1940, which governs the quality, maturity, diversity and liquidity of instruments in which a money market fund may invest. Central Cash Management Fund seeks to maintain a stable net asset value, and Deutsche Variable NAV Money Fund maintains a floating net asset value. The Fund indirectly bears its proportionate share of the expenses of each affiliated money market fund in which it invests. Central Cash Management Fund does not pay the Advisor an investment management fee. To the extent that Deutsche Variable NAV Money Fund pays an investment management fee to the Advisor, the Advisor will waive an amount of the investment management fee payable to the Advisor by the Fund equal to the amount of the investment management fee payable on the Fund's assets invested in Deutsche Variable NAV Money Fund.

Securities Lending Agent Fees. Deutsche Bank AG serves as securities lending agent for the Fund. For the year ended December 31, 2014, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $342.

E. Ownership of the Fund

At December 31, 2014, three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 43%, 31% and 18%. One participating insurance company was the owner of record of 10% or more of the total outstanding Class B shares of the Fund, owning 95%.

F. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 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, 2014.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Deutsche Variable Series II and Shareholders of Deutsche Government & Agency Securities VIP:

We have audited the accompanying statement of assets and liabilities, including the investment portfolio, of Deutsche Government & Agency Securities VIP (formerly DWS Government & Agency Securities VIP) (the "Fund") (one of the series constituting Deutsche Variable Series II (formerly DWS Variable Series II)), as of December 31, 2014, 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 periods indicated therein. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. 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, 2014, 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 Deutsche Government & Agency Securities VIP at December 31, 2014, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the periods indicated therein, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Boston, Massachusetts
February 13, 2015

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, 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, 2014 to December 31, 2014).

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, 2014

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/14	$1,000.00	$1,000.00
Ending Account Value 12/31/14	$1,012.90	$1,012.00
Expenses Paid per $1,000*	$ 3.60	$ 5.27
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/14	$1,000.00	$1,000.00
Ending Account Value 12/31/14	$1,021.63	$1,019.96
Expenses Paid per $1,000*	$ 3.62	$ 5.30

* 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 184 (the number of days in the most recent six-month period), then divided by 365.

Annualized Expense Ratios	**Class A**	**Class B**
Deutsche Variable Series II — Deutsche Government & Agency Securities VIP	.71%	1.04%

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.

For an analysis of the fees associated with an investment in the fund or similar funds, please refer to the current and hypothetical expense calculators for Variable Insurance Products which can be found at deutschefunds.com/EN/resources/calculators.jsp.

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 — deutschefunds.com (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — 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.

Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of Deutsche Government & Agency Securities VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2014.

In terms of the process that the Board followed prior to approving the Agreement, shareholders should know that:

— In September 2014, all of the Fund's Trustees were independent of DIMA 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 Asset Allocation Oversight Committee, reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly meet privately with counsel to discuss contract review and other matters. In addition, the Independent Trustees were advised by the Fee Consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the Fee Consultant in connection with their deliberations.

— 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 DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG ("DB"), a major global banking institution that is engaged in a wide range of financial services. The Board believes that there are 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.

As part of the contract review process, the Board carefully considered the fees and expenses of each Deutsche fund overseen by the Board in light of the fund's performance. In many cases, this led to the negotiation and implementation of expense caps. As part of these negotiations, the Board indicated that it would consider relaxing these caps in future years following sustained improvements in performance, among other considerations.

In 2012, DB combined its Asset Management (of which DIMA was a part) and Wealth Management divisions into a new Asset and Wealth Management ("AWM") division. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that DB will continue to invest in AWM a significant portion of the savings it has realized by combining its Asset and Wealth Management divisions, including ongoing enhancements to AWM's investment capabilities. DB also has confirmed its commitment to maintaining strong legal and compliance groups within the AWM division.

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

Nature, Quality and Extent of Services. The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market index(es) and a peer universe compiled by the Fee Consultant using information supplied by Morningstar Direct ("Morningstar"), an independent fund data service.

The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to a peer universe), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's 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, 2013, the Fund's performance (Class A shares) was in the 4th quartile, 3rd quartile and 1st quartile, respectively, of the applicable Morningstar 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 has underperformed its benchmark in the one- and three-year periods ended December 31, 2013. The Board noted the disappointing investment performance of the Fund in recent periods and continued to discuss with senior management of DIMA the factors contributing to such underperformance and actions being taken to improve performance. The Board observed that the Fund had experienced improved relative performance during the first seven months of 2014. The Board recognized the efforts by DIMA in recent years to enhance its investment platform and improve long-term performance across the Deutsche fund complex.

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 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 DIMA under the Fund's administrative services agreement, were lower than the median (2nd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2013). 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, 2013, and analyzing Lipper expense universe Class A (net) 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 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 noted that the expense limitations agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to a comparable fund and considered differences between the Fund and the comparable fund. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts and funds offered primarily to European investors ("Deutsche Europe funds") managed by DIMA and its affiliates. The Board noted that DIMA indicated that it does not manage any institutional accounts or Deutsche Europe funds comparable to the Fund.

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

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the Deutsche U.S. mutual funds ("Deutsche 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 DIMA and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable.

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

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to Deutsche Funds advertising and cross-selling opportunities among DIMA products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of DIMA's and the Fund's chief compliance officer; (ii) the large number of DIMA compliance personnel; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.

Based on all of the information considered and the conclusions reached, the Board 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 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.

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund. 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 Kenneth C. Froewiss, Chairman, Deutsche Mutual Funds, P.O. Box 390601, Cambridge, MA 02139. 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.

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 Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Kenneth C. Froewiss (1945) Chairperson since 2013, and 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)	105	—
William McClayton (1944) Vice Chairperson since 2013, and 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	105	—
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); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (provider of disease and care management services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International	105	Portland General Electric[2] (utility company) (2003–present)
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); North Bennett Street School (Boston); former Directorships: Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College	105	Lead Director, Becton Dickinson and Company[2] (medical technology company)
Dawn-Marie Driscoll (1946) Board Member since 1987	Emeritus Executive Fellow, Center for Business Ethics, Bentley University; formerly: President, Driscoll Associates (consulting firm); Partner, Palmer & Dodge (law firm) (1988–1990); Vice President of Corporate Affairs and General Counsel, Filene's (retail) (1978–1988). Directorships: Director of ICI Mutual Insurance Company (since 2007); Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	105	—
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); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies; former Directorships: BoxTop Media Inc. (advertising); Sun Capital Advisers Trust (mutual funds) (2011–2012)	105	—

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 Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Paul K. Freeman (1950) Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Chair, Independent Directors Council; Investment Company Institute (executive and nominating committees); formerly, Chairman of Education Committee of Independent Directors Council; Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998); Directorships: Denver Zoo Foundation (December 2012–present); former Directorships: Prisma Energy International	105	—
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; 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)	105	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
Rebecca W. Rimel (1951) Board Member since 1995	President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 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); Director, Viasys Health Care[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	105	Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc.[2] (health care) (2009–present)
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); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	105	—
Jean Gleason Stromberg (1943) Board Member since 1997	Retired. Formerly, Consultant (1997–2001); Director, Financial Markets U.S. Government Accountability Office (1996–1997); Partner, Norton Rose Fulbright, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation (charitable organization); former Directorships: Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	105	—
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	105	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Brian E. Binder[8] (1972) President and Chief Executive Officer, 2013–present	Managing Director[3] and Head of Fund Administration, Deutsche Asset & Wealth Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012); Chief Administrative Officer, Van Kampen Funds Inc. (2008–2010); and Chief Administrative Officer, Morgan Stanley Investment Management Americas Distribution (2003–2008)
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset & Wealth Management
Melinda Morrow[6] (1970) Vice President, 2012–present	Director,[3] Deutsche Asset & Wealth Management

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset & Wealth 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 & Wealth Management; formerly: Assistant Secretary for DWS family of funds (1997–2010)
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director,[3] Deutsche Asset & Wealth Management
Wayne Salit[6] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset & Wealth Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Hepsen Uzcan[7] (1974) Assistant Secretary, 2013–present	Director,[3] Deutsche Asset & Wealth Management
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management

1 The length of time served represents the year in which the Board Member joined the board of one or more Deutsche 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 Deutsche funds.

6 Address: 60 Wall Street, New York, NY 10005.

7 Address: One Beacon Street, Boston, MA 02108.

8 Address: 222 South Riverside Plaza, Chicago, IL 60606.

* Robert H. Wadsworth retired from the Board effective December 31, 2014.

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

Deutsche Asset
& Wealth Management

DeAWM Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2GAS-2 (R-025831-4 2/15)

Deutsche Asset
& Wealth Management

December 31, 2014

Annual Report

Deutsche Variable Series II

(formerly DWS Variable Series II)

Deutsche High Income VIP

(formerly DWS High Income VIP)

Contents

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, credit, liquidity and market risks to varying degrees. 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 ("junk bonds") 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.

Deutsche Asset & Wealth Management represents the asset management and wealth management activities conducted by Deutsche Bank AG or any of its subsidiaries, including the Advisor and DeAWM Distributors, Inc.

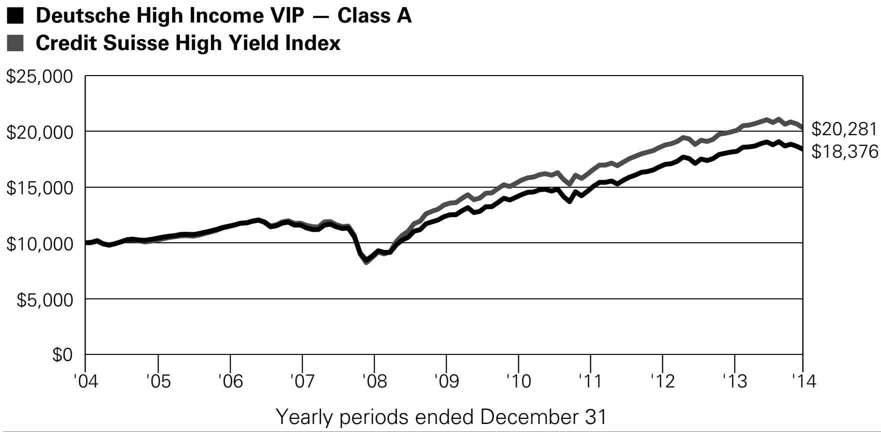
Performance Summary

December 31, 2014 (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, 2014 are 0.73% and 1.10% 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 Deutsche High Income VIP



The Credit Suisse High Yield Index tracks the performance of 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

Deutsche High Income VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,147	$12,583	$14,895	$18,376
	Average annual total return	1.47%	7.96%	8.30%	6.27%
Credit Suisse High Yield Index	Growth of $10,000	$10,186	$12,565	$15,163	$20,281
	Average annual total return	1.86%	7.91%	8.68%	7.33%

Deutsche High Income VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,122	$12,474	$14,680	$17,807
	Average annual total return	1.22%	7.65%	7.98%	5.94%
Credit Suisse High Yield Index	Growth of $10,000	$10,186	$12,565	$15,163	$20,281
	Average annual total return	1.86%	7.91%	8.68%	7.33%

The growth of $10,000 is cumulative.

Although high-yield bonds performed very well through the first six months of the year, a challenging second half caused the Credit Suisse High Yield Index (the Fund's benchmark) to close with a modest gain of 1.86% — its lowest calendar-year return since 2008.[1] The second-half downturn stemmed from two key factors. First, inconsistent fund flows and a heavy pace of new issuance led to an unfavorable balance of supply and demand in the market. Second, the sharp decline in the price of oil weighed on the prices of bonds issued by energy companies, which make up a sizeable portion of the high-yield market. Despite these headwinds, the favorable credit quality statistics for high-yield issuers, combined with inexpensive refinancing, contributed to high-yield default rates remaining below the historical average.

The Fund returned 1.47% during 2014 (Class A shares, unadjusted for contract charges). In managing the Fund, we focus on using credit research to identify the most compelling investment opportunities. We manage the portfolio from a long-term perspective, which means that we do not take on excessive risk to boost short-term returns. Instead, we strive to generate outperformance over a multi-year period by achieving an appropriate trade-off of risk and return. Consistent with this bottom-up approach, individual security selection was the primary driver of fund performance. Frontier Communications Corp., Windstream Corp. and Community Health Systems, Inc. were among the leading contributors to performance. On the negative side, the Fund's positions in shorter-duration securities outweighed the positive contribution from its positions in longer-duration bonds (i.e., those with higher interest-rate sensitivity).[2,3] Positions in bonds with exposure to political and economic instability and/or weakening commodity prices also detracted from fund performance. Among individual securities, the largest detractors included MEG Energy Corp., SandRidge Energy, Inc. and FMG Resources Pty Ltd. The Fund employed derivatives during the period, using credit default swaps to achieve exposure to certain companies within the high-yield market.

We retain a cautiously optimistic view on the U.S. high-yield market. Credit fundamentals remain strong, as improving corporate results have resulted in decreasing leverage and higher interest coverage in the asset class. High-yield companies have taken advantage of low rates by refinancing their debt and pushing the bulk of their maturities further into the future, thus reducing near-term default risk. However, supply-and-demand factors and shifting expectations regarding U.S. Federal Reserve Board (the Fed) policy continue to represent potential challenges for the market. We therefore expect volatility will remain a factor on a short-term basis, but we also believe yield spreads can trend lower in the intermediate term as favorable corporate results continue to support improving credit fundamentals and low default rates.[4]

Gary Russell, CFA
Portfolio Manager

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.

1 The Credit Suisse High Yield Index tracks the performance of the global high-yield debt market. Index returns do not reflect fees or expenses and it is not possible to invest directly into an index.

2 Bank loans are loans to corporations that banks repackage and sell as securities.

3 Duration is a measure of a bond's sensitivity to movements in prevailing interest rates.

4 Yield spread refers to the excess yield various bond sectors offer over financial instruments with similar maturities.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/14**	**12/31/13**
Corporate Bonds	87%	82%
Cash Equivalents	7%	10%
Convertible Bonds	2%	2%
Preferred Stock	1%	1%
Government & Agency Obligations	1%	4%
Preferred Security	1%	1%
Loan Participations and Assignments	1%	—
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Government & Agency Obligations, Cash Equivalents and Securities Lending Collateral)	**12/31/14**	**12/31/13**
Telecommunication Services	20%	20%
Consumer Discretionary	20%	19%
Industrials	12%	10%
Energy	10%	15%
Materials	9%	10%
Information Technology	8%	6%
Health Care	8%	5%
Consumer Staples	5%	7%
Financials	5%	6%
Utilities	3%	2%
	100%	100%

Quality (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/14**	**12/31/13**
AAA	1%	4%
BBB	2%	2%
BB	43%	36%
B	41%	44%
CCC	12%	12%
Not Rated	1%	2%
	100%	100%

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.

Portfolio holdings and characteristics 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 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 deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

	Principal Amount ($)(a)	Value ($)
Corporate Bonds 86.1%		
Consumer Discretionary 17.7%		
AMC Entertainment, Inc., 5.875%, 2/15/2022	220,000	223,300
AMC Networks, Inc., 7.75%, 7/15/2021	80,000	85,600
AmeriGas Finance LLC:		
6.75%, 5/20/2020	460,000	473,800
7.0%, 5/20/2022	350,000	362,250
Apex Tool Group LLC, 144A, 7.0%, 2/1/2021 (b)	210,000	179,550
APX Group, Inc., 6.375%, 12/1/2019	205,000	196,288
Asbury Automotive Group, Inc., 144A, 6.0%, 12/15/2024	495,000	503,662
Ashtead Capital, Inc., 144A, 6.5%, 7/15/2022	330,000	350,625
Ashton Woods U.S.A. LLC, 144A, 6.875%, 2/15/2021	350,000	333,375
Avis Budget Car Rental LLC:		
5.5%, 4/1/2023 (b)	205,000	209,100
144A, 5.5%, 4/1/2023	455,000	464,100
Block Communications, Inc., 144A, 7.25%, 2/1/2020	375,000	382,500
Cablevision Systems Corp.:		
5.875%, 9/15/2022 (b)	110,000	111,375
8.0%, 4/15/2020	65,000	73,450
CCO Holdings LLC:		
7.0%, 1/15/2019	120,000	124,500
7.375%, 6/1/2020	50,000	53,000
CCOH Safari LLC:		
5.5%, 12/1/2022	270,000	274,050
5.75%, 12/1/2024	270,000	273,038
Cequel Communications Holdings I LLC:		
144A, 5.125%, 12/15/2021	602,000	583,940
144A, 6.375%, 9/15/2020	1,215,000	1,257,525
Clear Channel Worldwide Holdings, Inc.:		
Series A, 6.5%, 11/15/2022	250,000	254,375
Series B, 6.5%, 11/15/2022	365,000	375,950
Series A, 7.625%, 3/15/2020	110,000	114,125
Series B, 7.625%, 3/15/2020	1,115,000	1,173,537
Cogeco Cable, Inc., 144A, 4.875%, 5/1/2020	20,000	20,000
CSC Holdings LLC, 144A, 5.25%, 6/1/2024	510,000	512,550
Cumulus Media Holdings, Inc., 7.75%, 5/1/2019 (b)	375,000	378,750
Dana Holding Corp., 5.5%, 12/15/2024	180,000	181,800
DISH DBS Corp.:		
4.25%, 4/1/2018	270,000	275,737
5.0%, 3/15/2023	1,225,000	1,185,187
6.75%, 6/1/2021	50,000	53,750
7.875%, 9/1/2019	270,000	306,450
Getty Images, Inc., 144A, 7.0%, 10/15/2020	305,000	239,425
Group 1 Automotive, Inc., 144A, 5.0%, 6/1/2022	300,000	293,250
Harron Communications LP, 144A, 9.125%, 4/1/2020	395,000	430,550
HD Supply, Inc.:		
144A, 5.25%, 12/15/2021	275,000	279,812
7.5%, 7/15/2020 (b)	95,000	99,513
11.5%, 7/15/2020	90,000	103,050
Hertz Corp., 6.75%, 4/15/2019	305,000	314,150
Hot Topic, Inc., 144A, 9.25%, 6/15/2021	140,000	149,800
iHeartCommunications, Inc.:		
9.0%, 12/15/2019	530,000	522,050
11.25%, 3/1/2021	280,000	288,400
Jo-Ann Stores Holdings, Inc., 144A, 9.75%, 10/15/2019 (PIK)	160,000	136,000
Live Nation Entertainment, Inc.:		
144A, 5.375%, 6/15/2022	50,000	50,000
144A, 7.0%, 9/1/2020	345,000	363,975
MDC Partners, Inc., 144A, 6.75%, 4/1/2020	370,000	381,100
Mediacom Broadband LLC:		
5.5%, 4/15/2021	50,000	50,250
6.375%, 4/1/2023	425,000	435,625
Mediacom LLC, 7.25%, 2/15/2022	110,000	117,425
MGM Resorts International:		
6.0%, 3/15/2023	280,000	281,400
6.75%, 10/1/2020 (b)	526,000	552,300
8.625%, 2/1/2019	510,000	578,212
Numericable-SFR:		
144A, 4.875%, 5/15/2019	520,000	515,450
144A, 6.0%, 5/15/2022	775,000	779,262
144A, 6.25%, 5/15/2024	225,000	226,688
Penske Automotive Group, Inc., 5.375%, 12/1/2024	660,000	668,250
Petco Animal Supplies, Inc., 144A, 9.25%, 12/1/2018	315,000	329,962
Pinnacle Entertainment, Inc., 6.375%, 8/1/2021	160,000	164,800
Quebecor Media, Inc., 5.75%, 1/15/2023	205,000	209,613
Schaeffler Finance BV, 144A, 7.75%, 2/15/2017	420,000	459,900
Seminole Hard Rock Entertainment, Inc., 144A, 5.875%, 5/15/2021	125,000	123,750
Serta Simmons Holdings LLC, 144A, 8.125%, 10/1/2020 (b)	230,000	243,225
Sirius XM Radio, Inc., 144A, 5.875%, 10/1/2020	195,000	200,850
Springs Industries, Inc., 6.25%, 6/1/2021 (b)	295,000	293,525
Starz LLC, 5.0%, 9/15/2019	175,000	176,313
Taylor Morrison Communities, Inc., 144A, 5.25%, 4/15/2021	250,000	246,250
TRI Pointe Holdings, Inc., 144A, 4.375%, 6/15/2019	145,000	143,006
UCI International, Inc., 8.625%, 2/15/2019	310,000	296,050
Unitymedia Hessen GmbH & Co., KG:		
144A, 5.5%, 1/15/2023	945,000	987,525
144A, 7.5%, 3/15/2019	435,000	456,750
Univision Communications, Inc., 144A, 7.875%, 11/1/2020	140,000	149,100
Viking Cruises Ltd., 144A, 8.5%, 10/15/2022	205,000	221,913
Visant Corp., 10.0%, 10/1/2017	115,000	99,763
		24,005,471

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

	Principal Amount ($)(a)	Value ($)
Consumer Staples 4.8%		
Big Heart Pet Brands, 7.625%, 2/15/2019	284,000	279,030
Chiquita Brands International, Inc., 7.875%, 2/1/2021	110,000	118,250
Cott Beverages, Inc.:		
144A, 5.375%, 7/1/2022	240,000	220,200
144A, 6.75%, 1/1/2020	180,000	180,000
FAGE Dairy Industry SA, 144A, 9.875%, 2/1/2020	810,000	846,450
JBS Investments GmbH:		
144A, 7.25%, 4/3/2024	525,000	515,812
144A, 7.75%, 10/28/2020	405,000	419,378
JBS U.S.A. LLC:		
144A, 7.25%, 6/1/2021	485,000	499,550
144A, 8.25%, 2/1/2020	160,000	168,400
Post Holdings, Inc., 144A, 6.75%, 12/1/2021	110,000	106,700
Reynolds Group Issuer, Inc.:		
5.75%, 10/15/2020	1,390,000	1,424,750
6.875%, 2/15/2021	540,000	563,625
8.25%, 2/15/2021 (b)	225,000	230,625
Roundy's Supermarkets, Inc., 144A, 10.25%, 12/15/2020	55,000	47,850
Smithfield Foods, Inc., 6.625%, 8/15/2022	190,000	198,550
The WhiteWave Foods Co., 5.375%, 10/1/2022	185,000	190,550
U.S. Foods, Inc., 8.5%, 6/30/2019 (b)	400,000	424,000
		6,433,720
Energy 8.7%		
Access Midstream Partners LP, 6.125%, 7/15/2022	325,000	345,312
Antero Resources Corp., 144A, 5.125%, 12/1/2022	330,000	311,025
Antero Resources Finance Corp., 5.375%, 11/1/2021	250,000	241,875
Baytex Energy Corp.:		
144A, 5.125%, 6/1/2021	70,000	59,500
144A, 5.625%, 6/1/2024	95,000	80,750
Berry Petroleum Co., LLC:		
6.375%, 9/15/2022	205,000	155,800
6.75%, 11/1/2020	680,000	544,000
Blue Racer Midstream LLC, 144A, 6.125%, 11/15/2022	115,000	110,975
BreitBurn Energy Partners LP:		
7.875%, 4/15/2022	215,000	166,087
8.625%, 10/15/2020	205,000	176,300
California Resources Corp.:		
144A, 5.0%, 1/15/2020	140,000	121,450
144A, 5.5%, 9/15/2021	323,000	276,165
144A, 6.0%, 11/15/2024	35,000	29,575
Chaparral Energy, Inc., 7.625%, 11/15/2022	465,000	304,575
Crestwood Midstream Partners LP:		
6.125%, 3/1/2022	165,000	157,575
7.75%, 4/1/2019	325,000	333,125
Denbury Resources, Inc.:		
4.625%, 7/15/2023	65,000	56,388
5.5%, 5/1/2022	70,000	64,050
Dresser-Rand Group, Inc., 6.5%, 5/1/2021	230,000	247,250
Endeavor Energy Resources LP, 144A, 7.0%, 8/15/2021	545,000	482,325
EP Energy LLC, 6.875%, 5/1/2019	330,000	334,950
EV Energy Partners LP, 8.0%, 4/15/2019	955,000	811,750
Halcon Resources Corp., 8.875%, 5/15/2021	1,086,000	817,215
Hilcorp Energy I LP, 144A, 5.0%, 12/1/2024	195,000	171,600
Holly Energy Partners LP, 6.5%, 3/1/2020	105,000	103,950
Jupiter Resources, Inc., 144A, 8.5%, 10/1/2022	185,000	139,213
Linn Energy LLC, 6.25%, 11/1/2019	140,000	118,300
MEG Energy Corp.:		
144A, 6.5%, 3/15/2021	235,000	214,437
144A, 7.0%, 3/31/2024	610,000	552,050
Memorial Resource Development Corp., 144A, 5.875%, 7/1/2022	195,000	176,475
Midstates Petroleum Co., Inc., 10.75%, 10/1/2020	320,000	169,600
Murphy Oil U.S.A., Inc., 6.0%, 8/15/2023	290,000	303,050
Northern Oil & Gas, Inc., 8.0%, 6/1/2020	595,000	450,712
Regency Energy Partners LP:		
5.0%, 10/1/2022	125,000	118,125
5.875%, 3/1/2022	25,000	24,938
RSP Permian, Inc., 144A, 6.625%, 10/1/2022	115,000	106,950
Sabine Pass Liquefaction LLC:		
5.625%, 2/1/2021	690,000	677,925
5.625%, 4/15/2023	155,000	151,513
5.75%, 5/15/2024	175,000	171,719
SandRidge Energy, Inc., 7.5%, 3/15/2021	575,000	368,000
SESI LLC, 6.375%, 5/1/2019	235,000	227,950
Seventy Seven Energy, Inc., 6.5%, 7/15/2022 (b)	50,000	29,250
Seventy Seven Operating LLC, 6.625%, 11/15/2019	150,000	114,000
Swift Energy Co., 7.875%, 3/1/2022	290,000	150,075
Talos Production LLC, 144A, 9.75%, 2/15/2018	410,000	373,100
Targa Resources Partners LP, 144A, 4.125%, 11/15/2019	70,000	67,375
Triangle U.S.A. Petroleum Corp., 144A, 6.75%, 7/15/2022	145,000	95,700
Welltec AS, 144A, 8.0%, 2/1/2019	400,000	372,000
WPX Energy, Inc., 5.25%, 9/15/2024	140,000	130,200
		11,806,224
Financials 3.2%		
Credit Agricole SA, 144A, 7.875%, 1/29/2049	330,000	335,786
Credit Suisse Group AG, 144A, 6.25%, 12/29/2049	230,000	221,203
Denali Borrower LLC, 144A, 5.625%, 10/15/2020	285,000	296,542
E*TRADE Financial Corp.:		
5.375%, 11/15/2022	170,000	173,825
6.375%, 11/15/2019	585,000	620,100
Hellas Telecommunications Finance, 144A, 8.082%**, 7/15/2015 (PIK)* EUR	322,107	0

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

	Principal Amount ($)(a)	Value ($)
International Lease Finance Corp.:		
3.875%, 4/15/2018	385,000	385,000
6.25%, 5/15/2019	320,000	349,600
8.75%, 3/15/2017	245,000	271,338
MPT Operating Partnership LP:		
(REIT), 6.375%, 2/15/2022	290,000	308,125
(REIT), 6.875%, 5/1/2021	295,000	315,650
Neuberger Berman Group LLC, 144A, 5.625%, 3/15/2020	160,000	167,200
Popular, Inc., 7.0%, 7/1/2019	145,000	145,000
Seminole Tribe of Florida, Inc., 144A, 7.804%, 10/1/2020	305,000	323,300
Societe Generale SA, 144A, 7.875%, 12/29/2049	460,000	445,625
		4,358,294
Health Care 6.8%		
Aviv Healthcare Properties LP:		
6.0%, 10/15/2021	100,000	104,000
7.75%, 2/15/2019	500,000	521,000
Biomet, Inc.:		
6.5%, 8/1/2020	355,000	379,850
6.5%, 10/1/2020	100,000	105,500
Community Health Systems, Inc.:		
5.125%, 8/15/2018	1,155,000	1,195,425
5.125%, 8/1/2021	55,000	57,063
6.875%, 2/1/2022 (b)	220,000	233,063
7.125%, 7/15/2020	635,000	677,069
Crimson Merger Sub, Inc., 144A, 6.625%, 5/15/2022	525,000	471,844
Endo Finance LLC:		
144A, 5.375%, 1/15/2023	215,000	210,700
144A, 5.75%, 1/15/2022	220,000	220,000
Fresenius Medical Care U.S. Finance II, Inc., 144A, 5.625%, 7/31/2019	220,000	234,850
Fresenius U.S. Finance II, Inc., 144A, 9.0%, 7/15/2015	420,000	432,600
HCA, Inc.:		
5.25%, 4/15/2025	145,000	151,525
6.5%, 2/15/2020	890,000	997,245
7.5%, 2/15/2022	305,000	348,462
Hologic, Inc., 6.25%, 8/1/2020	200,000	208,000
IMS Health, Inc., 144A, 6.0%, 11/1/2020	250,000	257,500
LifePoint Hospitals, Inc, 5.5%, 12/1/2021	275,000	281,187
Par Pharmaceutical Companies, Inc., 7.375%, 10/15/2020	345,000	360,525
Physio-Control International, Inc., 144A, 9.875%, 1/15/2019	299,000	316,940
Valeant Pharmaceuticals International, Inc.:		
144A, 6.375%, 10/15/2020	245,000	256,025
144A, 7.5%, 7/15/2021	1,050,000	1,134,000
		9,154,373
Industrials 11.0%		
ADT Corp.:		
3.5%, 7/15/2022 (b)	150,000	127,875
4.125%, 4/15/2019	45,000	44,550
5.25%, 3/15/2020	300,000	303,750
6.25%, 10/15/2021 (b)	145,000	148,988
Aguila 3 SA, 144A, 7.875%, 1/31/2018	480,000	464,400
Armored Autogroup, Inc., 9.25%, 11/1/2018	355,000	353,225
Artesyn Embedded Technologies, Inc., 144A, 9.75%, 10/15/2020	245,000	232,138
AWAS Aviation Capital Ltd., 144A, 7.0%, 10/17/2016	317,240	324,378
BakerCorp International, Inc., 8.25%, 6/1/2019	335,000	303,175
Belden, Inc., 144A, 5.5%, 9/1/2022	355,000	352,337
Bombardier, Inc.:		
144A, 4.75%, 4/15/2019	160,000	160,600
144A, 5.75%, 3/15/2022 (b)	225,000	227,813
144A, 6.0%, 10/15/2022	265,000	267,650
Casella Waste Systems, Inc., 7.75%, 2/15/2019 (b)	220,000	223,300
Covanta Holding Corp., 5.875%, 3/1/2024	220,000	223,850
CTP Transportation Products LLC, 144A, 8.25%, 12/15/2019	275,000	290,125
DigitalGlobe, Inc., 144A, 5.25%, 2/1/2021	160,000	152,000
Ducommun, Inc., 9.75%, 7/15/2018	305,000	326,350
Florida East Coast Holdings Corp., 144A, 6.75%, 5/1/2019	470,000	465,300
FTI Consulting, Inc., 6.0%, 11/15/2022	205,000	209,613
Garda World Security Corp., 144A, 7.25%, 11/15/2021	290,000	287,100
Gates Global LLC, 144A, 6.0%, 7/15/2022	190,000	181,963
GenCorp, Inc., 7.125%, 3/15/2021	535,000	560,305
Huntington Ingalls Industries, Inc.:		
144A, 5.0%, 12/15/2021	395,000	401,912
7.125%, 3/15/2021	60,000	64,800
Kenan Advantage Group, Inc., 144A, 8.375%, 12/15/2018	575,000	592,250
Meritor, Inc.:		
6.25%, 2/15/2024	215,000	218,225
6.75%, 6/15/2021	300,000	313,500
Moog, Inc., 144A, 5.25%, 12/1/2022	165,000	167,063
Navios Maritime Holdings, Inc.:		
144A, 7.375%, 1/15/2022	830,000	759,450
8.125%, 2/15/2019	345,000	303,600
Nortek, Inc., 8.5%, 4/15/2021	440,000	470,800
Oshkosh Corp., 5.375%, 3/1/2022	165,000	168,300
Ply Gem Industries, Inc.:		
6.5%, 2/1/2022 (b)	275,000	258,500
144A, 6.5%, 2/1/2022	140,000	130,200
SBA Communications Corp., 5.625%, 10/1/2019	200,000	204,500
Spirit AeroSystems, Inc.:		
5.25%, 3/15/2022	285,000	289,987
6.75%, 12/15/2020	205,000	217,300
Titan International, Inc., 6.875%, 10/1/2020	590,000	519,200
TransDigm, Inc.:		
6.0%, 7/15/2022	260,000	259,350
6.5%, 7/15/2024	155,000	155,775
7.5%, 7/15/2021	1,115,000	1,187,475
Triumph Group, Inc., 5.25%, 6/1/2022	130,000	129,675
United Rentals North America, Inc.:		
5.75%, 7/15/2018	365,000	380,512
6.125%, 6/15/2023	25,000	26,250
7.375%, 5/15/2020	595,000	642,600
7.625%, 4/15/2022	595,000	654,202

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

	Principal Amount ($)(a)	Value ($)
XPO Logistics, Inc., 144A, 7.875%, 9/1/2019	90,000	94,050
		14,840,261

Information Technology 7.0%

	Principal Amount ($)(a)	Value ($)
ACI Worldwide, Inc., 144A, 6.375%, 8/15/2020	105,000	109,725
Activision Blizzard, Inc., 144A, 5.625%, 9/15/2021	805,000	845,250
Alliance Data Systems Corp., 144A, 5.25%, 12/1/2017	255,000	262,650
Audatex North America, Inc.:		
144A, 6.0%, 6/15/2021	315,000	324,450
144A, 6.125%, 11/1/2023	115,000	118,738
BMC Software Finance, Inc., 144A, 8.125%, 7/15/2021	450,000	423,000
Boxer Parent Co., Inc., 144A, 9.0%, 10/15/2019 (PIK)	320,000	272,000
Cardtronics, Inc., 144A, 5.125%, 8/1/2022	145,000	141,375
CDW LLC:		
5.5%, 12/1/2024	665,000	665,831
6.0%, 8/15/2022	230,000	237,475
8.5%, 4/1/2019	177,000	186,514
CyrusOne LP, 6.375%, 11/15/2022	105,000	112,088
EarthLink Holdings Corp., 7.375%, 6/1/2020	245,000	248,675
Entegris, Inc., 144A, 6.0%, 4/1/2022	160,000	162,000
Equinix, Inc.:		
5.375%, 1/1/2022	225,000	227,115
5.375%, 4/1/2023	725,000	725,000
5.75%, 1/1/2025	170,000	171,487
First Data Corp.:		
144A, 6.75%, 11/1/2020	611,000	652,242
144A, 7.375%, 6/15/2019	250,000	263,125
144A, 8.75%, 1/15/2022 (PIK)	910,000	978,250
144A, 8.875%, 8/15/2020	495,000	530,887
Freescale Semiconductor, Inc., 144A, 6.0%, 1/15/2022	275,000	287,375
Hughes Satellite Systems Corp.:		
6.5%, 6/15/2019	445,000	477,262
7.625%, 6/15/2021	230,000	253,000
NCR Corp.:		
5.875%, 12/15/2021	55,000	56,513
6.375%, 12/15/2023	135,000	140,400
NXP BV, 144A, 3.75%, 6/1/2018	250,000	250,000
Sanmina Corp., 144A, 4.375%, 6/1/2019	25,000	24,813
Ymobile Corp., 144A, 8.25%, 4/1/2018	335,000	350,912
		9,498,152

Materials 5.6%

	Principal Amount ($)(a)	Value ($)
Ardagh Packaging Finance PLC, 144A, 3.241%**, 12/15/2019	310,000	299,150
Berry Plastics Corp.:		
5.5%, 5/15/2022	435,000	441,525
9.75%, 1/15/2021	460,000	511,750
Cascades, Inc., 144A, 5.5%, 7/15/2022	145,000	144,275
Clearwater Paper Corp., 144A, 5.375%, 2/1/2025	290,000	285,650
Coveris Holdings SA, 144A, 7.875%, 11/1/2019	275,000	283,250
Crown Americas LLC, 6.25%, 2/1/2021	50,000	52,625
Exopack Holding Corp., 144A, 10.0%, 6/1/2018	230,000	243,800
First Quantum Minerals Ltd.:		
144A, 6.75%, 2/15/2020	551,000	498,655
144A, 7.0%, 2/15/2021	475,000	427,500
FMG Resources (August 2006) Pty Ltd.:		
144A, 6.0%, 4/1/2017 (b)	315,000	301,219
144A, 8.25%, 11/1/2019 (b)	270,000	245,700
Hexion U.S. Finance Corp.:		
6.625%, 4/15/2020	600,000	588,000
8.875%, 2/1/2018	270,000	240,300
Kaiser Aluminum Corp., 8.25%, 6/1/2020	260,000	282,100
Packaging Dynamics Corp., 144A, 8.75%, 2/1/2016	428,000	428,000
Perstorp Holding AB, 144A, 8.75%, 5/15/2017 (b)	455,000	447,037
Plastipak Holdings, Inc., 144A, 6.5%, 10/1/2021	250,000	248,750
Polymer Group, Inc., 7.75%, 2/1/2019	270,000	279,787
Rain CII Carbon LLC:		
144A, 8.0%, 12/1/2018	270,000	272,700
144A, 8.25%, 1/15/2021	200,000	204,500
Sealed Air Corp.:		
144A, 4.875%, 12/1/2022	115,000	114,138
144A, 5.125%, 12/1/2024	55,000	55,550
144A, 8.375%, 9/15/2021	150,000	167,625
Signode Industrial Group Lux SA, 144A, 6.375%, 5/1/2022	210,000	204,750
Tronox Finance LLC, 6.375%, 8/15/2020	200,000	200,500
WR Grace & Co-Conn:		
144A, 5.125%, 10/1/2021	90,000	92,250
144A, 5.625%, 10/1/2024	45,000	46,913
		7,607,999

Telecommunication Services 18.7%

	Principal Amount ($)(a)	Value ($)
Altice Financing SA:		
144A, 6.5%, 1/15/2022	200,000	195,500
144A, 7.875%, 12/15/2019	235,000	240,616
Altice Finco SA, 144A, 9.875%, 12/15/2020	235,000	251,199
Altice SA, 144A, 7.75%, 5/15/2022	245,000	245,459
B Communications Ltd., 144A, 7.375%, 2/15/2021	270,000	285,525
CenturyLink, Inc.:		
Series V, 5.625%, 4/1/2020	105,000	108,938
Series W, 6.75%, 12/1/2023 (b)	280,000	306,600
Cincinnati Bell, Inc., 8.375%, 10/15/2020	1,505,000	1,580,250
CommScope, Inc., 144A, 5.0%, 6/15/2021	260,000	256,100
CPI International, Inc., 8.75%, 2/15/2018	260,000	267,150
Digicel Group Ltd.:		
144A, 7.125%, 4/1/2022	265,000	246,450
144A, 8.25%, 9/30/2020	1,560,000	1,513,200
Digicel Ltd.:		
144A, 7.0%, 2/15/2020	200,000	197,800
144A, 8.25%, 9/1/2017	1,090,000	1,103,625
Frontier Communications Corp.:		
6.25%, 9/15/2021	140,000	140,700
6.875%, 1/15/2025	140,000	140,000
7.125%, 1/15/2023	1,370,000	1,393,975
8.5%, 4/15/2020	100,000	111,500

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

	Principal Amount ($)(a)	Value ($)
Intelsat Jackson Holdings SA:		
5.5%, 8/1/2023	465,000	462,164
7.25%, 10/15/2020	1,230,000	1,299,187
7.5%, 4/1/2021	1,270,000	1,358,900
Intelsat Luxembourg SA:		
7.75%, 6/1/2021	670,000	671,675
8.125%, 6/1/2023	105,000	107,100
Level 3 Communications, Inc.:		
144A, 5.75%, 12/1/2022	280,000	281,750
8.875%, 6/1/2019	55,000	58,311
Level 3 Escrow II, Inc., 144A, 5.375%, 8/15/2022	675,000	678,375
Level 3 Financing, Inc.:		
6.125%, 1/15/2021	165,000	170,775
7.0%, 6/1/2020	515,000	542,681
8.125%, 7/1/2019	425,000	451,563
8.625%, 7/15/2020	510,000	550,162
Millicom International Cellular SA, 144A, 4.75%, 5/22/2020	370,000	348,725
Pacnet Ltd., 144A, 9.0%, 12/12/2018	200,000	222,750
Sprint Communications, Inc.:		
144A, 7.0%, 3/1/2020	245,000	264,600
144A, 9.0%, 11/15/2018	845,000	961,103
Sprint Corp., 7.125%, 6/15/2024	1,345,000	1,250,850
T-Mobile U.S.A., Inc.:		
6.125%, 1/15/2022	110,000	111,650
6.625%, 11/15/2020	705,000	717,337
UPCB Finance III Ltd., 144A, 6.625%, 7/1/2020	185,000	194,250
UPCB Finance V Ltd., 144A, 7.25%, 11/15/2021	1,480,000	1,618,750
UPCB Finance VI Ltd., 144A, 6.875%, 1/15/2022	300,000	326,250
Wind Acquisition Finance SA, 144A, 6.5%, 4/30/2020	195,000	199,388
Windstream Corp.:		
6.375%, 8/1/2023 (b)	265,000	247,775
7.5%, 4/1/2023	420,000	417,900
7.75%, 10/15/2020	1,880,000	1,936,399
7.75%, 10/1/2021	675,000	688,500
7.875%, 11/1/2017	495,000	535,837
		25,259,294
Utilities 2.6%		
AES Corp.:		
3.234%**, 6/1/2019	175,000	170,625
8.0%, 10/15/2017	51,000	57,248
8.0%, 6/1/2020	525,000	599,812
Calpine Corp.:		
5.375%, 1/15/2023	240,000	242,400
5.75%, 1/15/2025	240,000	243,000
Dynegy Finance I, Inc., 144A, 7.625%, 11/1/2024	50,000	51,000
Enel SpA, 144A, 8.75%**, 9/24/2073	295,000	342,569
Energy Future Holdings Corp., Series Q, 6.5%, 11/15/2024*	550,000	429,000
NGL Energy Partners LP, 144A, 5.125%, 7/15/2019	190,000	182,400
NRG Energy, Inc.:		
144A, 6.25%, 5/1/2024	770,000	783,475
7.875%, 5/15/2021	215,000	231,662
RJS Power Holdings LLC, 144A, 5.125%, 7/15/2019	195,000	192,563
		3,525,754
Total Corporate Bonds (Cost $117,735,894)		**116,489,542**

Government & Agency Obligation 0.8%

U.S. Treasury Obligation

	Principal Amount ($)(a)	Value ($)
U.S. Treasury Note, 1.0%, 8/31/2016 (c) (Cost $1,058,015)	1,050,000	**1,057,875**

Loan Participations and Assignments 0.5%

Senior Loans**

	Principal Amount ($)(a)	Value ($)
Alliance Mortgage Cycle Loan, Term Loan A, 9.5%, 6/15/2010*	700,000	0
Level 3 Financing, Inc., Term Loan B5, 4.5%, 1/31/2022	365,000	365,912
Ply Gem Industries, Inc., Term Loan, 4.0%, 2/1/2021	307,675	300,445
Total Loan Participations and Assignments (Cost $1,368,267)		**666,357**

Convertible Bond 1.7%

Materials

	Principal Amount ($)(a)	Value ($)
GEO Specialty Chemicals, Inc., 144A, 7.5%, 3/31/2015 (PIK) (Cost $1,294,402)	1,297,793	**2,241,938**

Preferred Security 0.8%

Materials

	Principal Amount ($)(a)	Value ($)
Hercules, Inc., 6.5%, 6/30/2029 (Cost $772,845)	1,135,000	**1,021,500**

Common Stocks 0.0%

	Shares	Value ($)
Consumer Discretionary 0.0%		
Dawn Holdings, Inc.* (d)	15	41,683
Trump Entertainment Resorts, Inc.*	45	0
		41,683
Industrials 0.0%		
Congoleum Corp.*	24,000	0
Quad Graphics, Inc.	224	5,143
		5,143
Materials 0.0%		
GEO Specialty Chemicals, Inc.*	24,225	16,066
GEO Specialty Chemicals, Inc. 144A*	2,206	1,463
		17,529
Total Common Stocks (Cost $345,217)		**64,355**

Preferred Stock 0.8%

Financials

	Shares	Value ($)
Ally Financial, Inc. Series G, 144A, 7.0% (Cost $1,058,296)	1,134	**1,139,209**

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

	Shares	Value ($)
Warrants 0.1%		
Materials		
GEO Specialty Chemicals, Inc., Expiration Date 3/31/2015*	119,802	78,554
Hercules Trust II, Expiration Date 3/31/2029*	1,100	10,810
Total Warrants (Cost $244,286)		**89,364**
Securities Lending Collateral 3.7%		
Daily Assets Fund Institutional, 0.10% (e) (f) (Cost $5,014,149)	5,014,149	**5,014,149**

	Shares	Value ($)
Cash Equivalents 7.4%		
Central Cash Management Fund, 0.06% (e) (Cost $9,940,357)	9,940,357	**9,940,357**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $138,831,728)†	101.9	**137,724,646**
Other Assets and Liabilities, Net	(1.9)	**(2,503,057)**
Net Assets	100.0	**135,221,589**

The following table represents bonds and senior loans that are in default:

Security	Coupon	Maturity Date		Principal Amount	Cost ($)	Value ($)
Alliance Mortgage Cycle Loan*	9.5%	6/15/2010	USD	700,000	700,000	0
Energy Future Holdings Corp.*	6.5%	11/15/2024	USD	550,000	329,201	429,000
Hellas Telecommunications Finance*	8.082%	7/15/2015	EUR	322,107	92,199	0
					1,121,400	**429,000**

* Non-income producing security.

** 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, 2014.

† The cost for federal income tax purposes was $138,769,514. At December 31, 2014, net unrealized depreciation for all securities based on tax cost was $1,044,868. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $4,126,638 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $5,171,506.

(a) Principal amount stated in U.S. dollars unless otherwise noted.

(b) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at December 31, 2014 amounted to $4,829,671, which is 3.6% of net assets.

(c) At December 31, 2014, this security has been pledged, in whole or in part, as collateral for open swap contracts.

(d) The Fund may purchase securities that are subject to legal or contractual restrictions on resale ("restricted securities"). Restricted securities are securities which have not been registered with the Securities and Exchange Commission under the Securities Act of 1933. The Fund may be unable to sell a restricted security and it may be more difficult to determine a market value for a restricted security. Moreover, if adverse market conditions were to develop during the period between the Fund's decision to sell a restricted security and the point at which the Fund is permitted or able to sell such security, the Fund might obtain a price less favorable than the price that prevailed when it decided to sell. This investment practice, therefore, could have the effect of increasing the level of illiquidity of the Fund. The future value of these securities is uncertain and there may be changes in the estimated value of these securities.

Schedule of Restricted Securities	Acquisition Date	Cost ($)	Value ($)	Value as % of Net Assets
Dawn Holdings, Inc.*	August 2013	53,353	41,683	0.03

(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.

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, 2014, open credit default swap contracts sold were as follows:

Bilateral Swaps

Effective/ Expiration Dates	Notional Amount ($) (g)	Fixed Cash Flows Received	Underlying Debt Obligation/ Quality Rating (h)	Value ($)	Upfront Payments Paid/ (Received) ($)	Unrealized Appreciation/ (Depreciation) ($)
12/20/2011 3/20/2017	370,000[1]	5.0%	CIT Group, Inc., 5.5%, 2/15/2019, BB–	30,937	6,913	24,024
11/14/2014 12/20/2019	630,000[2]	5.0%	Community Health Systems, Inc., 8.0%, 11/15/2019, B–	61,790	42,162	19,628
6/20/2013 9/20/2018	245,000[1]	5.0%	DISH DBS Corp., 6.75%, 6/1/2021, BB–	29,878	16,279	13,599

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

Bilateral Swaps

Effective/ Expiration Dates	Notional Amount ($) (g)	Fixed Cash Flows Received	Underlying Debt Obligation/ Quality Rating (h)	Value ($)	Upfront Payments Paid/ (Received) ($)	Unrealized Appreciation/ (Depreciation) ($)
6/20/2011 9/20/2015	1,145,000[3]	5.0%	HCA, Inc., 6.375%, 1/15/2015, B–	40,222	10,468	29,754
3/21/2011 6/20/2016	610,000[4]	5.0%	HCA, Inc., 6.375%, 1/15/2015, B–	40,531	6,704	33,827
6/20/2013 9/20/2018	470,000[3]	5.0%	HCA, Inc., 8.0%, 10/1/2018, B–	60,122	27,942	32,180
6/20/2013 9/20/2018	730,000[5]	5.0%	Sprint Communications, Inc., 6.0%, 12/1/2016, BB–	35,357	32,254	3,103
12/20/2013 3/20/2019	3,000,000[3]	5.0%	Sprint Communications, Inc., 6.0%, 12/1/2016, BB–	119,987	262,467	(142,480)
Total unrealized appreciation						**13,635**

(g) 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, if any.

(h) 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.

Counterparties:

1 Credit Suisse

2 Morgan Stanley

3 Goldman Sachs & Co.

4 JPMorgan Chase Securities, Inc.

5 Bank of America

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 level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

The following is a summary of the inputs used as of December 31, 2014 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	$ —	$116,489,542	$ 0	$116,489,542
Government & Agency Obligation	—	1,057,875	—	1,057,875
Loan Participations and Assignments	—	666,357	0	666,357
Convertible Bond	—	—	2,241,938	2,241,938
Preferred Security	—	1,021,500	—	1,021,500
Common Stocks (i)	5,143	—	59,212	64,355
Preferred Stock	—	1,139,209	—	1,139,209
Warrants (i)	—	—	89,364	89,364
Short-Term Investments (i)	14,954,506	—	—	14,954,506
Derivatives (j)				
Credit Default Swap Contracts	—	156,115	—	156,115
Total	**$ 14,959,649**	**$120,530,598**	**$ 2,390,514**	**$137,880,761**

Liabilities	Level 1	Level 2	Level 3	Total
Derivatives (j)				
Credit Default Swap Contracts	$ —	$ (142,480)	$ —	$ (142,480)
Total	**$ —**	**$ (142,480)**	**$ —**	**$ (142,480)**

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

(i) See Investment Portfolio for additional detailed categorizations.

(j) Derivatives include unrealized appreciation (depreciation) on credit default swap 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	Convertible Bonds	Common Stocks	Warrants	Total
Balance as of December 31, 2013	$ 0	$ 0	$ 2,514,085	$ 289,546	$ 99,821	**$2,903,452**
Realized gains (loss)	(965,174)	—	—	44,875	—	**(920,299)**
Change in unrealized appreciation (depreciation)	965,174	—	(283,646)	(48,008)	(10,457)	**623,063**
Amortization of premium/accretion of discount	—	—	11,499	—	—	**11,499**
Purchases	—	—	—	—	—	—
(Sales)	—	—	—	(227,201)	—	**(227,201)**
Transfer into Level 3	—	—	—	—	—	—
Balance as of December 31, 2014	**$ 0**	**$ 0**	**$ 2,241,938**	**$ 59,212**	**$ 89,364**	**$2,390,514**
Net change in unrealized appreciation (depreciation) from investments still held as of December 31, 2014	**$ 0**	**$ 0**	**$ (283,646)**	**$ (3,133)**	**$ (10,457)**	**$ (297,236)**

Quantitative Disclosure About Significant Unobservable Inputs

Asset Class	Fair Value at 12/31/14	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Common Stocks				
Consumer Discretionary	$ 41,683	Market Approach	EV/EBITDA Multiple	11.24
			Discount to public comparables	15%
			Discount for lack of marketability	15%
	$ 0	Asset Valuation	Book Value of Equity	0%
Industrials	$ 0	Asset Valuation	Book Value of Equity	0%
Materials	$ 17,529	Market Approach	EV/EBITDA Multiple	6.26
			Discount to public comparables	20%
			Discount for lack of marketability	25%
Warrants				
Materials	$ 10,810	Black Scholes Option Pricing Model	Implied Volatility	30%
			Discount for lack of marketability	20%
	$ 78,554	Market Approach	EV/EBITDA Multiple	6.26
			Discount to public comparables	20%
			Discount for lack of marketability	25%
Loan Participations & Assignments				
Senior Loans	$ 0	Market Approach	Evaluated Price	0
Corporate Bonds				
Finance	$ 0	Asset Valuation	Book Value	0
Convertible Bonds				
Materials	$ 2,241,938	Convertible Bond Methodology	EV/EBITDA Multiple	6.26
			Discount to public comparable	20%
			Discount for lack of marketability	25%

Qualitative Disclosure About Unobservable Inputs

Significant unobservable inputs developed by the Pricing Committee and used in the fair value measurement of the Fund's investments include enterprise value (EV) to earnings before interest, taxes, depreciation and amortization (EBITDA) ratio with a discount for lack of marketability. A significant change in the EV to EBITDA ratio and/or a significant change in the discount for lack of marketability could have a material change on the fair value measurement.

Statement of Assets and Liabilities

as of December 31, 2014

Assets	
Investments:	
Investments in non-affiliated securities, at value (cost $123,877,222) — including $4,829,671 of securities loaned	$ 122,770,140
Investment in Daily Assets Fund Institutional (cost $5,014,149)*	5,014,149
Investment in Central Cash Management Fund (cost $9,940,357)	9,940,357
Total investments in securities, at value (cost $138,831,728)	137,724,646
Cash	247,824
Foreign currency, at value (cost $76)	72
Receivable for investments sold	94,664
Receivable for Fund shares sold	95
Interest receivable	2,037,142
Unrealized appreciation on bilateral swap contracts	156,115
Upfront payments paid on bilateral swap contracts	405,189
Foreign taxes recoverable	277
Other assets	2,760
Total assets	140,668,784
Liabilities	
Payable upon return of securities loaned	5,014,149
Payable for Fund shares redeemed	98,362
Unrealized depreciation on bilateral swap contracts	142,480
Accrued management fee	49,768
Accrued Trustees' fees	3,051
Other accrued expenses and payables	139,385
Total liabilities	5,447,195
Net assets, at value	**$ 135,221,589**
Net Assets Consist of	
Undistributed net investment income	8,342,159
Net unrealized appreciation (depreciation) on:	
Investments	(1,107,082)
Swap contracts	13,635
Foreign currency	(4)
Accumulated net realized gain (loss)	(37,529,883)
Paid-in capital	165,502,764
Net assets, at value	**$ 135,221,589**
Class A	
Net Asset Value, offering and redemption price per share ($135,196,648 ÷ 20,495,541 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 6.60**
Class B	
Net Asset Value, offering and redemption price per share ($24,941 ÷ 3,764 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 6.63**

* Represents collateral on securities loaned.

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

Statement of Operations

for the year ended December 31, 2014

Investment Income		
Interest	$	9,089,997
Dividends		75,928
Income distributions — Central Cash Management Fund		8,966
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		29,130
Total income		9,204,021
Expenses: Management fee		774,879
Administration fee		154,976
Distribution service fee (Class B)		2,610
Recordkeeping fees (Class B)		1,498
Services to shareholders		1,606
Custodian fee		29,677
Professional fees		109,956
Reports to shareholders		36,864
Trustees' fees and expenses		9,645
Other		42,192
Total expenses before expense reductions		1,163,903
Expense reductions		(28,084)
Total expenses after expense reductions		1,135,819
Net investment income (loss)		**8,068,202**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from: Investments		128,941
Swap contracts		1,013,217
Foreign currency		46,159
		1,188,317
Change in net unrealized appreciation (depreciation) on: Investments		(5,350,380)
Swap contracts		(1,001,496)
Foreign currency		2,788
		(6,349,088)
Net gain (loss)		**(5,160,771)**
Net increase (decrease) in net assets resulting from operations	**$**	**2,907,431**

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, 2014	2013
Operations:		
Net investment income	$ 8,068,202	$ 9,500,105
Net realized gain (loss)	1,188,317	3,917,069
Change in net unrealized appreciation (depreciation)	(6,349,088)	(804,655)
Net increase (decrease) in net assets resulting from operations	2,907,431	12,612,519
Distributions to shareholders from:		
Net investment income:		
Class A	(10,554,088)	(12,380,542)
Class B	(119,183)	(6,491)
Total distributions	(10,673,271)	(12,387,033)
Fund share transactions:		
Class A		
Proceeds from shares sold	12,833,015	37,136,318
Reinvestment of distributions	10,554,088	12,380,542
Payments for shares redeemed	(45,572,381)	(63,021,014)
Net increase (decrease) in net assets from Class A share transactions	(22,185,278)	(13,504,154)
Class B		
Proceeds from shares sold	7,949,939	674,207
Reinvestment of distributions	119,183	6,491
Payments for shares redeemed	(8,248,423)	(452,620)
Net increase (decrease) in net assets from Class B share transactions	(179,301)	228,078
Increase (decrease) in net assets	(30,130,419)	(13,050,590)
Net assets at beginning of period	165,352,008	178,402,598
Net assets at end of period (including undistributed net investment income of $8,342,159 and $9,541,574, respectively)	**$ 135,221,589**	**$ 165,352,008**

Other Information		
Class A		
Shares outstanding at beginning of period	23,727,813	25,717,511
Shares sold	1,881,827	5,481,259
Shares issued to shareholders in reinvestment of distributions	1,575,237	1,834,154
Shares redeemed	(6,689,336)	(9,305,111)
Net increase (decrease) in Class A shares	(3,232,272)	(1,989,698)
Shares outstanding at end of period	**20,495,541**	**23,727,813**
Class B		
Shares outstanding at beginning of period	46,339	13,214
Shares sold	1,159,065	98,852
Shares issued to shareholders in reinvestment of distributions	17,657	955
Shares redeemed	(1,219,297)	(66,682)
Net increase (decrease) in Class B shares	(42,575)	33,125
Shares outstanding at end of period	**3,764**	**46,339**

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

Financial Highlights

Class A	2014	2013	2012	2011	2010
		Years Ended December 31,			
Selected Per Share Data					
Net asset value, beginning of period	**$ 6.96**	**$ 6.93**	**$ 6.56**	**$ 6.90**	**$ 6.55**
Income (loss) from investment operations:					
Net investment income[a]	.36	.39	.45	.51	.52
Net realized and unrealized gain (loss)	(.25)	.14	.48	(.24)	.36
Total from investment operations	.11	.53	.93	.27	.88
Less distributions from:					
Net investment income	(.47)	(.50)	(.56)	(.61)	(.53)
Net asset value, end of period	**$ 6.60**	**$ 6.96**	**$ 6.93**	**$ 6.56**	**$ 6.90**
Total Return (%)	1.47[b]	7.91[b]	14.91	3.84	14.00
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	135	165	178	169	195
Ratio of expenses before expense reductions (%)	.75	.73	.72	.72	.72
Ratio of expenses after expense reductions (%)	.73	.72	.72	.72	.72
Ratio of net investment income (%)	5.21	5.69	6.68	7.59	7.90
Portfolio turnover rate (%)	52	58	58	59	93

a Based on average shares outstanding during the period.

b Total return would have been lower had certain expenses not been reduced.

Class B	2014	2013	2012	2011	2010
		Years Ended December 31,			
Selected Per Share Data					
Net asset value, beginning of period	**$ 6.99**	**$ 6.97**	**$ 6.59**	**$ 6.93**	**$ 6.58**
Income (loss) from investment operations:					
Net investment income[a]	.35	.36	.43	.49	.50
Net realized and unrealized gain (loss)	(.26)	.15	.49	(.24)	.36
Total from investment operations	.09	.51	.92	.25	.86
Less distributions from:					
Net investment income	(.45)	(.49)	(.54)	(.59)	(.51)
Net asset value, end of period	**$ 6.63**	**$ 6.99**	**$ 6.97**	**$ 6.59**	**$ 6.93**
Total Return (%)	1.22[b]	7.44[b]	14.70[b]	3.57	13.64
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ thousands)	25	324	92	85	144
Ratio of expenses before expense reductions (%)	1.13	1.10	.99	.99	.99
Ratio of expenses after expense reductions (%)	.97	.97	.99	.99	.99
Ratio of net investment income (%)	5.09	5.29	6.42	7.33	7.63
Portfolio turnover rate (%)	52	58	58	59	93

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

Deutsche High Income VIP (formerly DWS High Income VIP) (the "Fund") is a diversified series of Deutsche Variable Series II (formerly 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 level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

Debt securities and loan participations and assignments are valued at prices supplied by independent pricing services approved by the Fund's Board. 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, prepayment speeds and other data, as well as broker quotes. If the pricing services are unable to provide valuations, debt securities are valued at the average of the most recent reliable bid quotations or evaluated prices, as applicable, obtained from broker-dealers and loan participations and assignments are valued at the mean of the most recent bid and ask quotations or evaluated prices, as applicable, obtained from broker-dealers. Certain securities may be valued on the basis of a price provided by a single source or broker-dealer. No active trading market may exist for some senior loans and they may be subject to restrictions on resale. The inability to dispose of senior loans in a timely fashion could result in losses. 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. 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. Equity securities are generally categorized as Level 1 securities.

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 considered 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.

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. Deutsche Bank AG, as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains the benefits of owning the securities it has loaned and continues to receive interest and dividends generated by the 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. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. 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.

As of December 31, 2014, the Fund had securities on loan. The value of the related collateral exceeded the value of the securities loaned at period end.

Loan Participations and Assignments. Loan Participations and Assignments are portions of loans originated by banks and sold in pieces to investors. These 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 refinancing. 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 with only 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. Loans held by the Fund are generally in the form of Assignments, but the Fund may also invest in Participations. All 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 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 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. Additionally, the Fund may be required to post securities and/or cash collateral in accordance with the terms of the commitment.

Certain risks may arise upon entering into when-issued or delayed delivery transaction 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.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses incurred post-enactment 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, 2014, the Fund had a net tax basis capital loss carryforward of approximately $37,593,000, including $35,391,000 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, 2015 ($858,000), December 31, 2016 ($17,301,000) and December 31, 2017 ($17,232,000), the respective expiration dates, whichever occurs first; and approximately $2,202,000 of post-enactment long-term losses, which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($614,000) and long-term losses ($1,588,000).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2014 and has determined that no provision for income tax and/or uncertain tax provisions 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 from net investment income of the Fund, if any, are 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 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, 2014, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 8,396,274
Capital loss carryforwards	$ (37,593,000)
Unrealized appreciation (depreciation) on investments	$ (1,044,868)

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

	Years Ended December 31, 2014	2013
Distributions from ordinary income*	$ 10,673,271	$ 12,387,033

* 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 based upon the relative net assets or other appropriate measures.

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 ex-dividend date. Realized gains and losses from investment transactions are recorded on an identified cost basis. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments. 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

Swaps. A swap is a contract between two parties to exchange future cash flows at periodic intervals based on the notional amount of the swap. A bilateral swap is a transaction between the fund and a counterparty where cash flows are exchanged between the two parties. A centrally cleared swap is a transaction executed between the fund and a counterparty, then cleared by a clearing member through a central clearinghouse. The central clearinghouse serves as the counterparty, with whom the fund exchanges cash flows.

The value of a 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. Gains or losses are realized when the swap expires or is closed. Certain risks may arise when entering into swap transactions including counterparty default; liquidity; or unfavorable changes in interest rates or the value of the underlying reference security, commodity or index. In connection with bilateral swaps, securities and/or cash may be identified as collateral in accordance with the terms of the swap agreement 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 swap, 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. Upon entering into a centrally cleared swap, 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 notional amount of the swap. Subsequent payments ("variation margin") are made or received by the Fund dependent upon the daily fluctuations in the value of the swap. In a cleared swap transaction, counterparty risk is minimized as the central clearinghouse acts as the counterparty.

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.

Credit default swaps are agreements between a buyer and a seller of protection against predefined credit events for the reference entity. The Fund may enter into credit default swaps to gain exposure to an underlying issuer's credit quality characteristics without directly investing in that issuer or to hedge against the risk of a credit event on debt securities. As a seller of a credit default swap, 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 swap 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 swaps, in which case the Fund functions as the counterparty referenced above. This involves the risk that the swap 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, 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 swaps sold by the Fund. For the year ended December 31, 2014, the Fund entered into credit default swap agreements to gain exposure to the underlying issuer's credit quality characteristics.

Under the terms of a credit default swap, the Fund receives or makes periodic 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 swap 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, 2014 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2014, the Fund's investment in credit default swap contracts sold had a total notional value generally indicative of a range from approximately $7,200,000 to $26,735,000.

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, 2014, 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.

There were no open forward currency contracts as of December 31, 2014. For the year ended December 31, 2014, the Fund's investment in forward currency contracts short vs. U.S. dollars had a total contract value generally indicative of a range from $0 to approximately $1,634,000, and the investment in forward currency contracts long vs. U.S. dollars had a total contract value generally indicative of a range from $0 to approximately $777,000.

The following tables summarize the value of the Fund's derivative instruments held as of December 31, 2014 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivative	**Swap Contracts**
Credit Contract (a)	$ 156,115

The above derivative is located in the following Statement of Assets and Liabilities account:

(a) Unrealized appreciation on bilateral swap contracts

Liability Derivative	**Swap Contracts**
Credit Contracts (a)	$ 142,480

Each of the above derivatives is located in the following Statement of Assets and Liabilities account:

(a) Unrealized depreciation on bilateral 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, 2014 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)	$ —	$ 1,013,217	$ 1,013,217
Foreign Exchange Contracts (b)	52,580	—	52,580
	$ 52,580	**$ 1,013,217**	**$ 1,065,797**

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)	$ —	$ (1,001,496)	$ (1,001,496)
Foreign Exchange Contracts (b)	2,853	—	2,853
	$ 2,853	**$ (1,001,496)**	**$ (998,643)**

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)

As of December 31, 2014, the Fund has transactions subject to enforceable master netting agreements. A reconciliation of the gross amounts on the Statement of Assets and Liabilities to the net amounts by counterparty, including any collateral exposure, is included in the following table:

Counterparty	Gross Amounts of Assets Presented in the Statement of Assets and Liabilities	Financial Instruments and Derivatives Available for Offset	Collateral Received	Net Amount of Derivative Assets
Bank of America	$ 3,103	$ —	$ —	$ 3,103
Credit Suisse	37,623	—	—	37,623
Goldman Sachs & Co.	61,934	(61,934)	—	—
JPMorgan Chase Securities, Inc.	33,827	—	—	33,827
Morgan Stanley	19,628	—	—	19,628
	$ 156,115	**$ (61,934)**	**$ —**	**$ 94,181**

Counterparty	Gross Amounts of Liabilities Presented in the Statement of Assets and Liabilities	Financial Instruments and Derivatives Available for Offset	Collateral Pledged	Net Amount of Derivative Liabilities
Goldman Sachs & Co.	$ 142,480	$ (61,934)	$ —	$ 80,546

C. Purchases and Sales of Securities

During the year ended December 31, 2014, purchases and sales of investment transactions (excluding short-term investments and U.S. Treasury securities) aggregated $71,746,218 and $83,609,067, respectively. Purchases of U.S. Treasury obligations aggregated $1,062,179.

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, 2014, the fee pursuant to the Investment Management Agreement was equivalent to an annual rate (exclusive of any applicable waivers/reimbursements) of 0.50% of the Fund's average daily net assets.

For the period from January 1, 2014 through September 30, 2014, the Advisor had contractually agreed to waive all or a portion of its fees and/or reimburse certain operating expenses of the Fund to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest) of each class as follows:

Class A	.72%
Class B	.97%

Effective October 1, 2014 through September 30, 2015 for Class A shares, and effective October 1, 2014 through April 30, 2015 for Class B shares, the Advisor has contractually agreed to waive all or a portion of its fees and/or reimburse certain operating expenses of the Fund to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest) of each class as follows:

Class A	.72%
Class B	1.00%

For the year ended December 31, 2014, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 26,380
Class B	1,704
	$ 28,084

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, 2014, the Administration Fee was $154,976, of which $11,531 is unpaid.

Service Provider Fees. DeAWM Service Company ("DSC"), 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 DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it receives from the Fund. For the year ended December 31, 2014, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	**Total Aggregated**	**Unpaid at December 31, 2014**
Class A	$ 289	$ 48
Class B	53	8
	$ 342	**$ 56**

Distribution Service Agreement. Under the Fund's Class B 12b-1 plans, DeAWM Distributors, Inc. ("DDI") received a fee ("Distribution Service Fee") of 0.25% of average daily net assets of Class B shares. For the year ended December 31, 2014, the Distribution Service Fee was $2,610, of which $8 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, 2014, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $17,494, of which $6,832 is unpaid.

Trustees' Fees and Expenses. The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and Vice Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicles. The Fund may invest uninvested cash balances in Central Cash Management Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. Each affiliated money market fund seeks to provide a high level of current income consistent with liquidity and the preservation of capital. Each affiliated money market fund is managed in accordance with Rule 2a-7 under the Investment Company Act of 1940, which governs the quality, maturity, diversity and liquidity of instruments in which a money market fund may invest. Central Cash Management Fund seeks to maintain a stable net asset value, and Deutsche Variable NAV Money Fund maintains a floating net asset value. The Fund indirectly bears its proportionate share of the expenses of each affiliated money market fund in which it invests. Central Cash Management Fund does not pay the Advisor an investment management fee. To the extent that Deutsche Variable NAV Money Fund pays an investment management fee to the Advisor, the Advisor will waive an amount of the investment management fee payable to the Advisor by the Fund equal to the amount of the investment management fee payable on the Fund's assets invested in Deutsche Variable NAV Money Fund.

Security Lending Fees. Deutsche Bank AG serves as lending agent for the Fund. For the year ended December 31, 2014, the Fund incurred lending agent fees to Deutsche Bank AG for the amount of $2,553.

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 risk of loss from default by the issuer is significantly greater. Prices and yields of high-yield securities will fluctuate over time and, during periods of economic uncertainty, volatility of high-yield securities may adversely affect a fund's net asset value. 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, 2014, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 62% and 27%. 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%.

G. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 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, 2014.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Deutsche Variable Series II and Shareholders of Deutsche High Income VIP:

We have audited the accompanying statement of assets and liabilities, including the investment portfolio, of Deutsche High Income VIP (formerly DWS High Income VIP) (the "Fund") (one of the series constituting Deutsche Variable Series II (formerly DWS Variable Series II)), as of December 31, 2014, 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 periods indicated therein. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. 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, 2014, 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 Deutsche High Income VIP at December 31, 2014, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the periods indicated therein, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Boston, Massachusetts
February 13, 2015

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, 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, 2014 to December 31, 2014).

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, 2014

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/14	$1,000.00	$1,000.00
Ending Account Value 12/31/14	$ 966.30	$ 963.70
Expenses Paid per $1,000*	$ 3.62	$ 4.80
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/14	$1,000.00	$1,000.00
Ending Account Value 12/31/14	$1,021.53	$1,020.32
Expenses Paid per $1,000*	$ 3.72	$ 4.94

* 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 184 (the number of days in the most recent six-month period), then divided by 365.

Annualized Expense Ratios	**Class A**	**Class B**
Deutsche Variable Series II — Deutsche High Income VIP	.73%	.97%

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.

For an analysis of the fees associated with an investment in the fund or similar funds, please refer to the current and hypothetical expense calculators for Variable Insurance Products which can be found at deutschefunds.com/EN/resources/calculators.jsp.

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 — deutschefunds.com (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — 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.

Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of Deutsche High Income VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2014.

In terms of the process that the Board followed prior to approving the Agreement, shareholders should know that:

— In September 2014, all of the Fund's Trustees were independent of DIMA 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 Asset Allocation Oversight Committee, reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly meet privately with counsel to discuss contract review and other matters. In addition, the Independent Trustees were advised by the Fee Consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the Fee Consultant in connection with their deliberations.

— 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 DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG ("DB"), a major global banking institution that is engaged in a wide range of financial services. The Board believes that there are 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.

As part of the contract review process, the Board carefully considered the fees and expenses of each Deutsche fund overseen by the Board in light of the fund's performance. In many cases, this led to the negotiation and implementation of expense caps. As part of these negotiations, the Board indicated that it would consider relaxing these caps in future years following sustained improvements in performance, among other considerations.

In 2012, DB combined its Asset Management (of which DIMA was a part) and Wealth Management divisions into a new Asset and Wealth Management ("AWM") division. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that DB will continue to invest in AWM a significant portion of the savings it has realized by combining its Asset and Wealth Management divisions, including ongoing enhancements to AWM's investment capabilities. DB also has confirmed its commitment to maintaining strong legal and compliance groups within the AWM division.

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

Nature, Quality and Extent of Services. The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market index(es) and a peer universe compiled by the Fee Consultant using information supplied by Morningstar Direct ("Morningstar"), an independent fund data service. The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to a peer universe), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's 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, 2013, the Fund's performance (Class A shares) was in the 2nd quartile, 2nd quartile and 3rd quartile, respectively, of the applicable Morningstar 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, 2013.

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 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 DIMA under the Fund's administrative services agreement, were lower than the median (1st quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2013). 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, 2013, and analyzing Lipper expense universe Class A (net) 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 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 noted that the expense limitations agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable funds and considered differences between the Fund and the comparable funds. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts and funds offered primarily to European investors ("Deutsche Europe funds") managed by DIMA and its affiliates. The Board noted that DIMA indicated that it does not manage any institutional accounts or Deutsche Europe funds comparable to the Fund.

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

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the Deutsche U.S. mutual funds ("Deutsche 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 DIMA and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable.

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

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to Deutsche Funds advertising and cross-selling opportunities among DIMA products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of DIMA's and the Fund's chief compliance officer; (ii) the large number of DIMA compliance personnel; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.

Based on all of the information considered and the conclusions reached, the Board 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 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.

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund. 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 Kenneth C. Froewiss, Chairman, Deutsche Mutual Funds, P.O. Box 390601, Cambridge, MA 02139. 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.

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 Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Kenneth C. Froewiss (1945) Chairperson since 2013, and 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)	105	—
William McClayton (1944) Vice Chairperson since 2013, and 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	105	—
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); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (provider of disease and care management services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International	105	Portland General Electric[2] (utility company) (2003–present)
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); North Bennett Street School (Boston); former Directorships: Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College	105	Lead Director, Becton Dickinson and Company[2] (medical technology company)
Dawn-Marie Driscoll (1946) Board Member since 1987	Emeritus Executive Fellow, Center for Business Ethics, Bentley University; formerly: President, Driscoll Associates (consulting firm); Partner, Palmer & Dodge (law firm) (1988–1990); Vice President of Corporate Affairs and General Counsel, Filene's (retail) (1978–1988). Directorships: Director of ICI Mutual Insurance Company (since 2007); Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	105	—
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); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies; former Directorships: BoxTop Media Inc. (advertising); Sun Capital Advisers Trust (mutual funds) (2011–2012)	105	—

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 Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Paul K. Freeman (1950) Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Chair, Independent Directors Council; Investment Company Institute (executive and nominating committees); formerly, Chairman of Education Committee of Independent Directors Council; Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998); Directorships: Denver Zoo Foundation (December 2012–present); former Directorships: Prisma Energy International	105	—
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; 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)	105	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
Rebecca W. Rimel (1951) Board Member since 1995	President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 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); Director, Viasys Health Care[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	105	Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc.[2] (health care) (2009–present)
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); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	105	—
Jean Gleason Stromberg (1943) Board Member since 1997	Retired. Formerly, Consultant (1997–2001); Director, Financial Markets U.S. Government Accountability Office (1996–1997); Partner, Norton Rose Fulbright, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation (charitable organization); former Directorships: Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	105	—
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	105	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Brian E. Binder[8] (1972) President and Chief Executive Officer, 2013–present	Managing Director[3] and Head of Fund Administration, Deutsche Asset & Wealth Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012); Chief Administrative Officer, Van Kampen Funds Inc. (2008–2010); and Chief Administrative Officer, Morgan Stanley Investment Management Americas Distribution (2003–2008)
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset & Wealth Management
Melinda Morrow[6] (1970) Vice President, 2012–present	Director,[3] Deutsche Asset & Wealth Management

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset & Wealth 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 & Wealth Management; formerly: Assistant Secretary for DWS family of funds (1997–2010)
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director,[3] Deutsche Asset & Wealth Management
Wayne Salit[6] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset & Wealth Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Hepsen Uzcan[7] (1974) Assistant Secretary, 2013–present	Director,[3] Deutsche Asset & Wealth Management
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management

1 The length of time served represents the year in which the Board Member joined the board of one or more Deutsche 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 Deutsche funds.

6 Address: 60 Wall Street, New York, NY 10005.

7 Address: One Beacon Street, Boston, MA 02108.

8 Address: 222 South Riverside Plaza, Chicago, IL 60606.

* Robert H. Wadsworth retired from the Board effective December 31, 2014.

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

Notes

Deutsche Asset
& Wealth Management

DeAWM Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2HI-2 (R-025832-4 2/15)

Deutsche Asset
& Wealth Management

December 31, 2014

Annual Report

Deutsche Variable Series I

(formerly DWS Variable Series I)

Deutsche International VIP

(formerly DWS International VIP)

Contents

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.

The Fund will be managed on the premise that stocks with lower CROCI® Economic P/E Ratios may outperform stocks with higher CROCI® Economic P/E Ratios over time. This premise may not always be correct and prospective investors should evaluate this assumption prior to investing in the Fund. 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.

Deutsche Asset & Wealth Management represents the asset management and wealth management activities conducted by Deutsche Bank AG or any of its subsidiaries, including the Advisor and DeAWM Distributors, Inc.

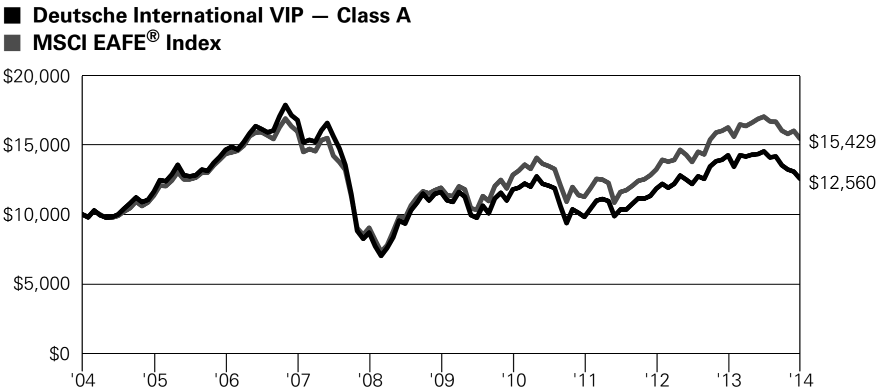
Performance Summary

December 31, 2014 (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, 2014 are 1.02% and 1.30% 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

MSCI EAFE Index is an unmanaged index that tracks international stock performance in the 21 developed markets of Europe, Australasia and the Far East. Returns reflect reinvestment of dividends net of withholding taxes. 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

Deutsche International VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$8,824	$12,798	$10,838	$12,560
	Average annual total return	–11.76%	8.57%	1.62%	2.31%
MSCI EAFE® Index	Growth of $10,000	$9,510	$13,698	$12,968	$15,429
	Average annual total return	–4.90%	11.06%	5.33%	4.43%

Deutsche International VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$8,802	$12,689	$10,701	$12,205
	Average annual total return	–11.98%	8.26%	1.37%	2.01%
MSCI EAFE® Index	Growth of $10,000	$9,510	$13,698	$12,968	$15,429
	Average annual total return	–4.90%	11.06%	5.33%	4.43%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2014 (Unaudited)

The Fund returned -11.76% (Class A, unadjusted for contract charges) during 2014, underperforming the -4.90% return of its benchmark, the MSCI EAFE Index.[1] The muted returns for the international markets reflected concerns about slower-than-expected economic growth in both Europe and Japan during the second half of the year. The energy and materials sectors performed poorly, weighing on the overall return of the broader market. Currencies also played a role in performance, as the sharp declines in the euro and Japanese yen had a negative impact on returns for U.S. dollar-based investors.

The Fund changed its management process and investment team on May 1, 2014.[2] During the subsequent eight months, the Fund trailed its benchmark. We believe an important reason for this shortfall was our emphasis on larger, higher-quality companies, which generally lagged their more speculative counterparts during 2014.

Our stock picks delivered the strongest relative performance in the materials sector, where the leading contributors were the Japanese companies Asahi Kasei Corp. and Nitto Denko Corp. The Fund also had a number of strong contributors outside of materials, including Merck KGA, Sekisui House Ltd. and Singapore Airlines Ltd. However, these gains were more than offset by the negative impact of the Fund's positioning in the energy sector. Not only did the portfolio hold an overweight position in this underperforming group, but it was also hurt by the sizeable underperformance of several individual holdings, including Petrofac Ltd., Transocean Ltd. and OMV AG.[3] Stock selection in the industrials sector also played a modest role in the Fund's underperformance.

The Fund closed the period with overweight positions in the materials, energy and utilities sectors, a reflection of our bottom-up approach. Although the energy and materials sectors underperformed in 2014, we believe both closed the year with attractive valuations vs. the broader market, and we retained our overweight positions. The Fund holds no weighting in financials, and it was underweight in the consumer staples and telecommunications sectors.[4]

Despite the volatility of the past year, we continue to hold an optimistic longer-term outlook on international equities. We believe corporations' rising profit margins and declining debt should support continued gains in profitability, and we expect that highly accommodative central-bank policies will boost confidence and provide ongoing support for the markets.

Di Kumble, CFA
Portfolio Manager

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.

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

2 Portfolio management strives to select approximately fifty stocks with the lowest positive Cash Return on Capital Invested (CROCI®) Economic Price Earnings Ratio from a universe comprising of approximately 330 of the largest equities by market capitalization in the MSCI EAFE Index, excluding financial stocks. The CROCI® Investment Process is based on the belief that the data used in traditional valuations (i.e. accounting data) does not accurately appraise assets, reflect all liabilities or represent the real value of a company. The CROCI® Investment Process seeks to generate data that will enable valuation comparisons on a consistent basis, resulting in an effective and efficient stock selection process targeting investment in real value. The fund is reconstituted on a quarterly basis in accordance with the CROCI® strategy's rules. The regional weighting in the fund is targeted to match the regional weighting of the fund's benchmark, the MSCI EAFE 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 Consumer staples are the industries that manufacture and sell products such as food and beverages, prescription drugs and household products.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/14**	**12/31/13**
Common Stocks	99%	97%
Cash Equivalents	1%	3%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/14**	**12/31/13**
Continental Europe	44%	53%
United Kingdom	24%	15%
Japan	21%	20%
Asia (excluding Japan)	6%	4%
Australia	5%	8%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/14**	**12/31/13**
Materials	23%	6%
Consumer Discretionary	17%	14%
Industrials	14%	13%
Health Care	14%	9%
Energy	13%	6%
Utilities	10%	4%
Information Technology	5%	5%
Consumer Staples	2%	9%
Telecommunication Services	2%	8%
Financials	—	26%
	100%	100%

Portfolio holdings and characteristics 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 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 deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

	Shares	Value ($)
Common Stocks 98.7%		
Australia 4.9%		
BHP Billiton Ltd.	85,804	2,036,005
Origin Energy Ltd.	199,658	1,884,184
Woodside Petroleum Ltd.	72,255	2,246,269
(Cost $8,234,389)		**6,166,458**
Austria 1.7%		
OMV AG (Cost $3,550,971)	81,699	**2,161,891**
Denmark 1.8%		
A P Moller-Maersk AS "B" (Cost $2,629,452)	1,121	**2,228,223**
Finland 1.9%		
Fortum Oyj (Cost $2,396,816)	112,893	**2,439,552**
France 7.9%		
Cie Generale des Etablissements Michelin	30,427	2,758,585
GDF Suez	111,176	2,596,549
Sanofi	24,152	2,201,115
Total SA	45,284	2,334,808
(Cost $11,422,092)		**9,891,057**
Germany 10.7%		
Continental AG	13,404	2,846,373
E.ON SE	154,663	2,655,869
Hochtief AG	35,126	2,481,972
K+S AG (Registered)	97,769	2,714,942
Merck KGaA	28,744	2,726,816
(Cost $14,859,095)		**13,425,972**
Hong Kong 2.1%		
CLP Holdings Ltd. (Cost $2,434,885)	304,960	**2,646,310**
Japan 21.1%		
Asahi Kasei Corp.	318,874	2,922,280
Bridgestone Corp.	77,928	2,708,066
Daiichi Sankyo Co., Ltd.	163,350	2,283,712
Denso Corp.	56,067	2,613,036
Kyocera Corp.	59,386	2,721,886
Nitto Denko Corp.	47,644	2,664,419
Otsuka Holdings Co., Ltd.	73,815	2,213,854
Sekisui House Ltd.	210,890	2,762,195
Sumitomo Metal Mining Co., Ltd.	193,554	2,888,180
Toyota Industries Corp.	55,409	2,831,250
(Cost $24,631,830)		**26,608,878**
Luxembourg 1.6%		
Tenaris SA (Cost $3,000,441)	132,802	**2,005,918**
Netherlands 6.4%		
Koninklijke (Royal) KPN NV	836,713	2,637,973
Koninklijke Ahold NV	159,446	2,834,318
Koninklijke DSM NV	42,521	2,585,551
(Cost $8,908,654)		**8,057,842**
Norway 1.5%		
Statoil ASA (Cost $3,214,877)	110,510	**1,936,625**
Singapore 4.1%		
Keppel Corp., Ltd.	345,176	2,303,244
Singapore Airlines Ltd.	331,064	2,894,522
(Cost $5,624,503)		**5,197,766**
Sweden 2.2%		
Telefonaktiebolaget LM Ericsson "B" (Cost $2,697,638)	224,447	**2,718,264**
Switzerland 7.4%		
Novartis AG (Registered)	28,284	2,601,208
Swatch Group AG (Bearer)	5,394	2,395,138
Syngenta AG (Registered)	8,390	2,694,033
Transocean Ltd. (a) (b)	88,507	1,622,333
(Cost $11,746,824)		**9,312,712**
United Kingdom 23.4%		
Anglo American PLC	122,104	2,259,162
Antofagasta PLC	233,844	2,714,995
AstraZeneca PLC	36,300	2,553,547
Burberry Group PLC	105,831	2,681,613
Centrica PLC	540,530	2,326,419
easyJet PLC	109,868	2,835,848
GlaxoSmithKline PLC	113,245	2,422,883
Petrofac Ltd.	151,607	1,644,277
Rexam PLC	340,782	2,395,798
Rio Tinto PLC	53,049	2,444,103
Rolls-Royce Holdings PLC*	203,637	2,743,207
Smiths Group PLC	141,455	2,394,141
(Cost $35,930,321)		**29,415,993**
Total Common Stocks (Cost $141,282,788)		**124,213,461**
Securities Lending Collateral 1.3%		
Daily Assets Fund Institutional, 0.10% (c) (d) (Cost $1,703,259)	1,703,259	**1,703,259**
Cash Equivalents 0.8%		
Central Cash Management Fund, 0.06% (c) (Cost $965,106)	965,106	**965,106**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $143,951,153)†	100.8	**126,881,826**
Other Assets and Liabilities, Net	(0.8)	**(1,054,519)**
Net Assets	100.0	**125,827,307**

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

* Non-income producing security.

† The cost for federal income tax purposes was $144,297,267. At December 31, 2014, net unrealized depreciation for all securities based on tax cost was $17,415,441. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $3,835,818 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $21,251,259.

(a) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at December 31, 2014 amounted to $1,621,856, which is 1.3% of net assets.

(b) Listed on the New York Stock Exchange.

(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.

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 level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

The following is a summary of the inputs used as of December 31, 2014 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				
Australia	$ —	$ 6,166,458	$ —	$ 6,166,458
Austria	—	2,161,891	—	2,161,891
Denmark	—	2,228,223	—	2,228,223
Finland	—	2,439,552	—	2,439,552
France	—	9,891,057	—	9,891,057
Germany	—	13,425,972	—	13,425,972
Hong Kong	—	2,646,310	—	2,646,310
Japan	—	26,608,878	—	26,608,878
Luxembourg	—	2,005,918	—	2,005,918
Netherlands	—	8,057,842	—	8,057,842
Norway	—	1,936,625	—	1,936,625
Singapore	—	5,197,766	—	5,197,766
Sweden	—	2,718,264	—	2,718,264
Switzerland	1,622,333	7,690,379	—	9,312,712
United Kingdom	—	29,415,993	—	29,415,993
Short-Term Investments (e)	2,668,365	—	—	2,668,365
Total	**$ 4,290,698**	**$122,591,128**	**$ —**	**$126,881,826**

There have been no transfers between fair value measurement levels during the year ended December 31, 2014.

(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, 2014

Assets	
Investments:	
Investments in non-affiliated securities, at value (cost $141,282,788) — including $1,621,856 of securities loaned	$ 124,213,461
Investment in Daily Assets Fund Institutional (cost $1,703,259)*	1,703,259
Investment in Central Cash Management Fund (cost $965,106)	965,106
Total investments, at value (cost $143,951,153)	126,881,826
Foreign currency, at value (cost $122,878)	120,505
Receivable for investments sold	22,656
Receivable for Fund shares sold	210,489
Dividends receivable	92,450
Interest receivable	8,854
Foreign taxes recoverable	396,844
Other assets	3,017
Total assets	127,736,641

Liabilities	
Payable upon return of securities loaned	1,703,259
Payable for Fund shares redeemed	20,554
Accrued management fee	67,509
Accrued Trustees' fees	2,778
Other accrued expenses and payables	115,234
Total liabilities	1,909,334
Net assets, at value	**$ 125,827,307**

Net Assets Consist of	
Undistributed net investment income	4,945,421
Net unrealized appreciation (depreciation) on:	
Investments	(17,069,327)
Foreign currency	(22,191)
Accumulated net realized gain (loss)	(105,732,763)
Paid-in capital	243,706,167
Net assets, at value	**$ 125,827,307**
Class A	
Net Asset Value, offering and redemption price per share ($125,563,079 ÷ 15,973,456 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 7.86**
Class B	
Net Asset Value, offering and redemption price per share ($264,228 ÷ 33,566 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 7.87**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2014

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $390,267)	$ 6,373,016
Interest	207
Income distributions — Central Cash Management Fund	994
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	79,601
Total income	6,453,818
Expenses:	
Management fee	1,127,857
Administration fee	142,767
Services to shareholders	3,410
Distribution service fee (Class B)	733
Custodian fee	48,413
Professional fees	73,468
Reports to shareholders	48,585
Trustees' fees and expenses	8,624
Other	25,089
Total expenses before expense reductions	1,478,946
Expense reductions	(85,912)
Total expenses after expense reductions	1,393,034
Net investment income (loss)	**5,060,784**

Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	21,681,921
Futures	94,022
Foreign currency	(38,284)
	21,737,659
Change in net unrealized appreciation (depreciation) on:	
Investments	(43,589,032)
Futures	(151,875)
Foreign currency	(55,762)
	(43,796,669)
Net gain (loss)	**(22,059,010)**
Net increase (decrease) in net assets resulting from operations	**$ (16,998,226)**

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, 2014	2013
Operations:		
Net investment income (loss)	$ 5,060,784	$ 2,656,367
Net realized gain (loss)	21,737,659	23,022,418
Change in net unrealized appreciation (depreciation)	(43,796,669)	4,153,981
Net increase (decrease) in net assets resulting from operations	(16,998,226)	29,832,766
Distributions to shareholders from:		
Net investment income:		
Class A	(2,472,725)	(7,421,568)
Class B	(4,273)	(14,321)
Total distributions	(2,476,998)	(7,435,889)
Fund share transactions:		
Class A		
Proceeds from shares sold	8,496,800	9,888,983
Reinvestment of distributions	2,472,725	7,421,568
Payments for shares redeemed	(17,182,817)	(118,556,623)
Net increase (decrease) in net assets from Class A share transactions	(6,213,292)	(101,246,072)
Class B		
Proceeds from shares sold	15,844	37,829
Reinvestment of distributions	4,273	14,321
Payments for shares redeemed	(21,212)	(64,353)
Net increase (decrease) in net assets from Class B share transactions	(1,095)	(12,203)
Increase (decrease) in net assets	(25,689,611)	(78,861,398)
Net assets at beginning of period	151,516,918	230,378,316
Net assets at end of period (including undistributed net investment income of $4,945,421 and $2,378,551, respectively)	**$ 125,827,307**	**$ 151,516,918**

Other Information		
Class A		
Shares outstanding at beginning of period	16,697,511	28,915,018
Shares sold	980,337	1,188,292
Shares issued to shareholders in reinvestment of distributions	279,089	930,021
Shares redeemed	(1,983,481)	(14,335,820)
Net increase (decrease) in Class A shares	(724,055)	(12,217,507)
Shares outstanding at end of period	**15,973,456**	**16,697,511**
Class B		
Shares outstanding at beginning of period	33,679	35,208
Shares sold	1,824	4,565
Shares issued to shareholders in reinvestment of distributions	481	1,790
Shares redeemed	(2,418)	(7,884)
Net increase (decrease) in Class B shares	(113)	(1,529)
Shares outstanding at end of period	**33,566**	**33,679**

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

Financial Highlights

Class A	2014	2013	2012	2011	2010
		Years Ended December 31,			
Selected Per Share Data					
Net asset value, beginning of period	**$ 9.06**	**$ 7.96**	**$ 6.74**	**$ 8.22**	**$ 8.26**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.31[b]	.14	.22	.15	.13
Net realized and unrealized gain (loss)	(1.36)	1.41	1.16	(1.49)	(.00)*
Total from investment operations	(1.05)	1.55	1.38	(1.34)	.13
Less distributions from:					
Net investment income	(.15)	(.45)	(.16)	(.14)	(.17)
Net asset value, end of period	**$ 7.86**	**$ 9.06**	**$ 7.96**	**$ 6.74**	**$ 8.22**
Total Return (%)	(11.76)[c]	20.23[c]	20.65	(16.67)	1.62[c]
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	126	151	230	211	288
Ratio of expenses before expense reductions (%)	1.04	1.02	.98	1.00	.99
Ratio of expenses after expense reductions (%)	.98	1.01	.98	1.00	.99
Ratio of net investment income (loss) (%)	3.55[b]	1.64	2.99	1.98	1.68
Portfolio turnover rate (%)	135	97	85	174	228

a Based on average shares outstanding during the period.

b Net investment income per share and the ratio of net investment income include non-recurring dividend income amounting to $0.08 per share and 0.95% of average daily net assets, for the year ended December 31, 2014.

c Total return would have been lower had certain expenses not been reduced.

* Amount is less than $.005.

Class B	2014	2013	2012	2011	2010
		Years Ended December 31,			
Selected Per Share Data					
Net asset value, beginning of period	**$ 9.07**	**$ 7.96**	**$ 6.75**	**$ 8.22**	**$ 8.26**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.28[b]	.13	.20	.13	.11
Net realized and unrealized gain (loss)	(1.35)	1.41	1.15	(1.48)	(.00)*
Total from investment operations	(1.07)	1.54	1.35	(1.35)	.11
Less distributions from:					
Net investment income	(.13)	(.43)	(.14)	(.12)	(.15)
Net asset value, end of period	**$ 7.87**	**$ 9.07**	**$ 7.96**	**$ 6.75**	**$ 8.22**
Total Return (%)	(11.98)[c]	20.01[c]	20.13	(16.77)	1.33[c]
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	.26	.31	.28	.24	.36
Ratio of expenses before expense reductions (%)	1.31	1.30	1.26	1.28	1.26
Ratio of expenses after expense reductions (%)	1.23	1.27	1.26	1.28	1.26
Ratio of net investment income (loss) (%)	3.26[b]	1.62	2.73	1.70	1.41
Portfolio turnover rate (%)	135	97	85	174	228

a Based on average shares outstanding during the period.

b Net investment income per share and the ratio of net investment income include non-recurring dividend income amounting to $0.08 per share and 0.95% of average daily net assets, for the year ended December 31, 2014.

c Total return would have been lower had certain expenses not been reduced.

* Amount is less than $.005.

Notes to Financial Statements

A. Organization and Significant Accounting Policies

Deutsche Variable Series I (formerly 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: Deutsche Bond VIP, Deutsche Core Equity VIP, Deutsche Capital Growth VIP, Deutsche Global Small Cap VIP and Deutsche International VIP (individually or collectively hereinafter referred to as a "Fund" or the "Funds" and formerly known as DWS Bond VIP, DWS Core Equity VIP, DWS Capital Growth VIP, DWS Global Small Cap Growth VIP and DWS International VIP, respectively). These financial statements report on Deutsche 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 level assigned to the securities valuations may not be an indication of the risk or liquidity 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. 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. Equity securities are generally categorized as Level 1 securities. 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.

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 considered 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.

Securities Lending. Deutsche Bank AG, as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains the benefits of owning the securities it has loaned and continues to receive interest and dividends generated by the 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. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. 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.

As of December 31, 2014, the Fund had securities on loan. The value of the related collateral exceeded the value of the securities loaned at period end.

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, the Fund may be subject to taxes imposed by the governments of countries in which it invests and are generally based on income and/or capital gains earned or repatriated. Estimated tax liabilities on certain foreign securities are recorded on an accrual basis and are reflected as components of interest income or net change in unrealized gain/loss on investments. Tax liabilities realized as a result of security sales are reflected as a component of net realized gain/loss on investments.

Under the Regulated Investment Company Modernization Act of 2010, net capital losses incurred post-enactment 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, 2014, the Fund had a net tax basis capital loss carryforward of approximately $105,624,000 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 ($6,802,000) and December 31, 2017 ($98,822,000), the respective expiration dates, whichever occurs first.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2014 and has determined that no provision for income tax and/or uncertain tax provisions 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 from net investment income of the Fund, if any, are 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, 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, 2014, the Fund's components of distributable earnings (accumulated losses) on a tax basis are as follows:

Undistributed ordinary income*	$ 5,182,136
Capital loss carryforwards	$ (105,624,000)
Net unrealized appreciation (depreciation) on investments	$ (17,415,441)

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

	Years Ended December 31,	
	2014	**2013**
Distributions from ordinary income*	$ 2,476,998	$ 7,435,889

* 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 based upon the relative net assets or other appropriate measures.

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. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments.

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, 2014, the Fund entered into futures contracts to keep cash on hand to meet shareholder redemptions or other needs while maintaining exposure to the stock market.

Upon entering into a futures contract, the 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 disclosed in the Statement of Assets and Liabilities.

There were no open futures contracts at December 31, 2014. For the year ended December 31, 2014, the investment in futures contracts purchased had a total notional value generally indicative of a range from $0 to approximately $4,603,000.

The amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the year ended December 31, 2014 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)	$ 94,022

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)	$ (151,875)

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, 2014, purchases and sales of investment securities (excluding short-term investments) aggregated $189,694,452 and $190,948,321, 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, 2014, the fee pursuant to the Investment Management Agreement was equivalent to an annual effective rate (exclusive of any applicable waivers/reimbursements) of 0.79% of the Fund's average daily net assets.

For the period from January 1, 2014 through September 30, 2014, the Advisor had contractually agreed to waive all or a portion of its fees and/or reimburse certain operating expenses of the Fund to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest) of each class as follows:

Class A	.97%
Class B	1.23%

Effective October 1, 2014 through September 30, 2015, the Advisor has contractually agreed to waive its fees and/or reimburse certain operating expenses of the Fund to the extent necessary to maintain the total annual 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%

For the year ended December 31, 2014, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 85,678
Class B	234
	$ 85,912

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, 2014, the Administration Fee was $142,767, of which $10,826 is unpaid.

Service Provider Fees. DeAWM Service Company ("DSC"), 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 DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it receives from the Fund. For the year ended December 31, 2014, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at December 31, 2014
Class A	$ 681	$ 124
Class B	81	14
	$ 762	**$ 138**

Distribution Service Agreement. DeAWM Distributors, Inc. ("DDI"), also an affiliate of the Advisor, is the Series' Distributor. In accordance with the Master Distribution Plan, DDI receives 12b-1 fees of 0.25% of average daily net assets of Class B shares. Pursuant to the Master Distribution Plan, DDI 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, 2014, the Distribution Service Fee aggregated $733, of which $57 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, 2014, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $16,471, of which $4,499 is unpaid.

Trustees' Fees and Expenses. The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and Vice Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicles. The Fund may invest uninvested cash balances in Central Cash Management Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. Each affiliated money market fund seeks to provide a high level of current income consistent with liquidity and the preservation of capital. Each affiliated money market fund is managed in accordance with Rule 2a-7 under the Investment Company Act of 1940, which governs the quality, maturity, diversity and liquidity of instruments in which a money market fund may invest. Central Cash Management Fund seeks to maintain a stable net asset value, and Deutsche Variable NAV Money Fund maintains a floating net asset value. The Fund indirectly bears its proportionate share of the expenses of each affiliated money market fund in which it invests. Central Cash Management Fund does not pay the Advisor an investment management fee. To the extent that Deutsche Variable NAV Money Fund pays an investment management fee to the Advisor, the Advisor will waive an amount of the investment management fee payable to the Advisor by the Fund equal to the amount of the investment management fee payable on the Fund's assets invested in Deutsche Variable NAV Money Fund.

Securities Lending Agent Fees. Deutsche Bank AG serves as securities lending agent for the Fund. For the year ended December 31, 2014, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $6,929.

E. Ownership of the Fund

At December 31, 2014, four participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 27%, 12%, 12% and 12%, respectively. One participating insurance company was the owner of record of 10% or more of the total outstanding Class B shares of the Fund, owning 92%.

F. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 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, 2014.

G. Change in Investment Strategy

Effective May 1, 2014, the Fund changed its management process and investment team. Portfolio management intends to select approximately fifty stocks with the lowest positive Cash Return on Capital Invested (CROCI®) Economic Price Earnings Ratio from a universe comprising approximately 330 of the largest equities by market capitalization in the MSCI EAFE Index, excluding financial stocks. The CROCI® Economic Price Earnings Ratio (CROCI® P/E Ratio) is a proprietary measure of company valuation using the same relationship between valuation and return as an accounting P/E ratio (i.e., price/book value divided by return on equity). At times, the number of stocks held in the Fund may differ from fifty stocks as a result of corporate actions, mergers or other events. The CROCI® strategy is supplied by the CROCI® Investment Strategy and Valuation Group, a unit within Deutsche Asset & Wealth Management, through a licensing agreement with the Fund's investment advisor. For a full description of the Fund's investment strategy, please see the Fund's current prospectus dated May 1, 2014.

In addition, effective May 1, 2015 the Fund will change its name to Deutsche CROCI® International VIP.

Report of Independent Registered Public Accounting Firm

To the Trustees of Deutsche Variable Series I and the Shareholders of Deutsche 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 Deutsche International VIP (formerly DWS International VIP) (the "Fund") at December 31, 2014 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, 2014 by correspondence with the custodian, brokers and transfer agent, and the application of alternative auditing procedures where such confirmations had not been received, provide a reasonable basis for our opinion.

Boston, Massachusetts
February 13, 2015

PricewaterhouseCoopers LLP

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, 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, 2014 to December 31, 2014).

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, 2014

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/14	$1,000.00	$1,000.00
Ending Account Value 12/31/14	$ 865.60	$ 864.80
Expenses Paid per $1,000*	$ 4.61	$ 5.78
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/14	$1,000.00	$1,000.00
Ending Account Value 12/31/14	$1,020.27	$1,019.00
Expenses Paid per $1,000*	$ 4.99	$ 6.26

* 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 184 (the number of days in the most recent six-month period), then divided by 365.

Annualized Expense Ratios	**Class A**	**Class B**
Deutsche Variable Series I — Deutsche International VIP	.98%	1.23%

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.

For an analysis of the fees associated with an investment in the fund or similar funds, please refer to the current and hypothetical expense calculators for Variable Insurance Products which can be found at deutschefunds.com/EN/resources/calculators.jsp.

Tax Information

(Unaudited)

The Fund paid foreign taxes of $223,331 and earned $4,736,818 of foreign source income during the year ended December 31, 2014. Pursuant to section 853 of the Internal Revenue Code, the Fund designates $0.01 per share as foreign taxes paid and $0.30 per share as income earned from foreign sources for the year ended December 31, 2014.

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 — deutschefunds.com (click on "proxy voting"at the bottom of the page) — or on the SEC's Web site — 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.

Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of Deutsche International VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2014.

In terms of the process that the Board followed prior to approving the Agreement, shareholders should know that:

— In September 2014, all of the Fund's Trustees were independent of DIMA 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 DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly meet privately with counsel to discuss contract review and other matters. In addition, the Independent Trustees were advised by the Fee Consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the Fee Consultant in connection with their deliberations.

— 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 DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG ("DB"), a major global banking institution that is engaged in a wide range of financial services. The Board believes that there are 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.

As part of the contract review process, the Board carefully considered the fees and expenses of each Deutsche fund overseen by the Board in light of the fund's performance. In many cases, this led to the negotiation and implementation of expense caps. As part of these negotiations, the Board indicated that it would consider relaxing these caps in future years following sustained improvements in performance, among other considerations.

In 2012, DB combined its Asset Management (of which DIMA was a part) and Wealth Management divisions into a new Asset and Wealth Management ("AWM") division. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that DB will continue to invest in AWM a significant portion of the savings it has realized by combining its Asset and Wealth Management divisions, including ongoing enhancements to AWM's investment capabilities. DB also has confirmed its commitment to maintaining strong legal and compliance groups within the AWM division.

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

Nature, Quality and Extent of Services. The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including a market index and a peer universe compiled by the Fee Consultant using information supplied by Morningstar Direct ("Morningstar"), an independent fund data service. The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing

poorly relative to a peer universe), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's 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, 2013, the Fund's performance (Class A shares) was in the 3rd quartile, 4th quartile and 4th quartile, respectively, of the applicable Morningstar 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, 2013. The Board noted the disappointing investment performance of the Fund in recent periods and continued to discuss with senior management of DIMA the factors contributing to such underperformance and actions being taken to improve performance. The Board recognized the efforts by DIMA in recent years to enhance its investment platform and improve long-term performance across the Deutsche fund complex.

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 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 DIMA under the Fund's administrative services agreement, were higher than the median (3rd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2013). 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, 2013) ("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 also considered how the Fund's total (net) operating expenses compared to the total (net) operating expenses of a more customized peer group selected by Lipper (based on such factors as asset size). The Board also noted that the expense limitations agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable funds and considered differences between the Fund and the comparable funds.

The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts and funds offered primarily to European investors ("Deutsche Europe funds") managed by DIMA and its affiliates. The Board noted that DIMA indicated that it does not manage any institutional accounts or Deutsche Europe funds comparable to the Fund.

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

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the Deutsche U.S. mutual funds ("Deutsche 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 DIMA and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable.

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

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to Deutsche Funds advertising and cross-selling opportunities among DIMA products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of DIMA's and the Fund's chief compliance officer; (ii) the large number of DIMA compliance personnel; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.

Based on all of the information considered and the conclusions reached, the Board 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 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.

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund. 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 Kenneth C. Froewiss, Chairman, Deutsche Mutual Funds, P.O. Box 390601, Cambridge, MA 02139. 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.

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 Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Kenneth C. Froewiss (1945) Chairperson since 2013, and 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)	105	—
William McClayton (1944) Vice Chairperson since 2013, and 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	105	—
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); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (provider of disease and care management services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International	105	Portland General Electric[2] (utility company) (2003–present)
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); North Bennett Street School (Boston); former Directorships: Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College	105	Lead Director, Becton Dickinson and Company[2] (medical technology company)
Dawn-Marie Driscoll (1946) Board Member since 1987	Emeritus Executive Fellow, Center for Business Ethics, Bentley University; formerly: President, Driscoll Associates (consulting firm); Partner, Palmer & Dodge (law firm) (1988–1990); Vice President of Corporate Affairs and General Counsel, Filene's (retail) (1978–1988). Directorships: Director of ICI Mutual Insurance Company (since 2007); Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	105	—
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); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies; former Directorships: BoxTop Media Inc. (advertising); Sun Capital Advisers Trust (mutual funds) (2011–2012)	105	—

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 Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Paul K. Freeman (1950) Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Chair, Independent Directors Council; Investment Company Institute (executive and nominating committees); formerly, Chairman of Education Committee of Independent Directors Council; Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998); Directorships: Denver Zoo Foundation (December 2012–present); former Directorships: Prisma Energy International	105	—
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; 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)	105	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
Rebecca W. Rimel (1951) Board Member since 1995	President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 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); Director, Viasys Health Care[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	105	Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc.[2] (health care) (2009–present)
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); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	105	—
Jean Gleason Stromberg (1943) Board Member since 1997	Retired. Formerly, Consultant (1997–2001); Director, Financial Markets U.S. Government Accountability Office (1996–1997); Partner, Norton Rose Fulbright, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation (charitable organization); former Directorships: Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	105	—
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	105	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Brian E. Binder[8] (1972) President and Chief Executive Officer, 2013–present	Managing Director[3] and Head of Fund Administration, Deutsche Asset & Wealth Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012); Chief Administrative Officer, Van Kampen Funds Inc. (2008–2010); and Chief Administrative Officer, Morgan Stanley Investment Management Americas Distribution (2003–2008)
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset & Wealth Management
Melinda Morrow[6] (1970) Vice President, 2012–present	Director,[3] Deutsche Asset & Wealth Management

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset & Wealth 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 & Wealth Management; formerly: Assistant Secretary for DWS family of funds (1997–2010)
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director,[3] Deutsche Asset & Wealth Management
Wayne Salit[6] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset & Wealth Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Hepsen Uzcan[7] (1974) Assistant Secretary, 2013–present	Director,[3] Deutsche Asset & Wealth Management
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management

1 The length of time served represents the year in which the Board Member joined the board of one or more Deutsche 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 Deutsche funds.

6 Address: 60 Wall Street, New York, NY 10005.

7 Address: One Beacon Street, Boston, MA 02108.

8 Address: 222 South Riverside Plaza, Chicago, IL 60606.

* Robert H. Wadsworth retired from the Board effective December 31, 2014.

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

Notes

Deutsche Asset
& Wealth Management

DeAWM Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS1int-2 (R-025823-4 2/15)

Deutsche Asset
& Wealth Management

December 31, 2014

Annual Report

Deutsche Variable Series II

(formerly DWS Variable Series II)

Deutsche Large Cap Value VIP

(formerly DWS Large Cap Value VIP)

Contents

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. The Fund may lend securities to approved institutions. Stocks may decline in value. See the prospectus for details.

Deutsche Asset & Wealth Management represents the asset management and wealth management activities conducted by Deutsche Bank AG or any of its subsidiaries, including the Advisor and DeAWM Distributors, Inc.

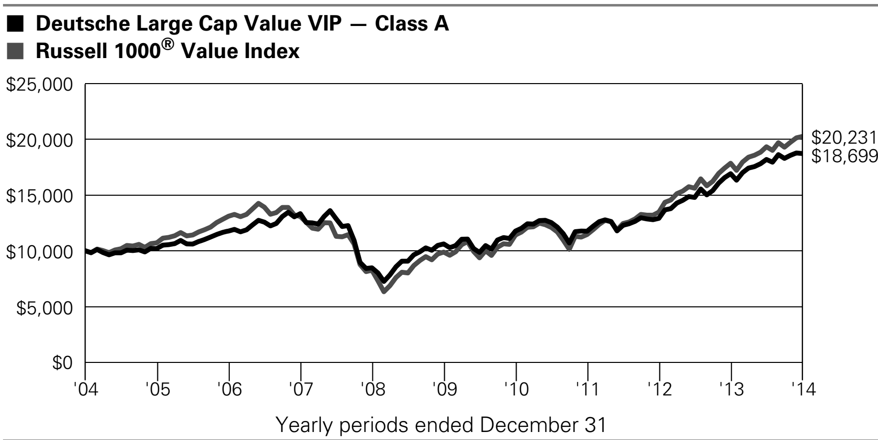
Performance Summary

December 31, 2014 (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, 2014 are 0.78% and 1.09% 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 Deutsche 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. 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 any fees or expenses and it is not possible to invest directly into an index.

Comparative Results

Deutsche Large Cap Value VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$11,072	$15,910	$17,612	$18,699
	Average annual total return	10.72%	16.74%	11.99%	6.46%
Russell 1000® Value Index	Growth of $10,000	$11,345	$17,668	$20,487	$20,231
	Average annual total return	13.45%	20.89%	15.42%	7.30%

Deutsche Large Cap Value VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$11,036	$15,765	$17,363	$18,086
	Average annual total return	10.36%	16.39%	11.67%	6.10%
Russell 1000® Value Index	Growth of $10,000	$11,345	$17,668	$20,487	$20,231
	Average annual total return	13.45%	20.89%	15.42%	7.30%

The growth of $10,000 is cumulative.

Deutsche Large Cap Value VIP returned 10.72% in 2014 (Class A shares, unadjusted for contract charges), below the 13.45% return of its benchmark, the Russell 1000™ Value Index.[1]

Over the past 12 months, the United States managed steady but slow GDP growth, Europe's economic performance was flat to slightly positive, and China's GDP pulled back significantly.[2] Overall, value stocks that outperformed during the period displayed steady revenue growth coupled with operating leverage and favorable capital deployment strategies such as share buybacks and increased dividend payouts.

As of September 29, 2014, a new portfolio team led by Deepak Khanna assumed day-to-day management of Deutsche Large Cap Value VIP. Through our day-to-day management of the Fund, we seek to achieve superior long-term risk-adjusted returns by exploiting market inefficiencies through a bottom-up, relative-value, research-driven approach. Over the past 12 months, the Fund's positions in financials and energy represented the largest detractors from performance. Within financials, an underweight to REITs (real estate investment trusts) hurt performance. The largest contributions to the Fund's 12-month returns came from holdings in the health care sector, where the performance of pharmaceutical companies was strong. In particular, holdings in Mallinckrodt PLC outperformed based on the market's favorable reaction to the firm's acquisition of Questcor Pharmaceuticals, Inc.

In terms of market returns, we expect 2015 to be very similar to 2014. Given the current global economic situation, as managers we feel it is increasingly important to focus on countries that will benefit the most from domestic demand, and the United States should continue to be the best example of this. The Fund is currently positioned with overweights in health care, based on continued benefits to the health care industry from the Affordable Care Act; in technology, due to the growth in cloud computing; and in consumer discretionary, based on lower oil prices and a more favorable picture for U.S. employment.[3,4]

Deepak Khanna, CFA
Lead Portfolio Manager

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.

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 GDP, or gross domestic product, is the value of all goods and services produced by a country's economy.

3 "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.

4 The consumer discretionary sector represents industries that produce goods and services that are not necessities in everyday life.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/14**	**12/31/13**
Common Stocks	100%	99%
Cash Equivalents	0%	1%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/14**	**12/31/13**
Health Care	24%	14%
Financials	21%	24%
Information Technology	14%	11%
Energy	11%	14%
Industrials	10%	7%
Consumer Discretionary	10%	8%
Consumer Staples	5%	11%
Materials	3%	4%
Utilities	2%	5%
Telecommunication Services	—	2%
	100%	100%

Portfolio holdings and characteristics 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 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 deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

	Shares	Value ($)
Common Stocks 99.7%		
Consumer Discretionary 9.8%		
Hotels, Restaurants & Leisure 3.4%		
Las Vegas Sands Corp.	88,128	5,125,524
Starwood Hotels & Resorts Worldwide, Inc.	53,265	4,318,194
Yum! Brands, Inc.	73,048	5,321,547
		14,765,265
Media 4.7%		
Comcast Corp. "A"	232,986	13,515,518
Starz "A"*	242,381	7,198,715
		20,714,233
Specialty Retail 1.7%		
Best Buy Co., Inc.	186,504	**7,269,926**
Consumer Staples 5.2%		
Beverages 2.3%		
Molson Coors Brewing Co. "B"	73,432	5,472,153
PepsiCo, Inc.	45,741	4,325,269
		9,797,422
Food & Staples Retailing 1.3%		
CVS Health Corp.	50,096	4,824,746
Diplomat Pharmacy, Inc.*	37,264	1,019,915
		5,844,661
Household Products 1.1%		
Colgate-Palmolive Co.	67,126	**4,644,448**
Tobacco 0.5%		
Altria Group, Inc.	45,426	**2,238,139**
Energy 11.2%		
Energy Equipment & Services 0.6%		
Oil States International, Inc.*	53,067	**2,594,976**
Oil, Gas & Consumable Fuels 10.6%		
Cimarex Energy Co.	57,170	6,060,020
Devon Energy Corp.	79,699	4,878,376
EOG Resources, Inc.	68,158	6,275,307
EQT Corp.	48,315	3,657,446
Marathon Oil Corp.	114,945	3,251,794
Pioneer Natural Resources Co.	40,085	5,966,652
Range Resources Corp.	111,973	5,984,957
SM Energy Co.	69,502	2,681,387
Valero Energy Corp.	151,975	7,522,762
		46,278,701
Financials 20.8%		
Banks 11.0%		
Bank of America Corp.	600,909	10,750,262
CIT Group, Inc.	113,775	5,441,858
Citigroup, Inc.	225,237	12,187,574
East West Bancorp., Inc.	170,753	6,609,849
JPMorgan Chase & Co.	84,206	5,269,611
SVB Financial Group*	67,336	7,815,690
		48,074,844
Capital Markets 3.3%		
Charles Schwab Corp.	214,121	6,464,313
The Goldman Sachs Group, Inc.	41,834	8,108,684
		14,572,997

	Shares	Value ($)
Consumer Finance 2.9%		
Capital One Financial Corp.	74,254	6,129,668
Discover Financial Services	96,207	6,300,596
		12,430,264
Insurance 2.6%		
Allstate Corp.	83,021	5,832,225
Hartford Financial Services Group, Inc.	130,111	5,424,328
		11,256,553
Real Estate Management & Development 1.0%		
Realogy Holdings Corp.*	99,973	**4,447,799**
Health Care 23.9%		
Biotechnology 8.8%		
Aegerion Pharmaceuticals, Inc.* (a)	67,423	1,411,838
Alexion Pharmaceuticals, Inc.*	39,564	7,320,527
Biogen Idec, Inc.*	13,087	4,442,382
Celgene Corp.*	84,926	9,499,822
Gilead Sciences, Inc.*	73,339	6,912,934
Medivation, Inc.*	44,949	4,477,370
Puma Biotechnology, Inc.*	16,081	3,043,651
Sarepta Therapeutics, Inc.* (a)	100,061	1,447,883
		38,556,407
Health Care Equipment & Supplies 1.4%		
Zimmer Holdings, Inc.	53,628	**6,082,488**
Health Care Providers & Services 8.1%		
Anthem, Inc.	60,728	7,631,688
Community Health Systems, Inc.*	124,505	6,713,310
DaVita HealthCare Partners, Inc.*	102,768	7,783,648
McKesson Corp.	30,612	6,354,439
Omnicare, Inc.	32,498	2,370,079
Universal Health Services, Inc. "B"	39,206	4,362,059
		35,215,223
Life Sciences Tools & Services 1.7%		
Thermo Fisher Scientific, Inc.	59,700	**7,479,813**
Pharmaceuticals 3.9%		
Actavis PLC*	36,023	9,272,680
Mallinckrodt PLC*	77,432	7,668,091
		16,940,771
Industrials 9.9%		
Aerospace & Defense 2.8%		
Northrop Grumman Corp.	34,058	5,019,809
Raytheon Co.	64,814	7,010,930
		12,030,739
Air Freight & Logistics 1.3%		
FedEx Corp.	31,874	**5,535,239**
Building Products 0.6%		
USG Corp.*	91,719	**2,567,215**
Road & Rail 2.7%		
CSX Corp.	173,259	6,277,174
Kansas City Southern	46,236	5,642,179
		11,919,353
Trading Companies & Distributors 2.5%		
W.W. Grainger, Inc.	21,954	5,595,855
WESCO International, Inc.* (a)	70,174	5,347,960
		10,943,815

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

	Shares	Value ($)
Information Technology 13.9%		
Communications Equipment 2.4%		
Cisco Systems, Inc.	383,644	**10,671,058**
IT Services 3.0%		
Alliance Data Systems Corp.*	24,939	7,133,801
Vantiv, Inc. "A"*	176,922	6,001,194
		13,134,995
Semiconductors & Semiconductor Equipment 0.8%		
Intel Corp.	91,210	**3,310,011**
Software 1.3%		
Microsoft Corp.	119,202	**5,536,933**
Technology Hardware, Storage & Peripherals 6.4%		
Apple, Inc.	57,414	6,337,357
EMC Corp.	167,517	4,981,956
Hewlett-Packard Co.	138,607	5,562,299
NetApp, Inc.	129,697	5,375,941
SanDisk Corp.	56,631	5,548,705
		27,806,258
Materials 2.7%		
Chemicals		
Dow Chemical Co.	41,286	1,883,055
LyondellBasell Industries NV "A"	51,978	4,126,533
PPG Industries, Inc.	24,719	5,713,797
		11,723,385

	Shares	Value ($)
Utilities 2.3%		
Electric Utilities 0.8%		
NextEra Energy, Inc.	33,646	**3,576,233**
Multi-Utilities 1.5%		
Sempra Energy	56,957	**6,342,732**
Total Common Stocks (Cost $395,855,028)		**434,302,896**
Securities Lending Collateral 1.5%		
Daily Assets Fund Institutional, 0.10% (b) (c) (Cost $6,740,738)	6,740,738	**6,740,738**
Cash Equivalents 0.4%		
Central Cash Management Fund, 0.06% (b) (Cost $1,572,467)	1,572,467	**1,572,467**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $404,168,233)†	101.6	**442,616,101**
Other Assets and Liabilities, Net	(1.6)	**(6,989,658)**
Net Assets	100.0	**435,626,443**

* Non-income producing security.

† The cost for federal income tax purposes was $404,577,154. At December 31, 2014, net unrealized appreciation for all securities based on tax cost was $38,038,947. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $54,034,545 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $15,995,598.

(a) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at December 31, 2014 amounted to $6,516,728, which is 1.5% of net assets.

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

(c) Represents collateral held in connection with securities lending. Income earned by the 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 level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

The following is a summary of the inputs used as of December 31, 2014 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)	$434,302,896	$ —	$ —	$434,302,896
Short-Term Investments (d)	8,313,205	—	—	8,313,205
Total	**$442,616,101**	**$ —**	**$ —**	**$442,616,101**

There have been no transfers between fair value measurement levels during the year ended December 31, 2014.

(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, 2014

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $395,855,028) — including $6,516,728 of securities loaned	$	434,302,896
Investment in Daily Assets Fund Institutional (cost $6,740,738)*		6,740,738
Investment in Central Cash Management Fund (cost $1,572,467)		1,572,467
Total investments in securities, at value (cost $404,168,233)		442,616,101
Cash		5,036
Foreign currency, at value (cost $37,046)		34,543
Receivable for Fund shares sold		131
Dividends receivable		269,784
Interest receivable		3,857
Other assets		10,485
Total assets		442,939,937

Liabilities		
Payable upon return of securities loaned		6,740,738
Payable for Fund shares redeemed		220,786
Accrued management fee		214,667
Accrued Trustees' fees		6,718
Other accrued expenses and payables		130,585
Total liabilities		7,313,494
Net assets, at value	**$**	**435,626,443**

Net Assets Consist of		
Undistributed net investment income		5,982,096
Net unrealized appreciation (depreciation) on:		
Investments		38,447,868
Foreign currency		(2,503)
Accumulated net realized gain (loss)		17,514,525
Paid-in capital		373,684,457
Net assets, at value	**$**	**435,626,443**
Class A		
Net Asset Value, offering and redemption price per share ($430,457,288 ÷ 24,769,255 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**17.38**
Class B		
Net Asset Value, offering and redemption price per share ($5,169,155 ÷ 297,108 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**17.40**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2014

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $70,146)	$	9,337,515
Income distributions — Central Cash Management Fund		7,199
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates		123,588
Total income		9,468,302
Expenses:		
Management fee		2,806,317
Administration fee		439,011
Services to shareholders		3,894
Record keeping fees (Class B)		2,917
Distribution and service fee (Class B)		12,504
Custodian fee		17,998
Professional fees		74,075
Reports to shareholders		35,476
Trustees' fees and expenses		20,307
Other		16,115
Total expenses before expense reductions		3,428,614
Expense reductions		(208,214)
Total expenses after expense reductions		3,220,400
Net investment income	**$**	**6,247,902**

Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		115,242,003
Foreign currency		(5,323)
		115,236,680
Change in net unrealized appreciation (depreciation) on:		
Investments		(77,033,485)
Foreign currency		(3,220)
		(77,036,705)
Net gain (loss)		**38,199,975**
Net increase (decrease) in net assets resulting from operations		**44,447,877**

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

Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2014	2013
Operations:		
Net investment income	$ 6,247,902	$ 7,492,381
Net realized gain (loss)	115,236,680	43,142,013
Change in net unrealized appreciation (depreciation)	(77,036,705)	59,914,889
Net increase (decrease) in net assets resulting from operations	44,447,877	110,549,283
Distributions to shareholders from:		
Net investment income:		
Class A	(7,350,279)	(8,048,782)
Class B	(66,263)	(66,664)
Total distributions	(7,416,542)	(8,115,446)
Fund share transactions:		
Class A		
Proceeds from shares sold	11,756,922	7,515,770
Reinvestment of distributions	7,350,279	8,048,782
Payments for shares redeemed	(57,676,534)	(61,510,110)
Net increase (decrease) in net assets from Class A share transactions	(38,569,333)	(45,945,558)
Class B		
Proceeds from shares sold	1,147,061	822,748
Reinvestment of distributions	66,263	66,664
Payments for shares redeemed	(1,111,822)	(844,581)
Net increase (decrease) in net assets from Class B share transactions	101,502	44,831
Increase (decrease) in net assets	(1,436,496)	56,533,110
Net assets at beginning of period	437,062,939	380,529,829
Net assets at end of period (including undistributed net investment income of $5,982,096 and $7,303,655, respectively)	**$ 435,626,443**	**$ 437,062,939**

Other Information		
Class A		
Shares outstanding at beginning of period	27,072,074	30,284,545
Shares sold	711,170	520,949
Shares issued to shareholders in reinvestment of distributions	455,690	590,520
Shares redeemed	(3,469,679)	(4,323,940)
Net increase (decrease) in Class A shares	(2,302,819)	(3,212,471)
Shares outstanding at end of period	**24,769,255**	**27,072,074**
Class B		
Shares outstanding at beginning of period	289,672	286,965
Shares sold	68,963	55,598
Shares issued to shareholders in reinvestment of distributions	4,095	4,877
Shares redeemed	(65,622)	(57,768)
Net increase (decrease) in Class B shares	7,436	2,707
Shares outstanding at end of period	**297,108**	**289,672**

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

Financial Highlights

Class A	Years Ended December 31, 2014	2013	2012	2011	2010
Selected Per Share Data					
Net asset value, beginning of period	**$15.97**	**$12.45**	**$11.56**	**$11.80**	**$10.86**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.24	.26	.25	.25	.23
Net realized and unrealized gain (loss)	1.45	3.54	.87	(.24)	.93
Total from investment operations	1.69	3.80	1.12	.01	1.16
Less distributions from:					
Net investment income	(.28)	(.28)	(.23)	(.25)	(.22)
Total distributions	(.28)	(.28)	(.23)	(.25)	(.22)
Net asset value, end of period	**$17.38**	**$15.97**	**$12.45**	**$11.56**	**$11.80**
Total Return (%)	10.72[b]	30.89[b]	9.79[b]	(.07)	10.77
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	430	432	377	396	206
Ratio of expenses before expense reductions (%)	.78	.78	.78	.79	.82
Ratio of expenses after expense reductions (%)	.73	.74	.77	.79	.82
Ratio of net investment income (loss) (%)	1.43	1.82	2.04	2.15	2.13
Portfolio turnover rate (%)	133	54	63	28	32

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, 2014	2013	2012	2011	2010
Selected Per Share Data					
Net asset value, beginning of period	**$15.99**	**$12.46**	**$11.57**	**$11.81**	**$10.86**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.18	.22	.21	.22	.20
Net realized and unrealized gain (loss)	1.46	3.55	.88	(.25)	.93
Total from investment operations	1.64	3.77	1.09	(.03)	1.13
Less distributions from:					
Net investment income	(.23)	(.24)	(.20)	(.21)	(.18)
Total distributions	(.23)	(.24)	(.20)	(.21)	(.18)
Net asset value, end of period	**$17.40**	**$15.99**	**$12.46**	**$11.57**	**$11.81**
Total Return (%)	10.36[b]	30.54[b]	9.44[b]	(.36)	10.53
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	5	5	4	3	1
Ratio of expenses before expense reductions (%)	1.09	1.09	1.09	1.10	1.11
Ratio of expenses after expense reductions (%)	1.04	1.05	1.08	1.10	1.11
Ratio of net investment income (loss) (%)	1.10	1.52	1.73	1.84	1.84
Portfolio turnover rate (%)	133	54	63	28	32

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

Deutsche Large Cap Value VIP (formerly DWS Large Cap Value VIP) (the "Fund") is a diversified series of Deutsche Variable Series II (formerly 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 level assigned to the securities valuations may not be an indication of the risk or liquidity 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. 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. Equity securities and ETFs are generally categorized as Level 1.

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 considered 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.

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. Deutsche Bank AG, as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains the benefits of owning securities it has loaned and continues to receive interest and dividends generated by the 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. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. 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.

As of December 31, 2014, the Fund had securities on loan. The value of the related collateral exceeded the value of the securities loaned at period end.

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, 2014 and has determined that no provision for income tax and/or uncertain tax provisions 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 from 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, 2014, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 5,982,096
Undistributed long-term capital gains	$ 17,923,446
Unrealized appreciation (depreciation) on investments	$ 38,038,947

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

	Years Ended December 31, 2014	2013
Distributions from ordinary income	$ 7,416,542	$ 8,115,446

* 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 based upon the relative net assets or other appropriate measures.

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. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments.

B. Purchases and Sales of Securities

During the year ended December 31, 2014, purchases and sales of investment transactions (excluding short-term investments) aggregated $568,219,116 and $601,638,051, 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.

Under 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%

Accordingly, for the year ended December 31, 2014, the fee pursuant to the Investment Management Agreement was equivalent to an annual rate (exclusive of any applicable waivers/reimbursements) of 0.64% of the Fund's average daily net assets.

For the period from January 1, 2014 through September 30, 2015, the Advisor has contractually agreed to waive all or a portion of its fees and/or reimburse certain operating expenses of the Fund to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest) of each class as follows:

Class A	.73%
Class B	1.04%

For the year ended December 31, 2014, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 205,692
Class B	2,522
	$ 208,214

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, 2014, the Administration Fee was $439,011, of which $37,221 is unpaid.

Service Provider Fees. DeAWM Service Company ("DSC"), 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 DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it receives from the Fund. For the year ended December 31, 2014, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at December 31, 2014
Class A	$ 393	$ 71
Class B	224	36
	$ 617	**$ 107**

Distribution Service Agreement. Under the Fund's Class B 12b-1 plan, DeAWM Distributors, Inc. ("DDI") received a fee ("Distribution Service Fee") of 0.25% of average daily net assets of Class B shares. For the year ended December 31, 2014, the Distribution Service Fee aggregated $12,504, of which $1,126 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, 2014, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $13,138, of which $4,024 is unpaid.

Trustees' Fees and Expenses. The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and Vice Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicles. The Fund may invest uninvested cash balances in Central Cash Management Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. Each affiliated money market fund seeks to provide a high level of current income consistent with liquidity and the preservation of capital. Each affiliated money market fund is managed in accordance with Rule 2a-7 under the Investment Company Act of 1940, which governs the quality, maturity, diversity and liquidity of instruments in which a money market fund may invest. Central Cash Management Fund seeks to maintain a stable net asset value, and Deutsche Variable NAV Money Fund maintains a floating net asset value. The Fund indirectly bears its proportionate share of the expenses of each affiliated money market fund in which it invests. Central Cash Management Fund does not pay the Advisor an investment management fee. To the extent that Deutsche Variable NAV Money Fund pays an investment management fee to the Advisor, the Advisor will waive an amount of the investment management fee payable to the Advisor by the Fund equal to the amount of the investment management fee payable on the Fund's assets invested in Deutsche Variable NAV Money Fund.

Securities Lending Agent Fees. Deutsche Bank AG serves as securities lending agent for the Fund. For the year ended December 31, 2014, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $10,855.

D. Ownership of the Fund

At December 31, 2014, 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 25%. Three participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, each owning 59%, 13% and 10%.

E. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 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, 2014.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Deutsche Variable Series II and the Shareholders of Deutsche Large Cap Value VIP:

We have audited the accompanying statement of assets and liabilities, including the investment portfolio, of Deutsche Large Cap Value VIP (formerly DWS Large Cap Value VIP) (the "Fund") (one of the series constituting Deutsche Variable Series II (formerly DWS Variable Series II)), as of December 31, 2014, 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 periods indicated therein. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. 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, 2014, 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 Deutsche Large Cap Value VIP at December 31, 2014, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the periods indicated therein, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Boston, Massachusetts
February 13, 2015

Information About Your Fund's Expenses (Unaudited)

The tables illustrate your Fund's expenses in two ways:

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, 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, 2014 to December 31, 2014).

— **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, 2014

Actual Fund Return	Class A	Class B
Beginning Account Value 7/1/14	$1,000.00	$1,000.00
Ending Account Value 12/31/14	$1,029.60	$1,028.40
Expenses Paid per $1,000*	$ 3.73	$ 5.32

Hypothetical 5% Fund Return	Class A	Class B
Beginning Account Value 7/1/14	$1,000.00	$1,000.00
Ending Account Value 12/31/14	$1,021.53	$1,019.96
Expenses Paid per $1,000*	$ 3.72	$ 5.30

* 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 184 (the number of days in the most recent six-month period), then divided by 365.

Annualized Expense Ratios	Class A	Class B
Deutsche Variable Series II — Deutsche Large Cap Value VIP	.73%	1.04%

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.

For an analysis of the fees associated with an investment in the fund or similar funds, please refer to the current and hypothetical expense calculators for Variable Insurance Products which can be found at deutschefunds.com/EN/resources/calculators.jsp.

Tax Information

(Unaudited)

Pursuant to Section 852 of the Internal Revenue Code, the Fund designates $19,716,000 as capital gain dividends for its year ended December 31, 2014.

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, 2014, 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 — deutschefunds.com (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — 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.

Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of Deutsche Large Cap Value VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2014.

In terms of the process that the Board followed prior to approving the Agreement, shareholders should know that:

— In September 2014, all of the Fund's Trustees were independent of DIMA 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 DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly meet privately with counsel to discuss contract review and other matters. In addition, the Independent Trustees were advised by the Fee Consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the Fee Consultant in connection with their deliberations.

— 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 DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG ("DB"), a major global banking institution that is engaged in a wide range of financial services. The Board believes that there are 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.

As part of the contract review process, the Board carefully considered the fees and expenses of each Deutsche fund overseen by the Board in light of the fund's performance. In many cases, this led to the negotiation and implementation of expense caps. As part of these negotiations, the Board indicated that it would consider relaxing these caps in future years following sustained improvements in performance, among other considerations.

In 2012, DB combined its Asset Management (of which DIMA was a part) and Wealth Management divisions into a new Asset and Wealth Management ("AWM") division. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that DB will continue to invest in AWM a significant portion of the savings it has realized by combining its Asset and Wealth Management divisions, including ongoing enhancements to AWM's investment capabilities. DB also has confirmed its commitment to maintaining strong legal and compliance groups within the AWM division.

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

Nature, Quality and Extent of Services. The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market index(es) and a peer universe compiled by the Fee Consultant using information supplied by Morningstar Direct ("Morningstar"), an independent fund data service.

The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to a peer universe), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's 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, 2013, the Fund's performance (Class A shares) was in the 3rd quartile, 4th quartile and 4th quartile, respectively, of the applicable Morningstar 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, 2013. The Board noted the disappointing investment performance of the Fund in recent periods and continued to discuss with senior management of DIMA the factors contributing to such underperformance and actions being taken to improve performance. The Board observed that the Fund had experienced improved relative performance during the first seven months of 2014. The Board recognized the efforts by DIMA in recent years to enhance its investment platform and improve long-term performance across the Deutsche fund complex.

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 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 DIMA under the Fund's administrative services agreement, were lower than the median (2nd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2013). 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, 2013, and analyzing Lipper expense universe Class A (net) 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 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 noted that the expense limitations agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable funds and considered differences between the Fund and the comparable funds. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts and funds offered primarily to European investors ("Deutsche Europe funds") managed by DIMA and its affiliates. The Board noted that DIMA indicated that it does not manage any institutional accounts or Deutsche Europe funds comparable to the Fund.

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

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the Deutsche U.S. mutual funds ("Deutsche 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 DIMA and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable.

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

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to Deutsche Funds advertising and cross-selling opportunities among DIMA products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of DIMA's and the Fund's chief compliance officer; (ii) the large number of DIMA compliance personnel; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.

Based on all of the information considered and the conclusions reached, the Board 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 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.

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund. 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 Kenneth C. Froewiss, Chairman, Deutsche Mutual Funds, P.O. Box 390601, Cambridge, MA 02139. 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.

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 Deutsche Fund Complex Overseen**	**Other Directorships Held by Board Member**
Kenneth C. Froewiss (1945) Chairperson since 2013, and 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)	105	—
William McClayton (1944) Vice Chairperson since 2013, and 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	105	—
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); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (provider of disease and care management services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International	105	Portland General Electric[2] (utility company) (2003–present)
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); North Bennett Street School (Boston); former Directorships: Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College	105	Lead Director, Becton Dickinson and Company[2] (medical technology company)
Dawn-Marie Driscoll (1946) Board Member since 1987	Emeritus Executive Fellow, Center for Business Ethics, Bentley University; formerly: President, Driscoll Associates (consulting firm); Partner, Palmer & Dodge (law firm) (1988–1990); Vice President of Corporate Affairs and General Counsel, Filene's (retail) (1978–1988). Directorships: Director of ICI Mutual Insurance Company (since 2007); Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	105	—
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); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies; former Directorships: BoxTop Media Inc. (advertising); Sun Capital Advisers Trust (mutual funds) (2011–2012)	105	—

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 Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Paul K. Freeman (1950) Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Chair, Independent Directors Council; Investment Company Institute (executive and nominating committees); formerly, Chairman of Education Committee of Independent Directors Council; Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998); Directorships: Denver Zoo Foundation (December 2012–present); former Directorships: Prisma Energy International	105	—
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; 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)	105	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
Rebecca W. Rimel (1951) Board Member since 1995	President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 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); Director, Viasys Health Care[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	105	Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc.[2] (health care) (2009–present)
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); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	105	—
Jean Gleason Stromberg (1943) Board Member since 1997	Retired. Formerly, Consultant (1997–2001); Director, Financial Markets U.S. Government Accountability Office (1996–1997); Partner, Norton Rose Fulbright, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation (charitable organization); former Directorships: Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	105	—
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	105	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Brian E. Binder[8] (1972) President and Chief Executive Officer, 2013–present	Managing Director[3] and Head of Fund Administration, Deutsche Asset & Wealth Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012); Chief Administrative Officer, Van Kampen Funds Inc. (2008–2010); and Chief Administrative Officer, Morgan Stanley Investment Management Americas Distribution (2003–2008)
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset & Wealth Management
Melinda Morrow[6] (1970) Vice President, 2012–present	Director,[3] Deutsche Asset & Wealth Management

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset & Wealth 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 & Wealth Management; formerly: Assistant Secretary for DWS family of funds (1997–2010)
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director,[3] Deutsche Asset & Wealth Management
Wayne Salit[6] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset & Wealth Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Hepsen Uzcan[7] (1974) Assistant Secretary, 2013–present	Director,[3] Deutsche Asset & Wealth Management
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management

1 The length of time served represents the year in which the Board Member joined the board of one or more Deutsche 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 Deutsche funds.

6 Address: 60 Wall Street, New York, NY 10005.

7 Address: One Beacon Street, Boston, MA 02108.

8 Address: 222 South Riverside Plaza, Chicago, IL 60606.

* Robert H. Wadsworth retired from the Board effective December 31, 2014.

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.

Deutsche Asset
& Wealth Management

DeAWM Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2LCV-2 (R-025833-4 2/15)

Deutsche Asset
& Wealth Management

December 31, 2014

Annual Report

Deutsche Variable Series II

(formerly DWS Variable Series II)

Deutsche Money Market VIP

(formerly DWS Money Market VIP)

Contents

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.

Deutsche Asset & Wealth Management represents the asset management and wealth management activities conducted by Deutsche Bank AG or any of its subsidiaries, including the Advisor and DeAWM Distributors, Inc.

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

Deutsche 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.

	7-Day Current Yield
December 31, 2014	.01%*
December 31, 2013	.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.

During the 12-month period ended December 31, 2014, the Fund provided a total return of 0.01% (Class A shares, unadjusted for contract charges). All performance is historical and does not guarantee future results. Yields fluctuate and are not guaranteed.

Over the Fund's most recent fiscal year ended December 31, 2014, the fixed-income yield curve responded to generally improving economic data and shifting interest rate expectations.[1] The release of the minutes from the June 2014 FOMC (Federal Open Market Committee) meeting gave market participants a framework for how the U.S. Federal Reserve Board (the Fed) will end its "policy accommodation," (i.e., begin to raise short-term interest rates), possibly in mid-to-late 2015. Near the end of 2014, positive employment and GDP figures accelerated expectations regarding when the Fed will raise rates, and short-term market rates rose.[2] Within the money markets, the Fed continued to experiment with its overnight repurchase agreement program — which is essentially setting the "floor" for money market rates — in order to set up an orderly market environment for the time when the federal funds rate is actually raised.[3]

We were able to maintain a competitive yield for the Fund during the annual period ended December 31, 2014. We continued to seek ample liquidity, high credit quality and strong diversification across sectors and geographic regions by maintaining a neutral-to-long portfolio duration (or interest rate sensitivity). We pursued this strategy in light of the outlook for continued near-zero short-term interest rates and limited money market supply. In addition, outside of mandated liquidity requirements, we looked to keep the Fund's cash position relatively low in order to take advantage of higher yields available from six-month-to-one-year money market securities. Our current forecast is for the federal funds rate to be increased sometime during the second half of this year. In preparation for this critical moment in the fixed-income markets, we are maintaining a cautious approach, with a shorter duration, an emphasis on short fixed maturities and floating-rate notes, and increased selectivity regarding longer maturities. On July 23, 2014, the Securities and Exchange Commission released a series of new rules regarding money market funds. The new rules were long anticipated, and do not appear to have had a major impact on market conditions initially. In the coming months, we will be closely monitoring the effect of the changes on the market and will consider any structural and operational changes required for the fund to adhere to the new rules prior to its compliance date.

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.

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.

1 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.

2 GDP, or gross domestic product, is the value of all goods and services produced by a country's economy.

3 A repurchase agreement (repo) is an agreement between a seller and a buyer, usually of government securities, where the seller agrees to repurchase the securities at a given price and usually at a stated time. Repos are widely used money market instruments that serve as an interest-bearing, short-term "parking place" for large sums of money.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio)	**12/31/14**	**12/31/13**
Commercial Paper	54%	50%
Repurchase Agreements	20%	7%
Certificates of Deposit and Bank Notes	10%	15%
Short-Term Notes	6%	16%
Government & Agency Obligations	5%	8%
Time Deposits	4%	4%
Municipal Bonds and Notes	1%	—
	100%	100%

Weighted Average Maturity*	**12/31/14**	**12/31/13**
Deutsche Variable Series II — Deutsche Money Market VIP	46 days	43 days
First Tier Retail Money Fund Average	40 days	43 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 maturity date of bonds held by the Fund taking into consideration any available maturity shortening features.

Portfolio holdings and characteristics 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 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 deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

	Principal Amount ($)	Value ($)
Certificates of Deposit and Bank Notes 9.5%		
Banco del Estado de Chile, 0.24%, 5/4/2015	1,200,000	1,200,000
Bank of Montreal:		
0.2%, 4/13/2015	2,000,000	2,000,000
0.23%, 5/13/2015	1,500,000	1,500,000
Bank of Nova Scotia:		
0.24%, 3/3/2015	1,250,000	1,250,000
0.25%, 2/17/2015	1,500,000	1,500,000
Bank of Tokyo-Mitsubishi UFJ Ltd., 0.18%, 2/17/2015	3,000,000	3,000,000
Canadian Imperial Bank of Commerce, 0.22%, 2/9/2015	1,000,000	1,000,005
DZ Bank AG:		
0.28%, 4/29/2015	1,800,000	1,800,000
0.31%, 2/19/2015	1,800,000	1,800,000
Svenska Handelsbanken AB, 0.19%, 1/8/2015	1,000,000	1,000,000
The Toronto-Dominion Bank, 0.295%, 7/13/2015	800,000	800,000
Total Certificates of Deposit and Bank Notes (Cost $16,850,005)		**16,850,005**
Commercial Paper 50.6%		
Issued at Discount 39.5%**		
Apache Corp., 0.7%, 1/8/2015	500,000	499,932
Apple, Inc., 0.22%, 6/17/2015	750,000	749,235
Bedford Row Funding Corp.:		
144A, 0.3%, 4/14/2015	1,000,000	999,142
144A, 0.35%, 8/27/2015	500,000	498,843
144A, 0.35%, 10/19/2015	750,000	747,878
144A, 0.47%, 12/11/2015	1,000,000	995,509
Caisse Centrale Desjardins, 0.175%, 2/12/2015	2,000,000	1,999,592
Catholic Health Initiatives, 0.22%, 5/5/2015	2,000,000	1,998,484
Charta Corp., 144A, 0.2%, 3/6/2015	1,200,000	1,199,573
Chevron Corp.:		
144A, 0.12%, 3/11/2015	2,000,000	1,999,540
144A, 0.13%, 1/8/2015	1,000,000	999,975
CNPC Finance HK Ltd., 144A, 0.4%, 1/5/2015	500,000	499,978
Coca-Cola Co., 0.31%, 9/16/2015	800,000	798,223
CPPIB Capital, Inc., 0.3%, 2/11/2015	750,000	749,744
DBS Bank Ltd., 144A, 0.25%, 6/9/2015	1,500,000	1,498,344
Dexia Credit Local:		
0.24%, 5/5/2015	1,000,000	999,173
0.265%, 4/8/2015	500,000	499,643
0.31%, 4/20/2015	1,500,000	1,498,592
0.31%, 5/29/2015	500,000	499,363
Erste Abwicklungsanstalt:		
144A, 0.17%, 1/22/2015	2,500,000	2,499,752
144A, 0.18%, 2/19/2015	1,500,000	1,499,632
144A, 0.2%, 4/8/2015	2,000,000	1,998,922
General Electric Capital Corp., 0.23%, 2/11/2015	3,000,000	2,999,214
Hannover Funding Co., LLC, 0.2%, 2/5/2015	2,000,000	1,999,611
Macquarie Bank Ltd., 144A, 0.25%, 2/23/2015	1,500,000	1,499,448
Microsoft Corp.:		
0.09%, 2/25/2015	2,000,000	1,999,725
0.1%, 2/10/2015	2,000,000	1,999,778
Nederlandse Waterschapsbank NV, 0.28%, 7/9/2015	800,000	798,824
Nestle Finance International Ltd., 0.19%, 2/11/2015	2,500,000	2,499,459
Nissan Motor Acceptance Corp., 0.4%, 1/8/2015	500,000	499,961
Nordea Bank AB, 0.225%, 4/1/2015	1,500,000	1,499,156
Old Line Funding LLC:		
144A, 0.22%, 4/7/2015	500,000	499,707
144A, 0.23%, 3/9/2015	1,500,000	1,499,358
Roche Holdings, Inc.:		
144A, 0.13%, 1/5/2015	5,000,000	4,999,928
144A, 0.165%, 1/26/2015	1,000,000	999,885
Sinopec Century Bright Capital Investment Ltd., 0.35%, 1/13/2015	1,000,000	999,883
Standard Chartered Bank:		
0.22%, 3/3/2015	2,500,000	2,499,068
0.25%, 2/2/2015	1,500,000	1,499,667
0.26%, 4/6/2015	1,500,000	1,498,971
0.32%, 6/8/2015	1,500,000	1,497,893
The Army & Air Force Exchange Service, 0.11%, 1/7/2015	2,000,000	1,999,963
Toronto-Dominion Holdings (U.S.A.), Inc., 0.08%, 1/2/2015	6,000,000	5,999,987
United Overseas Bank Ltd., 0.26%, 1/5/2015	1,000,000	999,971
Victory Receivables Corp., 144A, 0.18%, 1/13/2015	3,500,000	3,499,790
		70,018,316
Issued at Par* 11.1%		
ANZ New Zealand International Ltd., 144A, 0.221%, 1/12/2015	1,300,000	1,300,000
ASB Finance Ltd., 144A, 0.256%, 5/22/2015	1,250,000	1,250,000
Australia & New Zealand Banking Group Ltd., 144A, 0.331%, 8/18/2015	800,000	800,000
Banco del Estado de Chile, 0.28%, 3/5/2015	1,000,000	1,000,000
Bedford Row Funding Corp., 144A, 0.247%, 6/24/2015	1,250,000	1,250,000
BNZ International Funding Ltd.:		
144A, 0.251%, 1/20/2015	1,250,000	1,250,000
144A, 0.252%, 2/2/2015	1,000,000	1,000,000
Caisse Centrale Desjardins, 144A, 0.234%, 1/26/2015	800,000	799,995
Canadian Imperial Bank of Commerce, 0.232%, 5/8/2015	500,000	500,000
Kells Funding LLC:		
144A, 0.238%, 1/27/2015	1,250,000	1,249,995
144A, 0.243%, 2/13/2015	2,000,000	2,000,021
Rabobank Nederland NV, 0.355%, 10/1/2015	500,000	500,195
Royal Bank of Canada:		
0.248%, 9/3/2015	2,000,000	1,999,872
0.272%, 12/10/2015	1,500,000	1,500,000

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

	Principal Amount ($)	Value ($)
Wells Fargo Bank NA:		
0.31%, 9/9/2015	1,000,000	1,000,000
0.31%, 12/10/2015	1,000,000	1,000,000
Westpac Banking Corp., 144A, 0.234%, 2/19/2015	1,250,000	1,250,001
		19,650,079
Total Commercial Paper (Cost $89,668,395)		**89,668,395**

Short-Term Notes* 5.8%

	Principal Amount ($)	Value ($)
Bank of Nova Scotia, 0.347%, 1/22/2016	1,000,000	1,000,000
Canadian Imperial Bank of Commerce, 0.37%, 8/18/2015	1,800,000	1,800,000
Commonwealth Bank of Australia, 144A, 0.239%, 7/10/2015	1,200,000	1,200,000
JPMorgan Chase Bank NA, 0.352%, 1/22/2016	1,000,000	1,000,000
Rabobank Nederland NV, 0.281%, 7/6/2015	1,500,000	1,500,000
Svenska Handelsbanken AB, 144A, 0.353%, 10/2/2015	1,500,000	1,500,000
Wal-Mart Stores, Inc., 5.319%, 6/1/2015	500,000	510,604
Wells Fargo Bank NA, 0.26%, 6/16/2015	1,000,000	1,000,000
Westpac Banking Corp., 0.238%, 5/11/2015	800,000	800,000
Total Short-Term Notes (Cost $10,310,604)		**10,310,604**

Time Deposit 3.9%

	Principal Amount ($)	Value ($)
Credit Agricole Corporate & Investment Bank, 0.05%, 1/2/2015 (Cost $6,961,743)	6,961,743	**6,961,743**

Government & Agency Obligations 5.1%

U.S. Government Sponsored Agencies 4.1%

	Principal Amount ($)	Value ($)
Federal Home Loan Bank:		
0.19%, 9/3/2015	500,000	499,941
0.2%, 9/17/2015	325,000	324,958
0.21%, 10/13/2015	500,000	499,890
0.25%, 10/2/2015	500,000	500,000
0.263%, 10/9/2015	575,000	575,000
Federal Home Loan Mortgage Corp.:		
0.095%**, 4/16/2015	1,700,000	1,699,529
0.12%**, 6/1/2015	750,000	749,623
Federal National Mortgage Association:		
0.08%**, 5/1/2015	1,000,000	999,733
0.121%*, 10/21/2016	1,300,000	1,299,873
		7,148,547

U.S. Treasury Obligations 1.0%

	Principal Amount ($)	Value ($)
U.S. Treasury Bill, 0.04%**, 3/19/2015	1,500,000	1,499,872
U.S. Treasury Note, 0.375%, 3/15/2015	300,000	300,197
		1,800,069
Total Government & Agency Obligations (Cost $8,948,616)		**8,948,616**

Municipal Bonds and Notes 0.6%

	Principal Amount ($)	Value ($)
New York, State Housing Finance Agency Revenue, 605 West 42nd Street, Series B, 144A, 0.35%***, 5/1/2048, LOC: Bank of China (Cost $1,000,000)	1,000,000	**1,000,000**

Repurchase Agreements 18.8%

	Principal Amount ($)	Value ($)
BNP Paribas, 0.05%, dated 12/31/2014, to be repurchased at $14,000,039 on 1/2/2015 (b)	14,000,000	14,000,000
BNP Paribas, 0.2%, dated 12/23/2013, to be repurchased at $1,503,400 on 2/4/2015 (a) (c)	1,500,000	1,500,000
JPMorgan Securities, Inc., 0.382%, dated 2/13/2014, to be repurchased at $1,254,723 on 2/4/2015 (a) (d)	1,250,000	1,250,000
JPMorgan Securities, Inc., 0.413%, dated 7/3/2014, to be repurchased at $2,507,794 on 4/1/2015 (a) (e)	2,500,000	2,500,000
Wells Fargo Bank, 0.08%, dated 12/31/2014, to be repurchased at $13,000,58 on 1/2/2015 (f)	13,000,000	13,000,000
Wells Fargo Bank, 0.4%, dated 11/4/2014, to be repurchased at $1,001,000 on 2/2/2015 (g)	1,000,000	1,000,000
Total Repurchase Agreements (Cost $33,250,000)		**33,250,000**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $166,989,363)†	94.3	**166,989,363**
Other Assets and Liabilities, Net	5.7	**10,057,287**
Net Assets	100.0	**177,046,650**

* 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, 2014.

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

*** Variable rate demand notes are securities whose interest rates are reset periodically at market levels. These securities are payable on demand and are shown at their current rates as of December 31, 2014.

† The cost for federal income tax purposes was $166,989,363.

(a) Open maturity repurchase agreement whose interest rate resets periodically and is shown at the current rate as of December 31, 2014. The dated date is the original day the repurchase agreement was entered into, the maturity date represents the next repurchase date. Upon notice, both the Fund and counterparty have the right to terminate the repurchase agreement at any time.

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

(b) Collateralized by:

Principal Amount ($)	Security	Rate (%)	Maturity Date	Collateral Value ($)
3,920,000	Federal Home Loan Bank	4.0	4/11/2029	4,116,031
10,205,800	U.S. Treasury Note	0.25	2/29/2016	10,208,607
Total Collateral Value				**14,324,638**

(c) Collateralized by:

Principal Amount ($)	Security	Rate (%)	Maturity Date	Collateral Value ($)
8,196	BNP Paribas SA	1.375	3/17/2017	8,235
1,362,015	Petroleos Mexicanos	6.5	6/2/2041	1,573,771
Total Collateral Value				**1,582,006**

(d) Collateralized by:

Principal Amount ($)	Security	Rate (%)	Maturity Date	Collateral Value ($)
200,000	AmeriCredit Automobile Receivables Trust	2.15	3/9/2020	199,998
1,110,000	Chase Issuance Trust	0.411	4/15/2019	1,103,146
Total Collateral Value				**1,303,144**

(e) Collateralized by $2,620,000 Chase Issuance Trust, 0.411%, maturing on 4/15/2019 with a value of $2,603,822.

(f) Collateralized by:

Principal Amount ($)	Security	Rate (%)	Maturity Date	Collateral Value ($)
2,401,000	Federal Home Loan Mortgage Corp.	3.0	3/15/2043	2,369,365
10,570,324	Federal National Mortgage Association	2.473	5/1/2042	10,918,422
Total Collateral Value				**13,287,787**

(g) Collateralized by $730,595 Wells Fargo Bank NA, 6.6%, maturing on 1/15/2038 with a value of $1,054,940.

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 level assigned to the securities valuations may not be an indication of the risk or liquidity 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, 2014 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 (h)	$ —	$133,739,363	$ —	$133,739,363
Repurchase Agreements	—	33,250,000	—	33,250,000
Total	**$ —**	**$166,989,363**	**$ —**	**$166,989,363**

(h) 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, 2014

Assets		
Investments in non-affiliated securities, valued at amortized cost	$	133,739,363
Repurchase agreements, valued at amortized cost		33,250,000
Total investments, valued at amortized cost		166,989,363
Cash		9,982,131
Receivable for Fund shares sold		182,389
Interest receivable		42,317
Other assets		3,230
Total assets		177,199,430
Liabilities		
Payable for Fund shares redeemed		32,628
Distributions payable		805
Accrued Trustees' fees		3,046
Other accrued expenses and payables		116,301
Total liabilities		152,780
Net assets, at value	**$**	**177,046,650**
Net Assets Consist of		
Undistributed net investment income		793
Paid-in capital		177,045,857
Net assets, at value	**$**	**177,046,650**
Class A		
Net Asset Value, offering and redemption price per share ($177,046,650 ÷ 177,129,573 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**1.00**

Statement of Operations

for the year ended December 31, 2014

Investment Income		
Income: Interest	$	328,849
Expenses: Management fee		485,263
Administration fee		170,268
Services to shareholders		2,257
Custodian fee		31,111
Professional fees		53,557
Reports to shareholders		79,162
Trustees' fee and expenses		9,721
Other		8,257
Total expenses before expense reductions		839,596
Expense reductions		(527,782)
Total expenses after expense reductions		311,814
Net investment income		**17,035**
Net realized gain (loss)		**81**
Net increase (decrease) in net assets resulting from operations	**$**	**17,116**

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, 2014	2013
Operations:		
Net investment income	$ 17,035	$ 18,768
Net realized gain (loss)	81	509
Net increase (decrease) in net assets resulting from operations	17,116	19,277
Distributions to shareholders from:		
Net investment income		
Class A	(17,036)	(18,768)
Fund share transactions:		
Class A		
Proceeds from shares sold	130,299,481	93,469,677
Reinvestment of distributions	16,947	18,849
Cost of shares redeemed	(126,949,638)	(115,953,059)
Net increase (decrease) in net assets from Class A share transactions	3,366,790	(22,464,533)
Increase (decrease) in net assets	3,366,870	(22,464,024)
Net assets at beginning of period	173,679,780	196,143,804
Net assets at end of period (including undistributed net investment income of $793 and $712, respectively)	**$ 177,046,650**	**$ 173,679,780**

Other Information		
Class A		
Shares outstanding at beginning of period	173,762,783	196,227,316
Shares sold	130,299,481	93,469,677
Shares issued to shareholders in reinvestment of distributions	16,947	18,849
Shares redeemed	(126,949,638)	(115,953,059)
Net increase (decrease) in Class A shares	3,366,790	(22,464,533)
Shares outstanding at end of period	**177,129,573**	**173,762,783**

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

Financial Highlights

Class A	Years Ended December 31, 2014	2013	2012	2011	2010
Selected Per Share Data					
Net asset value, beginning of period	**$ 1.00**	**$ 1.00**	**$ 1.00**	**$ 1.00**	**$ 1.00**
Income from investment operations:					
Net investment income	.000*	.000*	.000*	.000*	.000*
Net realized gain (loss)	.000*	.000*	.000*	.000*	.000*
Total from investment operations	.000*	.000*	.000*	.000*	.000*
Less distributions from:					
Net investment income	(.000)*	(.000)*	(.000)*	(.000)*	(.000)*
Net asset value, end of period	**$ 1.00**	**$ 1.00**	**$ 1.00**	**$ 1.00**	**$ 1.00**
Total Return (%)[a]	.01	.01	.01	.01	.01
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	177	174	196	217	220
Ratio of expenses before expense reductions (%)	.49	.49	.45	.51	.46
Ratio of expenses after expense reductions (%)	.18	.20	.31	.25	.34
Ratio of net investment income (%)	.01	.01	.01	.01	.01

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

Deutsche Money Market VIP (formerly DWS Money Market VIP) (the "Fund") is a diversified series of Deutsche Variable Series II (formerly 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 level assigned to the securities valuations may not be an indication of the risk or liquidity 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, under the terms of a Master Repurchase Agreement, 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 bank or another designated sub-custodian 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.

As of December 31, 2014, the Fund held repurchase agreements with a gross value of $33,250,000. The value of the related collateral exceeded the value of the repurchase agreements at period end. The detail of the related collateral is included in the footnotes following the Fund's Investment Portfolio.

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, 2014 and has determined that no provision for income tax and/or uncertain tax provisions 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.

At December 31, 2014, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 793

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

	Years Ended December 31, 2014	2013
Distributions from ordinary income*	$ 17,036	$ 18,768

* 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 based upon the relative net assets or other appropriate measures.

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, 2014 through September 30, 2015, the Advisor has contractually agreed to waive its fee and/or reimburse certain operating expenses to the extent necessary to maintain the total annual 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. 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, 2014, the fee pursuant to the Investment Management Agreement aggregated $485,263, all of which was waived, resulting in an annual effective rate of 0.00% 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, 2014, the Administration Fee was $170,268, of which $41,842 was waived and $10,651 is unpaid.

Service Provider Fees. DeAWM Service Company ("DSC"), 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 DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it receives from the Fund. For the year ended December 31, 2014, the amounts charged to the Fund by DSC aggregated $677, 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, 2014, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $9,613, of which $4,727 is unpaid.

Trustees' Fees and Expenses. The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and Vice Chairperson and to each committee Chairperson.

C. Ownership of the Fund

At December 31, 2014, four participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 31%, 22%, 12% and 11%.

D. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 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, 2014.

E. Money Market Fund Reform

In July 2014, the SEC adopted money market fund reform intended to address potential systemic risks associated with money market funds and to improve transparency for money market fund investors. The Fund is required to comply with money market reforms by the specified compliance dates. As a result, the Fund may be required to take certain steps that will impact its structure and/or operations, which could impact the return potential of the Fund.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Deutsche Variable Series II and the Shareholders of Deutsche Money Market VIP:

We have audited the accompanying statement of assets and liabilities, including the investment portfolio, of Deutsche Money Market VIP (formerly DWS Money Market VIP) (the "Fund") (one of the series constituting Deutsche Variable Series II (formerly DWS Variable Series II)), as of December 31, 2014, 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 periods indicated therein. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. 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, 2014, 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 Deutsche Money Market VIP at December 31, 2014, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the periods indicated therein, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Boston, Massachusetts
February 13, 2015

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, 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, 2014 to December 31, 2014).

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, 2014

Actual Fund Return	**Class A**
Beginning Account Value 7/1/14	$1,000.00
Ending Account Value 12/31/14	$1,000.05
Expenses Paid per $1,000*	$ .91

Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 7/1/14	$1,000.00
Ending Account Value 12/31/14	$1,024.30
Expenses Paid per $1,000*	$ .92

* Expenses are equal to the Fund's annualized expense ratio, multiplied by the average account value over the period, multiplied by 184 (the number of days in the most recent six-month period), then divided by 365.

Annualized Expense Ratio	**Class A**
Deutsche Variable Series II — Deutsche Money Market VIP	.18%

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.

For an analysis of the fees associated with an investment in the fund or similar funds, please refer to the current and hypothetical expense calculators for Variable Insurance Products which can be found at deutschefunds.com/EN/resources/calculators.jsp.

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.

Other Information

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 — deutschefunds.com (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — 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.

Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of Deutsche Money Market VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2014.

In terms of the process that the Board followed prior to approving the Agreement, shareholders should know that:

— In September 2014, all of the Fund's Trustees were independent of DIMA 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 Asset Allocation Oversight Committee, reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly meet privately with counsel to discuss contract review and other matters. In addition, the Independent Trustees were advised by the Fee Consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the Fee Consultant in connection with their deliberations.

— 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 DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG ("DB"), a major global banking institution that is engaged in a wide range of financial services. The Board believes that there are 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.

As part of the contract review process, the Board carefully considered the fees and expenses of each Deutsche fund overseen by the Board in light of the fund's performance. In many cases, this led to the negotiation and implementation of expense caps. As part of these negotiations, the Board indicated that it would consider relaxing these caps in future years following sustained improvements in performance, among other considerations.

In 2012, DB combined its Asset Management (of which DIMA was a part) and Wealth Management divisions into a new Asset and Wealth Management ("AWM") division. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that DB will continue to invest in AWM a significant portion of the savings it has realized by combining its Asset and Wealth Management divisions, including ongoing enhancements to AWM's investment capabilities. DB also has confirmed its commitment to maintaining strong legal and compliance groups within the AWM division.

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

Nature, Quality and Extent of Services. The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including a peer universe compiled by the Fee Consultant using information supplied by iMoneyNet, an independent fund data service. The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to a peer universe), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's plans to address underperformance. The Board believes this process is an effective manner of identifying and addressing underperforming funds. Based on the information provided by the Fee Consultant, the Board noted that for the one- and three-year periods ended December 31, 2013, the Fund's gross performance (Class A shares) was in the 2nd quartile of the applicable iMoneyNet universe (the 1st quartile being the best performers and the 4th quartile being the worst performers).

Fees and Expenses. 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 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 DIMA under the Fund's administrative services agreement, were lower than the median (2nd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2013). The Board noted that the Fund's Class A shares total (net) operating expenses were higher than the median (3rd quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2013). 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 noted the expense limitation agreed to by DIMA. The Board also noted the significant voluntary fee waivers implemented by DIMA to ensure the Fund maintained a positive yield. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable funds and considered differences between the Fund and the comparable funds. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts and funds offered primarily to European investors ("Deutsche Europe funds") managed by DIMA and its affiliates. The Board noted that DIMA indicated that it does not manage any institutional accounts or Deutsche Europe funds comparable to the Fund.

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

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the Deutsche U.S. mutual funds ("Deutsche 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 DIMA and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable.

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

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to Deutsche Funds advertising and cross-selling opportunities among DIMA products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of DIMA's and the Fund's chief compliance officer; (ii) the large number of DIMA compliance personnel; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.

Based on all of the information considered and the conclusions reached, the Board 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 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.

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund. 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 Kenneth C. Froewiss, Chairman, Deutsche Mutual Funds, P.O. Box 390601, Cambridge, MA 02139. 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.

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 Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Kenneth C. Froewiss (1945) Chairperson since 2013, and 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)	105	—
William McClayton (1944) Vice Chairperson since 2013, and 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	105	—
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); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (provider of disease and care management services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International	105	Portland General Electric[2] (utility company) (2003–present)
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); North Bennett Street School (Boston); former Directorships: Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College	105	Lead Director, Becton Dickinson and Company[2] (medical technology company)
Dawn-Marie Driscoll (1946) Board Member since 1987	Emeritus Executive Fellow, Center for Business Ethics, Bentley University; formerly: President, Driscoll Associates (consulting firm); Partner, Palmer & Dodge (law firm) (1988–1990); Vice President of Corporate Affairs and General Counsel, Filene's (retail) (1978–1988). Directorships: Director of ICI Mutual Insurance Company (since 2007); Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	105	—
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); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies; former Directorships: BoxTop Media Inc. (advertising); Sun Capital Advisers Trust (mutual funds) (2011–2012)	105	—

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 Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Paul K. Freeman (1950) Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Chair, Independent Directors Council; Investment Company Institute (executive and nominating committees); formerly, Chairman of Education Committee of Independent Directors Council; Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998); Directorships: Denver Zoo Foundation (December 2012–present); former Directorships: Prisma Energy International	105	—
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; 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)	105	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
Rebecca W. Rimel (1951) Board Member since 1995	President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 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); Director, Viasys Health Care[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	105	Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc.[2] (health care) (2009–present)
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); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	105	—
Jean Gleason Stromberg (1943) Board Member since 1997	Retired. Formerly, Consultant (1997–2001); Director, Financial Markets U.S. Government Accountability Office (1996–1997); Partner, Norton Rose Fulbright, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation (charitable organization); former Directorships: Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	105	—
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	105	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Brian E. Binder[8] (1972) President and Chief Executive Officer, 2013–present	Managing Director[3] and Head of Fund Administration, Deutsche Asset & Wealth Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012); Chief Administrative Officer, Van Kampen Funds Inc. (2008–2010); and Chief Administrative Officer, Morgan Stanley Investment Management Americas Distribution (2003–2008)
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset & Wealth Management
Melinda Morrow[6] (1970) Vice President, 2012–present	Director,[3] Deutsche Asset & Wealth Management

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset & Wealth 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 & Wealth Management; formerly: Assistant Secretary for DWS family of funds (1997–2010)
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director,[3] Deutsche Asset & Wealth Management
Wayne Salit[6] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset & Wealth Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Hepsen Uzcan[7] (1974) Assistant Secretary, 2013–present	Director,[3] Deutsche Asset & Wealth Management
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management

1 The length of time served represents the year in which the Board Member joined the board of one or more Deutsche 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 Deutsche funds.

6 Address: 60 Wall Street, New York, NY 10005.

7 Address: One Beacon Street, Boston, MA 02108.

8 Address: 222 South Riverside Plaza, Chicago, IL 60606.

* Robert H. Wadsworth retired from the Board effective December 31, 2014.

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

Deutsche Asset
& Wealth Management

DeAWM Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2MM-2 (R-025834-4 2/15)

Deutsche Asset
& Wealth Management

December 31, 2014

Annual Report

Deutsche Variable Series II

(formerly DWS Variable Series II)

Deutsche Small Mid Cap Growth VIP

(formerly DWS Small Mid Cap Growth VIP)

Contents

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. Smaller and medium company stocks tend to be more volatile than large company stocks. The Fund may lend securities to approved institutions. Stocks may decline in value. See the prospectus for details.

Deutsche Asset & Wealth Management represents the asset management and wealth management activities conducted by Deutsche Bank AG or any of its subsidiaries, including the Advisor and DeAWM Distributors, Inc.

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

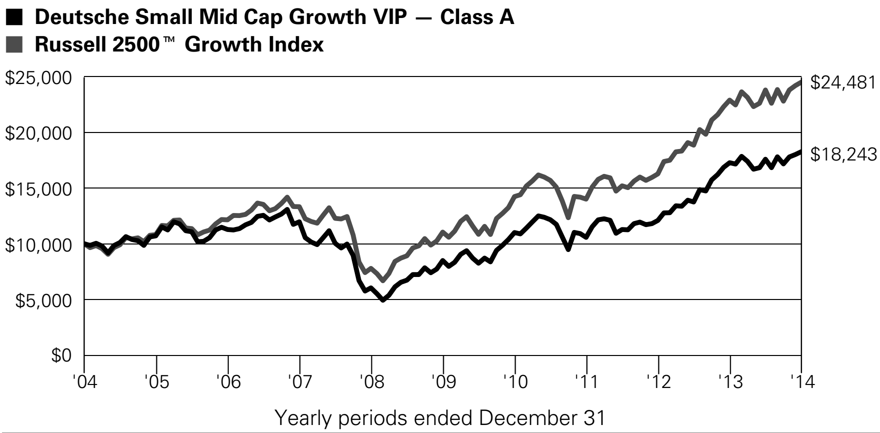
Performance Summary

December 31, 2014 (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, 2014 is 0.72% 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 Deutsche Small Mid Cap Growth VIP



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.

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

Comparative Results

Deutsche Small Mid Cap Growth VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,570	$17,257	$21,465	$18,243
	Average annual total return	5.74%	19.95%	16.51%	6.20%
Russell 2500 Growth Index	Growth of $10,000	$10,705	$17,486	$22,178	$24,481
	Average annual total return	7.05%	20.47%	17.27%	9.37%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2014 (Unaudited)

For the 12-month period ended December 31, 2014, the Fund returned 5.74% (Class A shares, unadjusted for contract charges), underperforming the 7.05% return of the Russell 2500™ Growth Index.[1]

The year 2014 represented a period of moderation for small- and mid-cap stock returns following strong market momentum during 2013. Last January, the impact of severe winter weather on the U.S. economy, along with weakness in emerging markets, gave investors pause. Then, with equities reaching record territory by late February, loftier valuations in small biotechnology and technology stocks sparked a round of profit-taking throughout March, April and May. Renewed strength in payrolls and manufacturing gave stocks support during the summer. At the beginning of September, an environment of Russian/Ukrainian tensions, political uncertainty in Syria and Iraq, the Ebola virus epidemic and worries concerning the rate of global growth weighed on sentiment. Favorable corporate earnings reports and strong U.S. economic data then ignited a robust rally during mid-October. However, OPEC's decision not to cut its crude oil production sparked a precipitous decline in oil prices as investors worried about the potential destabilization of oil-dependent nations including Russia, Iran and Venezuela.[2] Uncertainty regarding Greece's elections added to market woes. In late December, stocks renewed their rally based on encouraging U.S. economic reports, and equities closed 2014 near all-time highs.

The Fund's underperformance was derived primarily from unfavorable stock selection in financials, industrials and materials. In contrast, Fund positions in consumer discretionary, consumer staples and health care contributed to returns.[3] Overall sector allocation had a negative effect on performance, based on underweights to materials and financials and overweights in information technology and energy.[4] An overweight position in health care and an underweight to industrials contributed to performance.

We continue to position the Fund for sustained economic recovery and remain focused on our bottom-up stock selection process. We maintain a long-term perspective, investing in quality small- and mid-cap growth stocks that trade at attractive valuations and which are well positioned to benefit from a strong merger and acquisition cycle.

Joseph Axtell, CFA
Rafaelina M. Lee
Portfolio Managers

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.

1 The Russell 2500 Growth Index is an unmanaged, capitalization-weighted measure of the performance of the small- and 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 in an index.

2 OPEC (Organization of the Petroleum Exporting Countries) is a cartel that aims to manage global oil production, in an effort to maintain oil prices on the world market at levels beneficial to its members.

3 The consumer discretionary sector represents industries that produce goods and services that are not necessities in everyday life. Consumer staples are the industries that manufacture and sell products such as food and beverages, prescription drugs, and household products.

4 "Overweight" means that the Fund holds a higher weighting in a given sector or security than the benchmark. "Underweight" means that the Fund holds a lower weighting.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/14**	**12/31/13**
Common Stocks	97%	97%
Cash Equivalents	2%	2%
Exchange-Traded Fund	1%	1%
	100%	100%

Sector Diversification (As a % of Common Stocks and Exchange-Traded Fund)	**12/31/14**	**12/31/13**
Information Technology	21%	23%
Consumer Discretionary	21%	20%
Health Care	20%	16%
Industrials	18%	16%
Financials	7%	10%
Consumer Staples	5%	5%
Materials	4%	4%
Energy	3%	5%
Telecommunication Services	1%	1%
	100%	100%

Portfolio holdings and characteristics 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 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 deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

	Shares	Value ($)
Common Stocks 96.7%		
Consumer Discretionary 20.1%		
Auto Components 2.9%		
American Axle & Manufacturing Holdings, Inc.*	83,558	1,887,575
Gentherm, Inc.*	35,063	1,284,007
Tenneco, Inc.*	32,782	1,855,789
		5,027,371
Hotels, Restaurants & Leisure 3.5%		
Jack in the Box, Inc.	33,622	2,688,415
Life Time Fitness, Inc.* (a)	26,743	1,514,189
Panera Bread Co. "A"*	10,726	1,874,905
		6,077,509
Household Durables 3.1%		
iRobot Corp.* (a)	33,069	1,148,156
Jarden Corp.* (a)	59,502	2,848,956
Ryland Group, Inc.	33,224	1,281,117
		5,278,229
Leisure Products 1.2%		
Polaris Industries, Inc.	13,432	**2,031,456**
Media 0.9%		
Cinemark Holdings, Inc.	40,900	**1,455,222**
Specialty Retail 6.2%		
Advance Auto Parts, Inc.	10,860	1,729,781
DSW, Inc. "A"	26,492	988,152
Outerwall, Inc.* (a)	19,131	1,439,034
Penske Automotive Group, Inc.	30,944	1,518,422
The Children's Place, Inc.	27,136	1,546,752
Ulta Salon, Cosmetics & Fragrance, Inc.*	17,168	2,194,757
Urban Outfitters, Inc.*	37,243	1,308,346
		10,725,244
Textiles, Apparel & Luxury Goods 2.3%		
Carter's, Inc.	15,730	1,373,386
Hanesbrands, Inc.	22,300	2,489,126
		3,862,512
Consumer Staples 4.9%		
Food & Staples Retailing 2.2%		
Casey's General Stores, Inc.	17,851	1,612,302
Diamond Foods Inc.	4,625	130,564
United Natural Foods, Inc.*	28,232	2,183,040
		3,925,906
Food Products 2.1%		
Hain Celestial Group, Inc.*	39,440	2,298,958
The WhiteWave Foods Co.*	38,749	1,355,827
		3,654,785
Household Products 0.6%		
Church & Dwight Co., Inc.	11,622	**915,930**
Energy 3.0%		
Energy Equipment & Services 1.5%		
Dril-Quip, Inc.*	12,826	984,139
Oceaneering International, Inc.	17,739	1,043,230
RPC, Inc.	39,647	516,997
		2,544,366

	Shares	Value ($)
Oil, Gas & Consumable Fuels 1.5%		
Diamondback Energy, Inc.*	13,489	806,372
Gulfport Energy Corp.*	19,659	820,567
Western Refining, Inc.	24,105	910,687
		2,537,626
Financials 6.6%		
Banks 2.2%		
Signature Bank*	16,921	2,131,369
Talmer Bancorp., Inc. "A"	112,437	1,578,616
		3,709,985
Capital Markets 2.1%		
Lazard Ltd. "A"	37,921	1,897,187
Oaktree Capital Group LLC (a)	34,742	1,800,678
		3,697,865
Consumer Finance 2.3%		
Encore Capital Group, Inc.*	33,531	1,488,777
PRA Group, Inc.* (a)	42,655	2,471,004
		3,959,781
Health Care 18.4%		
Biotechnology 5.6%		
Alkermes PLC*	21,020	1,230,931
Isis Pharmaceuticals, Inc.*	22,855	1,411,068
Orexigen Therapeutics, Inc.* (a)	192,153	1,164,447
Puma Biotechnology, Inc.*	7,982	1,510,753
Retrophin, Inc.*	79,277	970,350
Spectrum Pharmaceuticals, Inc.*	142,448	987,165
Threshold Pharmaceuticals, Inc.*	223,612	711,086
United Therapeutics Corp.*	12,548	1,624,841
		9,610,641
Health Care Equipment & Supplies 4.8%		
HeartWare International, Inc.*	17,274	1,268,430
SurModics, Inc.*	67,578	1,493,474
Thoratec Corp.*	56,331	1,828,504
Zeltiq Aesthetics, Inc.*	133,044	3,713,258
		8,303,666
Health Care Providers & Services 6.3%		
Catamaran Corp.* (a)	29,601	1,531,852
Centene Corp.*	31,023	3,221,738
Kindred Healthcare, Inc. (a)	76,047	1,382,534
Molina Healthcare, Inc.* (a)	39,939	2,137,935
Providence Service Corp.*	68,595	2,499,602
		10,773,661
Life Sciences Tools & Services 0.7%		
PAREXEL International Corp.*	21,889	**1,216,153**
Pharmaceuticals 1.0%		
Pacira Pharmaceuticals, Inc.*	19,940	**1,767,880**
Industrials 17.3%		
Aerospace & Defense 2.1%		
DigitalGlobe, Inc.*	37,856	1,172,400
HEICO Corp.	39,298	2,373,599
		3,545,999
Airlines 0.6%		
JetBlue Airways Corp.*	65,237	**1,034,659**
Building Products 0.6%		
Fortune Brands Home & Security, Inc.	23,791	**1,077,018**

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

	Shares	Value ($)
Commercial Services & Supplies 0.7%		
Team, Inc.*	31,684	**1,281,935**
Construction & Engineering 0.9%		
Primoris Services Corp.	63,365	**1,472,603**
Electrical Equipment 3.1%		
Acuity Brands, Inc.	15,429	2,161,140
AZZ, Inc.	37,161	1,743,594
Thermon Group Holdings, Inc.*	58,925	1,425,396
		5,330,130
Machinery 5.2%		
Altra Industrial Motion Corp. (a)	44,741	1,270,197
Chart Industries, Inc.*	12,600	430,920
Manitowoc Co., Inc. (a)	77,759	1,718,474
Middleby Corp.*	25,302	2,507,428
Trinity Industries, Inc.	24,999	700,222
WABCO Holdings, Inc.*	22,322	2,338,899
		8,966,140
Professional Services 1.4%		
On Assignment, Inc.*	24,823	823,876
TriNet Group, Inc.*	50,894	1,591,964
		2,415,840
Road & Rail 1.5%		
Swift Transportation Co.*	88,044	**2,520,700**
Trading Companies & Distributors 1.2%		
NOW, Inc.* (a)	20,717	533,048
United Rentals, Inc.*	14,857	1,515,563
		2,048,611
Information Technology 21.4%		
Communications Equipment 2.0%		
Aruba Networks, Inc.*	27,383	497,823
Harris Corp.	21,533	1,546,500
Palo Alto Networks, Inc.*	11,922	1,461,279
		3,505,602
Electronic Equipment, Instruments & Components 2.5%		
Cognex Corp.*	49,012	2,025,666
IPG Photonics Corp.*	30,231	2,264,906
		4,290,572
Internet Software & Services 2.2%		
Cornerstone OnDemand, Inc.* (a)	29,332	1,032,487
CoStar Group, Inc.*	14,713	2,701,748
		3,734,235
IT Services 6.1%		
Cardtronics, Inc.*	73,694	2,843,114
MAXIMUS, Inc.	47,859	2,624,588
VeriFone Systems, Inc.*	65,781	2,447,053
Virtusa Corp.*	59,473	2,478,240
		10,392,995

	Shares	Value ($)
Semiconductors & Semiconductor Equipment 1.3%		
Advanced Energy Industries, Inc.*	42,485	1,006,895
Ultra Clean Holdings, Inc.*	125,180	1,161,670
		2,168,565
Software 6.0%		
Aspen Technology, Inc.*	32,511	1,138,535
PTC, Inc.*	65,897	2,415,125
Splunk, Inc.*	26,410	1,556,869
Tyler Technologies, Inc.*	20,711	2,266,612
Ultimate Software Group, Inc.*	12,959	1,902,576
Varonis Systems, Inc.* (a)	32,508	1,067,238
		10,346,955
Technology Hardware, Storage & Peripherals 1.3%		
Western Digital Corp.	20,480	**2,267,136**
Materials 4.0%		
Chemicals 2.2%		
A. Schulman, Inc.	33,779	1,369,063
Huntsman Corp.	33,241	757,230
Minerals Technologies, Inc.	24,078	1,672,217
		3,798,510
Construction Materials 0.7%		
Eagle Materials, Inc.	16,544	**1,257,840**
Metals & Mining 1.1%		
Constellium NV "A"*	69,296	1,138,533
Haynes International, Inc.	15,660	759,510
		1,898,043
Telecommunication Services 1.0%		
Wireless Telecommunication Services		
SBA Communications Corp. "A"*	15,663	**1,734,834**
Total Common Stocks (Cost $116,861,637)		**166,164,710**

Exchange-Traded Fund 1.1%

	Shares	Value ($)
SPDR S&P Biotech (a) (Cost $1,077,454)	10,001	**1,866,587**

Securities Lending Collateral 12.9%

	Shares	Value ($)
Daily Assets Fund Institutional, 0.10% (b) (c) (Cost $22,207,990)	22,207,990	**22,207,990**

Cash Equivalents 1.9%

	Shares	Value ($)
Central Cash Management Fund, 0.06% (b) (Cost $3,305,009)	3,305,009	**3,305,009**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $143,452,090)†	112.6	**193,544,296**
Other Assets and Liabilities, Net	(12.6)	**(21,657,369)**
Net Assets	100.0	**171,886,927**

* Non-income producing security.

† The cost for federal income tax purposes was $144,370,735. At December 31, 2014, net unrealized appreciation for all securities based on tax cost was $49,173,561. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $54,479,079 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $5,305,518.

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

(a) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at December 31, 2014 amounted to $21,663,550, which is 12.6% of net assets.

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

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

S&P: Standard & Poor's

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 level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

The following is a summary of the inputs used as of December 31, 2014 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)	$166,164,710	$ —	$ —	$166,164,710
Exchange-Traded Fund	1,866,587	—	—	1,866,587
Short-Term Investments (d)	25,512,999	—	—	25,512,999
Total	**$193,544,296**	**$ —**	**$ —**	**$193,544,296**

There have been no transfers between fair value measurement levels during the year ended December 31, 2014.

(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, 2014

Assets	
Investments:	
Investments in non-affiliated securities, at value (cost $117,939,091) — including $21,663,550 of securities loaned	$ 168,031,297
Investment in Daily Assets Fund Institutional (cost $22,207,990)*	22,207,990
Investment in Central Cash Management Fund (cost $3,305,009)	3,305,009
Total investments in securities, at value (cost $143,452,090)	193,544,296
Receivable for investments sold	822,011
Receivable for Fund shares sold	1,085,386
Dividends receivable	24,748
Interest receivable	15,763
Other assets	3,225
Total assets	195,495,429

Liabilities	
Payable upon return of securities loaned	22,207,990
Payable for investments purchased	1,125,098
Payable for Fund shares redeemed	84,557
Accrued management fee	79,052
Accrued Trustees' fees	2,842
Other accrued expenses and payables	108,963
Total liabilities	23,608,502
Net assets, at value	**$ 171,886,927**

Net Assets Consist of	
Net unrealized appreciation (depreciation) on investments	50,092,206
Accumulated net realized gain (loss)	12,557,703
Paid-in capital	109,237,018
Net assets, at value	**$ 171,886,927**
Class A	
Net Asset Value, offering and redemption price per share ($171,886,927 ÷ 7,527,702 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 22.83**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2014

Investment Income	
Income:	
Dividends	$ 869,107
Income distributions — Central Cash Management Fund	2,067
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	197,916
Total income	1,069,090
Expenses:	
Management fee	957,691
Administration fee	174,126
Services to shareholders	1,701
Custodian fee	12,047
Professional fees	73,943
Reports to shareholders	28,277
Trustees' fees and expenses	9,275
Other	8,095
Total expenses	1,265,155
Net investment income (loss)	**(196,065)**

Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from investments	20,390,112
Change in net unrealized appreciation (depreciation) on investments	(10,889,918)
Net gain (loss)	**9,500,194**
Net increase (decrease) in net assets resulting from operations	**$ 9,304,129**

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, 2014	2013
Operations:		
Net investment income (loss)	$ (196,065)	$ (363,396)
Net realized gain (loss)	20,390,112	23,261,132
Change in net unrealized appreciation (depreciation)	(10,889,918)	35,857,105
Net increase (decrease) in net assets resulting from operations	9,304,129	58,754,841
Distributions to shareholders from:		
Net investment income:		
Class A	—	(194,886)
Total distributions	—	(194,886)
Fund share transactions:		
Class A		
Proceeds from shares sold	5,733,576	5,697,979
Reinvestment of distributions	—	194,886
Cost of shares redeemed	(30,428,185)	(22,634,498)
Net increase (decrease) in net assets from Class A share transactions	(24,694,609)	(16,741,633)
Increase (decrease) in net assets	(15,390,480)	41,818,322
Net assets at beginning of period	187,277,407	145,459,085
Net assets at end of period	**$ 171,886,927**	**$ 187,277,407**

Other Information		
Class A		
Shares outstanding at beginning of period	8,676,171	9,604,576
Shares sold	261,454	313,223
Shares issued to shareholders in reinvestment of distributions	—	11,761
Shares redeemed	(1,409,923)	(1,253,389)
Net increase (decrease) in Class A shares	(1,148,469)	(928,405)
Shares outstanding at end of period	**7,527,702**	**8,676,171**

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

Financial Highlights

Class A	2014	Years Ended December 31, 2013	2012	2011	2010
Selected Per Share Data					
Net asset value, beginning of period	**$21.59**	**$15.14**	**$13.24**	**$13.85**	**$10.70**
Income (loss) from investment operations:					
Net investment income (loss)[a]	(.02)	(.04)	.02	(.03)	(.01)
Net realized and unrealized gain (loss)	1.26	6.51	1.88	(.50)	3.16
Total from investment operations	1.24	6.47	1.90	(.53)	3.15
Less distributions from:					
Net investment income	—	(.02)	—	(.08)	—
Net asset value, end of period	**$22.83**	**$21.59**	**$15.14**	**$13.24**	**$13.85**
Total Return (%)	5.74	42.78	14.35	(3.91)	29.44
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	172	187	145	147	88
Ratio of expenses (%)	.73	.72	.74	.73	.78
Ratio of net investment income (loss) (%)	(.11)	(.22)	.11	(.23)	(.12)
Portfolio turnover rate (%)	44	56	57	84	64

[a] Based on average shares outstanding during the period.

Notes to Financial Statements

A. Organization and Significant Accounting Policies

Deutsche Small Mid Cap Growth VIP (formerly DWS Small Mid Cap Growth VIP) (the "Fund") is a diversified series of Deutsche Variable Series II (formerly 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 level assigned to the securities valuations may not be an indication of the risk or liquidity 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. 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. Equity and ETF securities are generally categorized as Level 1.

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 considered 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.

Securities Lending. Deutsche Bank AG, as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains the benefits of owning the securities it has loaned and continues to receive interest and dividends generated by the 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. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. 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.

As of December 31, 2014, the Fund had securities on loan. The value of the related collateral exceeded the value of the securities loaned at period end.

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 incurred post-enactment 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, 2014, the Fund had a net tax basis capital loss carryforward of approximately $405,000 of pre-enactment losses, inherited from its mergers with DWS Mid Cap Growth VIP, which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2016 ($405,000), the expiration date, whichever occurs first, and which may be subject to certain limitations under Section 382–384 of Internal Revenue Code.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2014 and has determined that no provision for income tax and/or uncertain tax provisions 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 from net investment income of the Fund, if any, are 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, 2014, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed net long-term capital gains	$ 13,881,452
Capital loss carryforwards	$ (405,000)
Unrealized appreciation (depreciation) on investments	$ 49,173,561

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

	Years Ended December 31, 2014	2013
Distributions from ordinary income*	$ —	$ 194,886

* 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 based upon the relative net assets or other appropriate measures.

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. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments.

B. Purchases and Sales of Securities

During the year ended December 31, 2014, purchases and sales of investment transactions (excluding short-term investments) aggregated $75,181,765 and $100,975,009, 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, 2014, the fee pursuant to the Investment Management Agreement was equivalent to an annual rate (exclusive of any applicable waivers/reimbursements) of 0.55% of the Fund's average daily net assets.

For the period from January 1, 2014 through September 30, 2014, the Advisor has contractually agreed to waive its fees and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of Class A at 0.89%.

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, 2014, the Administration Fee was $174,126, of which $14,373 is unpaid.

Service Provider Fees. DeAWM Service Company ("DSC"), 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 DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it receives from the Fund. For the year ended December 31, 2014, the amounts charged to the Fund by DSC aggregated $373, of which $67 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, 2014, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $9,976, of which $4,375 is unpaid.

Trustees' Fees and Expenses. The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and Vice Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicles. The Fund may invest uninvested cash balances in Central Cash Management Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. Each affiliated money market fund seeks to provide a high level of current income consistent with liquidity and the preservation of capital. Each affiliated money market fund is managed in accordance with Rule 2a-7 under the Investment Company Act of 1940, which governs the quality, maturity, diversity and liquidity of instruments in which a money market fund may invest. Central Cash Management Fund seeks to maintain a stable net asset value, and Deutsche Variable NAV Money Fund maintains a floating net asset value. The Fund indirectly bears its proportionate share of the expenses of each affiliated money market fund in which it invests. Central Cash Management Fund does not pay the Advisor an investment management fee. To the extent that Deutsche Variable NAV Money Fund pays an investment management fee to the Advisor, the Advisor will waive an amount of the investment management fee payable to the Advisor by the Fund equal to the amount of the investment management fee payable on the Fund's assets invested in Deutsche Variable NAV Money Fund.

Securities Lending Agent Fees. Deutsche Bank AG serves as securities lending agent for the Fund. For the year ended December 31, 2014, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $17,447.

D. Ownership of the Fund

At December 31, 2014, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 56%, 22% and 15%.

E. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 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, 2014.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Deutsche Variable Series II and Shareholders of Deutsche Small Mid Cap Growth VIP:

We have audited the accompanying statement of assets and liabilities, including the investment portfolio, of Deutsche Small Mid Cap Growth VIP (formerly DWS Small Mid Cap Growth VIP) (the "Fund") (one of the series constituting Deutsche Variable Series II (formerly DWS Variable Series II)), as of December 31, 2014, 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 periods indicated therein. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. 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, 2014, 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 Deutsche Small Mid Cap Growth VIP at December 31, 2014, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the periods indicated therein, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Boston, Massachusetts
February 13, 2015

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, 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, 2014 to December 31, 2014).

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, 2014

Actual Fund Return	**Class A**
Beginning Account Value 7/1/14	$1,000.00
Ending Account Value 12/31/14	$1,038.20
Expenses Paid per $1,000*	$ 3.75
Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 7/1/14	$1,000.00
Ending Account Value 12/31/14	$1,021.53
Expenses Paid per $1,000*	$ 3.72

* Expenses are equal to the Fund's annualized expense ratio, multiplied by the average account value over the period, multiplied by 184 (the number of days in the most recent six-month period), then divided by 365.

Annualized Expense Ratio	**Class A**
Deutsche Variable Series II — Deutsche Small Mid Cap Growth VIP	.73%

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.

For an analysis of the fees associated with an investment in the fund or similar funds, please refer to the current and hypothetical expense calculators for Variable Insurance Products which can be found at deutschefunds.com/EN/resources/calculators.jsp.

Tax Information

(Unaudited)

Pursuant to Section 852 of the Internal Revenue Code, the Fund designates $15,270,000 as capital gain dividends for its year ended December 31, 2014.

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 — deutschefunds.com (click on “proxy voting” at the bottom of the page) — or on the SEC's Web site — 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.

Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of Deutsche Small Mid Cap Growth VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2014.

In terms of the process that the Board followed prior to approving the Agreement, shareholders should know that:

— In September 2014, all of the Fund's Trustees were independent of DIMA 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 DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly meet privately with counsel to discuss contract review and other matters. In addition, the Independent Trustees were advised by the Fee Consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the Fee Consultant in connection with their deliberations.

— 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 DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG ("DB"), a major global banking institution that is engaged in a wide range of financial services. The Board believes that there are 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.

As part of the contract review process, the Board carefully considered the fees and expenses of each Deutsche fund overseen by the Board in light of the fund's performance. In many cases, this led to the negotiation and implementation of expense caps. As part of these negotiations, the Board indicated that it would consider relaxing these caps in future years following sustained improvements in performance, among other considerations.

In 2012, DB combined its Asset Management (of which DIMA was a part) and Wealth Management divisions into a new Asset and Wealth Management ("AWM") division. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that DB will continue to invest in AWM a significant portion of the savings it has realized by combining its Asset and Wealth Management divisions, including ongoing enhancements to AWM's investment capabilities. DB also has confirmed its commitment to maintaining strong legal and compliance groups within the AWM division.

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

Nature, Quality and Extent of Services. The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market index(es) and a peer universe compiled by the Fee Consultant using information supplied by Morningstar Direct ("Morningstar"), an independent fund data service. The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to a peer universe), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's 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, 2013, the Fund's performance (Class A shares) was in the 1st quartile, 1st quartile and 2nd quartile, respectively, of the applicable Morningstar 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, 2013.

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 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 DIMA under the Fund's administrative services agreement, were lower than the median (1st quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2013). 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, 2013, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). 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 noted that the expense limitation agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to a comparable fund and considered differences between the Fund and the comparable fund. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts and funds offered primarily to European investors ("Deutsche Europe funds") managed by DIMA and its affiliates. The Board noted that DIMA indicated that it does not manage any institutional accounts or Deutsche Europe funds comparable to the Fund.

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

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the Deutsche U.S. mutual funds ("Deutsche 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 DIMA and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable.

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

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to Deutsche Funds advertising and cross-selling opportunities among DIMA products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of DIMA's and the Fund's chief compliance officer; (ii) the large number of DIMA compliance personnel; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.

Based on all of the information considered and the conclusions reached, the Board 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 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.

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund. 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 Kenneth C. Froewiss, Chairman, Deutsche Mutual Funds, P.O. Box 390601, Cambridge, MA 02139. 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.

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 Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Kenneth C. Froewiss (1945) Chairperson since 2013, and 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)	105	—
William McClayton (1944) Vice Chairperson since 2013, and 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	105	—
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); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (provider of disease and care management services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International	105	Portland General Electric[2] (utility company) (2003–present)
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); North Bennett Street School (Boston); former Directorships: Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College	105	Lead Director, Becton Dickinson and Company[2] (medical technology company)
Dawn-Marie Driscoll (1946) Board Member since 1987	Emeritus Executive Fellow, Center for Business Ethics, Bentley University; formerly: President, Driscoll Associates (consulting firm); Partner, Palmer & Dodge (law firm) (1988–1990); Vice President of Corporate Affairs and General Counsel, Filene's (retail) (1978–1988). Directorships: Director of ICI Mutual Insurance Company (since 2007); Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	105	—
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); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies; former Directorships: BoxTop Media Inc. (advertising); Sun Capital Advisers Trust (mutual funds) (2011–2012)	105	—

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 Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Paul K. Freeman (1950) Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Chair, Independent Directors Council; Investment Company Institute (executive and nominating committees); formerly, Chairman of Education Committee of Independent Directors Council; Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998); Directorships: Denver Zoo Foundation (December 2012–present); former Directorships: Prisma Energy International	105	—
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; 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)	105	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
Rebecca W. Rimel (1951) Board Member since 1995	President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 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); Director, Viasys Health Care[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	105	Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc.[2] (health care) (2009–present)
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); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	105	—
Jean Gleason Stromberg (1943) Board Member since 1997	Retired. Formerly, Consultant (1997–2001); Director, Financial Markets U.S. Government Accountability Office (1996–1997); Partner, Norton Rose Fulbright, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation (charitable organization); former Directorships: Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	105	—
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	105	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Brian E. Binder[8] (1972) President and Chief Executive Officer, 2013–present	Managing Director[3] and Head of Fund Administration, Deutsche Asset & Wealth Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012); Chief Administrative Officer, Van Kampen Funds Inc. (2008–2010); and Chief Administrative Officer, Morgan Stanley Investment Management Americas Distribution (2003–2008)
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset & Wealth Management
Melinda Morrow[6] (1970) Vice President, 2012–present	Director,[3] Deutsche Asset & Wealth Management

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset & Wealth 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 & Wealth Management; formerly: Assistant Secretary for DWS family of funds (1997–2010)
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director,[3] Deutsche Asset & Wealth Management
Wayne Salit[6] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset & Wealth Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Hepsen Uzcan[7] (1974) Assistant Secretary, 2013–present	Director,[3] Deutsche Asset & Wealth Management
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management

1 The length of time served represents the year in which the Board Member joined the board of one or more Deutsche 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 Deutsche funds.

6 Address: 60 Wall Street, New York, NY 10005.

7 Address: One Beacon Street, Boston, MA 02108.

8 Address: 222 South Riverside Plaza, Chicago, IL 60606.

* Robert H. Wadsworth retired from the Board effective December 31, 2014.

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.

Deutsche Asset
& Wealth Management

DeAWM Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2SMCG-2 (R-025835-4 2/15)

Deutsche Asset
& Wealth Management

December 31, 2014

Annual Report

Deutsche Variable Series II

(formerly DWS Variable Series II)

Deutsche Small Mid Cap Value VIP

(formerly DWS Small Mid Cap Value VIP)

Contents

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 or region of the world will generally be more volatile than a fund that invests more broadly. Smaller and medium company stocks tend to be more volatile than large company stocks. The Fund may lend securities to approved institutions. Stocks may decline in value. See the prospectus for details.

Deutsche Asset & Wealth Management represents the asset management and wealth management activities conducted by Deutsche Bank AG or any of its subsidiaries, including the Advisor and DeAWM Distributors, Inc.

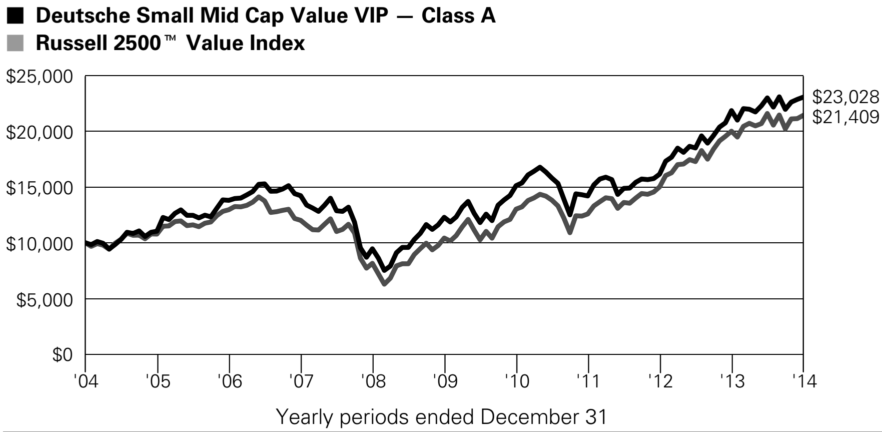
Performance Summary

December 31, 2014 (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, 2014 are 0.82% and 1.17% 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 Deutsche 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

Deutsche Small Mid Cap Value VIP		**1-Year**	**3-Year**	**5-Year**	**10-Year**
Class A	Growth of $10,000	$10,553	$16,236	$18,766	$23,028
	Average annual total return	5.53%	17.53%	13.42%	8.70%
Russell 2500 Value Index	Growth of $10,000	$10,711	$17,024	$20,535	$21,409
	Average annual total return	7.11%	19.40%	15.48%	7.91%

Deutsche Small Mid Cap Value VIP		**1-Year**	**3-Year**	**5-Year**	**10-Year**
Class B	Growth of $10,000	$10,509	$16,050	$18,441	$22,205
	Average annual total return	5.09%	17.08%	13.02%	8.30%
Russell 2500 Value Index	Growth of $10,000	$10,711	$17,024	$20,535	$21,409
	Average annual total return	7.11%	19.40%	15.48%	7.91%

The growth of $10,000 is cumulative.

Class A shares DWS Small Mid Cap Value VIP returned 5.53% in 2014 (unadjusted for contract charges), underperforming the 7.11% return of the benchmark, the Russell 2500™ Value Index.[1]

We employ a bottom-up, research-driven strategy designed to identify high-quality, undervalued small- and mid-cap companies. While this approach has worked well over time, it didn't translate to outperformance during the past year. One of the most important factors in the Fund's modest shortfall was its underweight position in real estate investment trusts (REITs) and utilities, both of which have above-average sensitivity to interest rates.[2] Bond yields fell during the course of the year, which helped both sectors deliver robust, market-beating performance. The rationale for these underweights was that we didn't see a compelling opportunity in either sector given their underlying valuations. Believing the disparity between above-average valuations and below-average growth has become even more pronounced following the sectors' outperformance of the year ended December 31, 2014, we retained the underweight positions at the close of the period. The Fund was also hurt by the underperformance of its holdings in the industrials sector, where positions in Harsco Corp., The Brink's Co. and ADT Corp.* detracted from returns.

On the plus side, the Fund's investments outperformed the benchmark in a number of sectors, including materials, health care, energy and consumer discretionary. Among individual stocks, the largest contributors to performance were CareFusion Corp.,* Verint Systems, Inc. and Sealed Air Corp.

We believe the investment backdrop remains supportive for equities. The U.S. economy continues to grow and add jobs, yet growth is unlikely to experience the type of "boom" that would prompt the U.S. Federal Reserve Board (the Fed) to raise interest rates at a faster pace than investors expect. We think this provides a particularly favorable backdrop for companies in the industrials sector, which tends to have above-average sensitivity to economic trends.

Although market volatility increased during the second half of the reporting period, we believe this created a growing number of medium-to-longer-term opportunities among individual stocks. Choppier market conditions also indicated a potential shift away from the environment of recent years, during which the "rising tide" of broader-market gains blurred the lines of performance between higher- and lower-quality stocks. We welcome this shift, as it provides greater latitude for us to add value through fundamental research and individual stock selection.

Richard Glass, CFA
Portfolio Manager, Deutsche Investment Management Americas Inc.

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.

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 "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.

* Not held in the portfolio as of December 31, 2014

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio)	**12/31/14**	**12/31/13**
Common Stocks	96%	96%
Cash Equivalents	4%	4%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/14**	**12/31/13**
Financials	23%	16%
Information Technology	21%	14%
Industrials	20%	29%
Consumer Discretionary	12%	12%
Materials	11%	7%
Health Care	6%	10%
Energy	5%	5%
Consumer Staples	2%	2%
Utilities	0%	5%
	100%	100%

Portfolio holdings and characteristics 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 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 deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

	Shares	Value ($)
Common Stocks 96.4%		
Consumer Discretionary 12.0%		
Auto Components 2.5%		
Visteon Corp.*	50,570	**5,403,910**
Diversified Consumer Services 1.4%		
Ascent Capital Group, Inc. "A"*	59,351	**3,141,448**
Hotels, Restaurants & Leisure 1.7%		
The Wendy's Co.	421,696	**3,807,915**
Household Durables 2.8%		
Newell Rubbermaid, Inc.	162,213	**6,178,693**
Specialty Retail 2.2%		
Ross Stores, Inc.	52,295	**4,929,327**
Textiles, Apparel & Luxury Goods 1.4%		
Hanesbrands, Inc.	28,238	**3,151,926**
Consumer Staples 1.6%		
Food Products		
Ingredion, Inc.	41,076	**3,484,888**
Energy 4.8%		
Energy Equipment & Services 2.1%		
Superior Energy Services, Inc.	124,276	2,504,162
TETRA Technologies, Inc.*	316,162	2,111,962
		4,616,124
Oil, Gas & Consumable Fuels 2.7%		
Cimarex Energy Co.	29,351	3,111,206
QEP Resources, Inc.	140,350	2,837,877
		5,949,083
Financials 21.6%		
Banks 8.1%		
Capital Bank Financial Corp. "A"*	150,950	4,045,460
First Republic Bank	74,593	3,887,787
Great Western Bancorp., Inc.*	74,559	1,699,200
Investors Bancorp., Inc.	432,051	4,849,772
Sterling Bancorp.	249,515	3,588,026
		18,070,245
Capital Markets 2.0%		
Lazard Ltd. "A"	88,545	**4,429,906**
Consumer Finance 2.6%		
Synchrony Financial*	190,536	**5,668,446**
Insurance 5.8%		
CNO Financial Group, Inc.	368,608	6,347,430
PartnerRe Ltd.	21,600	2,465,208
Reinsurance Group of America, Inc.	46,427	4,067,934
		12,880,572
Real Estate Investment Trusts 1.7%		
Plum Creek Timber Co., Inc. (REIT)	86,738	**3,711,519**
Thrifts & Mortgage Finance 1.4%		
Walker & Dunlop, Inc.*	178,737	**3,135,047**
Health Care 5.6%		
Health Care Providers & Services 4.1%		
HealthSouth Corp.	131,013	5,038,760
Omnicare, Inc.	55,065	4,015,890
		9,054,650
Life Sciences Tools & Services 1.5%		
PerkinElmer, Inc.	76,297	**3,336,468**
Industrials 19.6%		
Aerospace & Defense 1.7%		
Curtiss-Wright Corp.	53,300	**3,762,447**
Air Freight & Logistics 1.7%		
Forward Air Corp.	77,160	**3,886,549**
Commercial Services & Supplies 3.7%		
Covanta Holding Corp.	209,925	4,620,449
The Brink's Co.	143,338	3,498,881
		8,119,330
Electrical Equipment 2.2%		
The Babcock & Wilcox Co.	158,183	**4,792,945**
Machinery 7.4%		
Harsco Corp.	220,691	4,168,853
ITT Corp.	78,773	3,187,156
Stanley Black & Decker, Inc.	50,554	4,857,228
Xylem, Inc.	111,667	4,251,163
		16,464,400
Marine 1.1%		
Kirby Corp.*	29,551	**2,385,948**
Trading Companies & Distributors 1.8%		
AerCap Holdings NV*	104,598	**4,060,494**
Information Technology 20.5%		
Communications Equipment 1.6%		
Harris Corp.	49,741	**3,572,399**
Electronic Equipment, Instruments & Components 8.3%		
Belden, Inc.	62,616	4,934,767
Dolby Laboratories, Inc. "A"	98,179	4,233,479
Rogers Corp.*	40,421	3,291,886
Zebra Technologies Corp. "A"*	78,418	6,070,337
		18,530,469
IT Services 6.5%		
Convergys Corp.	271,794	5,536,444
Global Payments, Inc.	57,321	4,627,524
NeuStar, Inc. "A"*	150,621	4,187,264
		14,351,232
Software 4.1%		
ACI Worldwide, Inc.*	137,925	2,781,947
Verint Systems, Inc.*	109,912	6,405,671
		9,187,618
Materials 10.6%		
Chemicals 5.3%		
Ashland, Inc.	39,852	4,772,675
Celanese Corp. "A"	60,868	3,649,645
Cytec Industries, Inc.	74,486	3,439,019
		11,861,339
Containers & Packaging 3.0%		
Sealed Air Corp.	158,230	**6,713,699**
Metals & Mining 2.3%		
Materion Corp.	143,173	**5,043,985**
Utilities 0.1%		
Electric Utilities 0.0%		
Northeast Utilities	2,145	**114,800**

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

	Shares	Value ($)
Gas Utilities 0.0%		
UGI Corp.	2,945	**111,851**
Multi-Utilities 0.1%		
CMS Energy Corp.	3,332	**115,787**
Total Common Stocks (Cost $185,242,299)		**214,025,459**

	Shares	Value ($)
Cash Equivalents 3.8%		
Central Cash Management Fund, 0.06% (a) (Cost $8,468,958)	8,468,958	**8,468,958**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $193,711,257)†	100.2	**222,494,417**
Other Assets and Liabilities, Net	(0.2)	**(415,999)**
Net Assets	100.0	**222,078,418**

* Non-income producing security.

† The cost for federal income tax purposes was $193,698,332. At December 31, 2014, net unrealized appreciation for all securities based on tax cost was $28,796,085. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $38,379,382 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $9,583,297.

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

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 level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

The following is a summary of the inputs used as of December 31, 2014 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 (b)	$214,025,459	$ —	$ —	$214,025,459
Short-Term Investments	8,468,958	—	—	8,468,958
Total	**$222,494,417**	**$ —**	**$ —**	**$222,494,417**

There have been no transfers between fair value measurement levels during the year ended December 31, 2014.

(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, 2014

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $185,242,299)	$	214,025,459
Investment in Central Cash Management Fund (cost $8,468,958)		8,468,958
Total investments in securities, at value (cost $193,711,257)		222,494,417
Receivable for Fund shares sold		9,512
Dividends receivable		120,043
Interest receivable		522
Other assets		3,976
Total assets		222,628,470
Liabilities		
Payable for Fund shares redeemed		290,124
Accrued management fee		121,828
Accrued Trustees' fees		3,697
Other accrued expenses and payables		134,403
Total liabilities		550,052
Net assets, at value	**$**	**222,078,418**
Net Assets Consist of		
Undistributed net investment income		618,223
Net unrealized appreciation (depreciation) on investments		28,783,160
Accumulated net realized gain (loss)		18,535,588
Paid-in capital		174,141,447
Net assets, at value	**$**	**222,078,418**
Class A		
Net Asset Value, offering and redemption price per share ($205,126,537 ÷ 11,531,437 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**17.79**
Class B		
Net Asset Value, offering and redemption price per share ($16,951,881 ÷ 953,703 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**17.77**

Statement of Operations

for the year ended December 31, 2014

Investment Income		
Income:		
Dividends	$	2,666,766
Income distributions — Central Cash Management Fund		5,104
Total income		2,671,870
Expenses:		
Management fee		1,529,992
Administration fee		235,405
Services to shareholders		5,726
Record keeping fees (Class B)		18,190
Distribution service fee (Class B)		44,841
Custodian fee		8,909
Professional fees		68,263
Reports to shareholders		53,184
Trustees' fees and expenses		11,783
Other		8,519
Total expenses		1,984,812
Net investment income (loss)		**687,058**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from investments		18,607,552
Change in net unrealized appreciation (depreciation) on investments		(7,308,422)
Net gain (loss)		**11,299,130**
Net increase (decrease) in net assets resulting from operations	**$**	**11,986,188**

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, 2014	2013
Operations:		
Net investment income (loss)	$ 687,058	$ 1,914,959
Net realized gain (loss)	18,607,552	72,681,616
Change in net unrealized appreciation (depreciation)	(7,308,422)	(601,679)
Net increase (decrease) in net assets resulting from operations	11,986,188	73,994,896
Distributions to shareholders from:		
Net investment income:		
Class A	(1,782,045)	(2,660,096)
Class B	(85,579)	(150,280)
Net realized gains:		
Class A	(1,065,847)	—
Class B	(91,018)	—
Total distributions	(3,024,489)	(2,810,376)
Fund share transactions:		
Class A		
Proceeds from shares sold	7,581,114	17,897,526
Reinvestment of distributions	2,847,892	2,660,096
Payments for shares redeemed	(53,470,098)	(65,359,482)
Net increase (decrease) in net assets from Class A share transactions	(43,041,092)	(44,801,860)
Class B		
Proceeds from shares sold	2,985,548	4,288,905
Reinvestment of distributions	176,597	150,280
Payments for shares redeemed	(6,702,666)	(6,805,298)
Net increase (decrease) in net assets from Class B share transactions	(3,540,521)	(2,366,113)
Increase (decrease) in net assets	(37,619,914)	24,016,547
Net assets at beginning of period	259,698,332	235,681,785
Net assets at end of period (including undistributed net investment income of $618,223 and $1,850,167, respectively)	**$ 222,078,418**	**$ 259,698,332**

Other Information		
Class A		
Shares outstanding at beginning of period	14,042,897	17,113,875
Shares sold	442,556	1,211,679
Shares issued to shareholders in reinvestment of distributions	170,839	190,143
Shares redeemed	(3,124,855)	(4,472,800)
Net increase (decrease) in Class A shares	(2,511,460)	(3,070,978)
Shares outstanding at end of period	**11,531,437**	**14,042,897**
Class B		
Shares outstanding at beginning of period	1,160,889	1,321,925
Shares sold	174,632	288,710
Shares issued to shareholders in reinvestment of distributions	10,581	10,719
Shares redeemed	(392,399)	(460,465)
Net increase (decrease) in Class B shares	(207,186)	(161,036)
Shares outstanding at end of period	**953,703**	**1,160,889**

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

Financial Highlights

Class A	2014	Years Ended December 31, 2013	2012	2011	2010
Selected Per Share Data					
Net asset value, beginning of period	**$17.08**	**$12.78**	**$11.36**	**$12.21**	**$10.04**
Income (loss) from investment operations:					
Net investment income[a]	.05	.12	.14	.13	.12
Net realized and unrealized gain (loss)	.88	4.35	1.42	(.85)	2.19
Total from investment operations	.93	4.47	1.56	(.72)	2.31
Less distributions from:					
Net investment income	(.14)	(.17)	(.14)	(.13)	(.14)
Net realized gains on investment transactions	(.08)	—	—	—	—
Total distributions	(.22)	(.17)	(.14)	(.13)	(.14)
Net asset value, end of period	**$17.79**	**$17.08**	**$12.78**	**$11.36**	**$12.21**
Total Return (%)	5.53	35.24	13.77	(6.08)	23.07
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	205	240	219	216	247
Ratio of expenses (%)	.82	.82	.82	.81	.82
Ratio of net investment income (%)	.32	.81	1.18	1.08	1.14
Portfolio turnover rate (%)	34	115	11	36	38

a Based on average shares outstanding during the period.

Class B	2014	Years Ended December 31, 2013	2012	2011	2010
Selected Per Share Data					
Net asset value, beginning of period	**$17.07**	**$12.78**	**$11.36**	**$12.20**	**$10.03**
Income (loss) from investment operations:					
Net investment income[a]	(.01)	.07	.10	.09	.08
Net realized and unrealized gain (loss)	.87	4.34	1.42	(.85)	2.19
Total from investment operations	.86	4.41	1.52	(.76)	2.27
Less distributions from:					
Net investment income	(.08)	(.12)	(.10)	(.08)	(.10)
Net realized gains on investment transactions	(.08)	—	—	—	—
Total distributions	(.16)	(.12)	(.10)	(.08)	(.10)
Net asset value, end of period	**$17.77**	**$17.07**	**$12.78**	**$11.36**	**$12.20**
Total Return (%)	5.09	34.70	13.38	(6.33)	22.66
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	17	20	17	20	26
Ratio of expenses (%)	1.17	1.17	1.16	1.15	1.17
Ratio of net investment income (%)	(.04)	.45	.81	.74	.79
Portfolio turnover rate (%)	34	115	11	36	38

a Based on average shares outstanding during the period.

Notes to Financial Statements

A. Organization and Significant Accounting Policies

Deutsche Small Mid Cap Value VIP (formerly DWS Small Mid Cap Value VIP) (the "Fund") is a diversified series of Deutsche Variable Series II (formerly 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 level assigned to the securities valuations may not be an indication of the risk or liquidity 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. 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. Equity securities are generally categorized as Level 1.

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 considered 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.

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. Brown Brothers Harriman & Co., as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains the benefits of owning the securities it has loaned and continues to receive interest and dividends generated by the 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. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. 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. For the year ended December 31, 2014, the Fund had no securities on loan.

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, 2014 and has determined that no provision for income tax and/or uncertain tax provisions 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 from net investment income of the Fund, if any, are 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, 2014, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 9,467,194
Undistributed net long-term capital gains	$ 9,673,692
Unrealized appreciation (depreciation) on investments	$ 28,796,085

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

	Years Ended December 31, 2014	2013
Distributions from ordinary income*	$ 1,867,624	$ 2,810,376
Distributions from long-term capital gains	$ 1,156,865	$ —

* 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 based upon the relative net assets or other appropriate measures.

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 received 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. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments.

B. Purchases and Sales of Securities

During the year ended December 31, 2014, purchases and sales of investment transactions (excluding short-term investments) aggregated $75,991,609 and $121,788,244, 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	.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, 2014, the fee pursuant to the Investment Management Agreement was equivalent to an annual rate (exclusive of any applicable waivers/reimbursements) of 0.65% of the Fund's average daily net assets.

For the period from January 1, 2014 through September 30, 2014, the Advisor had contractually agreed to waive its fees and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of each class as follows:

Class A	.83%
Class B	1.19%

Effective October 1, 2014 through September 30, 2015, the Advisor has contractually agreed to waive its fees and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest) of each class as follows:

Class A	.84%
Class B	1.19%

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, 2014, the Administration Fee was $235,405, of which $18,743 is unpaid.

Service Provider Fees. DeAWM Service Company (“DSC”), 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 DSC and DST Systems, Inc. (“DST”), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it receives from the Fund. For the year ended December 31, 2014, the amounts charged to the Fund by DSC were as follows:

Service to Shareholders	Total Aggregated	Unpaid at December 31, 2014
Class A	$ 637	$ 115
Class B	574	94
	$ 1,211	**$ 209**

Distribution Service Agreement. Under the Fund's Class B 12b-1 plan, DeAWM Distributors, Inc. (“DDI”) received a fee (“Distribution Service Fee”) of 0.25% of average daily net assets of Class B shares. For the year ended December 31, 2014, the Distribution Service Fee aggregated $44,841, of which $3,591 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, 2014, the amount charged to the Fund by DIMA included in the Statement of Operations under “Reports to shareholders” aggregated $13,019, of which $4,186 is unpaid.

Trustees' Fees and Expenses. The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and Vice Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicles. The Fund may invest uninvested cash balances in Central Cash Management Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. Each affiliated money market fund seeks to provide a high level of current income consistent with liquidity and the preservation of capital. Each affiliated money market fund is managed in accordance with Rule 2a-7 under the Investment Company Act of 1940, which governs the quality, maturity, diversity and liquidity of instruments in which a money market fund may invest. Central Cash Management Fund seeks to maintain a stable net asset value, and Deutsche Variable NAV Money Fund maintains a floating net asset value. The Fund indirectly bears its proportionate share of the expenses of each affiliated money market fund in which it invests. Central Cash Management Fund does not pay the Advisor an investment management fee. To the extent that Deutsche Variable NAV Money Fund pays an investment management fee to the Advisor, the Advisor will waive an amount of the investment management fee payable to the Advisor by the Fund equal to the amount of the investment management fee payable on the Fund's assets invested in Deutsche Variable NAV Money Fund.

D. Ownership of the Fund

At December 31, 2014, 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 21%. Three participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, each owning 39%, 24% and 14%.

E. Line of Credit

The Fund and other affiliated funds (the “Participants”) share in a $400 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, 2014.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Deutsche Variable Series II and Shareholders of Deutsche Small Mid Cap Value VIP:

We have audited the accompanying statement of assets and liabilities, including the investment portfolio, of Deutsche Small Mid Cap Value VIP (formerly DWS Small Mid Cap Value VIP) (the "Fund") (one of the series constituting Deutsche Variable Series II (formerly DWS Variable Series II)), as of December 31, 2014, 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 periods indicated therein. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. 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, 2014, 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 Deutsche Small Mid Cap Value VIP at December 31, 2014, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the periods indicated therein, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Boston, Massachusetts
February 13, 2015

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, 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, 2014 to December 31, 2014).

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, 2014

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/14	$1,000.00	$1,000.00
Ending Account Value 12/31/14	$1,002.80	$1,001.10
Expenses Paid per $1,000*	$ 4.14	$ 5.90
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/14	$1,000.00	$1,000.00
Ending Account Value 12/31/14	$1,021.07	$1,019.31
Expenses Paid per $1,000*	$ 4.18	$ 5.96

* 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 184 (the number of days in the most recent six-month period), then divided by 365.

Annualized Expense Ratios	**Class A**	**Class B**
Deutsche Variable Series II — Deutsche Small Mid Cap Value VIP	.82%	1.17%

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.

For an analysis of the fees associated with an investment in the fund or similar funds, please refer to the current and hypothetical expense calculators for Variable Insurance Products which can be found at deutschefunds.com/EN/resources/calculators.jsp.

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.

The Fund paid distributions of $0.08 per share from net long-term capital gains during its year ended December 31, 2014.

Pursuant to Section 852 of the Internal Revenue Code, the Fund designates $10,718,000 as capital gain dividends for its year ended December 31, 2014.

For corporate shareholders, 84% of the ordinary dividends (i.e., income dividends plus short-term capital gains) paid during the Fund's fiscal year ended December 31, 2014, 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 — deutschefunds.com (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — 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.

Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of Deutsche Small Mid Cap Value VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2014.

In terms of the process that the Board followed prior to approving the Agreement, shareholders should know that:

— In September 2014, all of the Fund's Trustees were independent of DIMA 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 DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly meet privately with counsel to discuss contract review and other matters. In addition, the Independent Trustees were advised by the Fee Consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the Fee Consultant in connection with their deliberations.

— 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 DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG ("DB"), a major global banking institution that is engaged in a wide range of financial services. The Board believes that there are 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.

As part of the contract review process, the Board carefully considered the fees and expenses of each Deutsche fund overseen by the Board in light of the fund's performance. In many cases, this led to the negotiation and implementation of expense caps. As part of these negotiations, the Board indicated that it would consider relaxing these caps in future years following sustained improvements in performance, among other considerations.

In 2012, DB combined its Asset Management (of which DIMA was a part) and Wealth Management divisions into a new Asset and Wealth Management ("AWM") division. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that DB will continue to invest in AWM a significant portion of the savings it has realized by combining its Asset and Wealth Management divisions, including ongoing enhancements to AWM's investment capabilities. DB also has confirmed its commitment to maintaining strong legal and compliance groups within the AWM division.

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

Nature, Quality and Extent of Services. The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market index(es) and a peer universe compiled by the Fee Consultant using information supplied by Morningstar Direct ("Morningstar"), an independent fund data service.

The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to a peer universe), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's 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, 2013, the Fund's performance (Class A shares) was in the 2nd quartile, 4th quartile and 4th quartile, respectively, of the applicable Morningstar 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, 2013. The Board noted the disappointing investment performance of the Fund in some past periods and continued to discuss with senior management of DIMA the factors contributing to such underperformance and actions being taken to improve performance. The Board observed that the Fund had experienced improved relative performance in 2013. The Board recognized the efforts by DIMA in recent years to enhance its investment platform and improve long-term performance across the Deutsche fund complex.

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 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 DIMA under the Fund's administrative services agreement, were lower than the median (1st quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2013). 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, 2013, and analyzing Lipper expense universe Class A (net) 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 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 noted that the expense limitations agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to a comparable fund and considered differences between the Fund and the comparable fund. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts and funds offered primarily to European investors ("Deutsche Europe funds") managed by DIMA and its affiliates. The Board noted that DIMA indicated that it does not manage any institutional accounts or Deutsche Europe funds comparable to the Fund.

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

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the Deutsche U.S. mutual funds ("Deutsche 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 DIMA and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable.

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

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to Deutsche Funds advertising and cross-selling opportunities among DIMA products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of DIMA's and the Fund's chief compliance officer; (ii) the large number of DIMA compliance personnel; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.

Based on all of the information considered and the conclusions reached, the Board 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 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.

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund. 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 Kenneth C. Froewiss, Chairman, Deutsche Mutual Funds, P.O. Box 390601, Cambridge, MA 02139. 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.

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 Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Kenneth C. Froewiss (1945) Chairperson since 2013, and 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)	105	—
William McClayton (1944) Vice Chairperson since 2013, and 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	105	—
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); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (provider of disease and care management services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International	105	Portland General Electric[2] (utility company) (2003–present)
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); North Bennett Street School (Boston); former Directorships: Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College	105	Lead Director, Becton Dickinson and Company[2] (medical technology company)
Dawn-Marie Driscoll (1946) Board Member since 1987	Emeritus Executive Fellow, Center for Business Ethics, Bentley University; formerly: President, Driscoll Associates (consulting firm); Partner, Palmer & Dodge (law firm) (1988–1990); Vice President of Corporate Affairs and General Counsel, Filene's (retail) (1978–1988). Directorships: Director of ICI Mutual Insurance Company (since 2007); Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	105	—
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); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies; former Directorships: BoxTop Media Inc. (advertising); Sun Capital Advisers Trust (mutual funds) (2011–2012)	105	—

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 Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Paul K. Freeman (1950) Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Chair, Independent Directors Council; Investment Company Institute (executive and nominating committees); formerly, Chairman of Education Committee of Independent Directors Council; Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998); Directorships: Denver Zoo Foundation (December 2012–present); former Directorships: Prisma Energy International	105	—
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; 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)	105	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
Rebecca W. Rimel (1951) Board Member since 1995	President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 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); Director, Viasys Health Care[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	105	Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc.[2] (health care) (2009–present)
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); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	105	—
Jean Gleason Stromberg (1943) Board Member since 1997	Retired. Formerly, Consultant (1997–2001); Director, Financial Markets U.S. Government Accountability Office (1996–1997); Partner, Norton Rose Fulbright, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation (charitable organization); former Directorships: Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	105	—
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	105	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Brian E. Binder[8] (1972) President and Chief Executive Officer, 2013–present	Managing Director[3] and Head of Fund Administration, Deutsche Asset & Wealth Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012); Chief Administrative Officer, Van Kampen Funds Inc. (2008–2010); and Chief Administrative Officer, Morgan Stanley Investment Management Americas Distribution (2003–2008)
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset & Wealth Management
Melinda Morrow[6] (1970) Vice President, 2012–present	Director,[3] Deutsche Asset & Wealth Management

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset & Wealth 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 & Wealth Management; formerly: Assistant Secretary for DWS family of funds (1997–2010)
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director,[3] Deutsche Asset & Wealth Management
Wayne Salit[6] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset & Wealth Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Hepsen Uzcan[7] (1974) Assistant Secretary, 2013–present	Director,[3] Deutsche Asset & Wealth Management
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management

1 The length of time served represents the year in which the Board Member joined the board of one or more Deutsche 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 Deutsche funds.

6 Address: 60 Wall Street, New York, NY 10005.

7 Address: One Beacon Street, Boston, MA 02108.

8 Address: 222 South Riverside Plaza, Chicago, IL 60606.

* Robert H. Wadsworth retired from the Board effective December 31, 2014.

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.

Deutsche Asset
& Wealth Management

DeAWM Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

VS2SMCV-2 (R-025829-4 2/15)

Deutsche Asset
& Wealth Management

December 31, 2014

Annual Report

Deutsche Variable Series II

(formerly DWS Variable Series II)

Deutsche Unconstrained Income VIP

(formerly DWS Unconstrained Income VIP)

Contents

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, credit, liquidity and market risks to varying degrees. 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 ("junk bonds") 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. The Fund may lend securities to approved institutions. See the prospectus for details.

Deutsche Asset & Wealth Management represents the asset management and wealth management activities conducted by Deutsche Bank AG or any of its subsidiaries, including the Advisor and DeAWM Distributors, Inc.

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

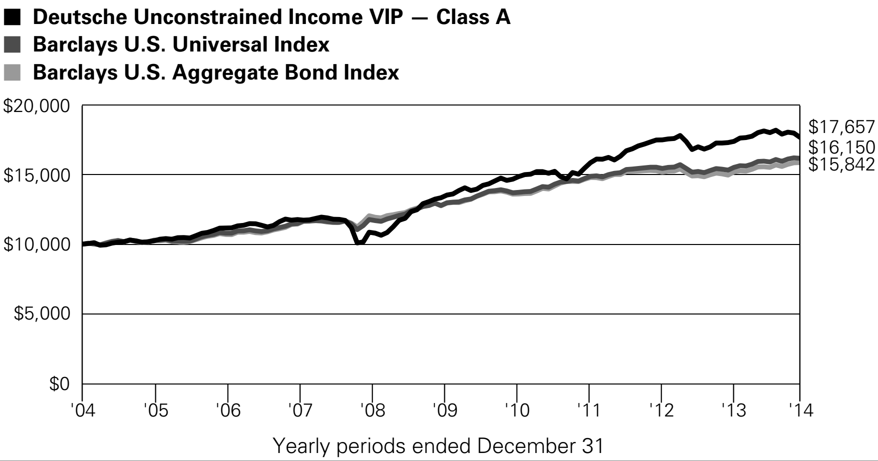
Performance Summary

December 31, 2014 (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, 2014 is 1.02% 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 Deutsche Unconstrained Income VIP



The Barclays U.S. Universal Index represents the union of the U.S. Aggregate Index, the U.S. High-Yield Corporate Index, the 144A Index, the Eurodollar Index, the Emerging Markets Index and the non-ERISA portion of the CMBS Index.

The Barclays 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

Deutsche Unconstrained Income VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,223	$11,439	$13,256	$17,657
	Average annual total return	2.23%	4.58%	5.80%	5.85%
Barclays U.S. Universal Index	Growth of $10,000	$10,556	$10,990	$12,649	$16,150
	Average annual total return	5.56%	3.20%	4.81%	4.91%
Barclays U.S. Aggregate Bond Index	Growth of $10,000	$10,597	$10,820	$12,431	$15,842
	Average annual total return	5.97%	2.66%	4.45%	4.71%

The growth of $10,000 is cumulative.

The Class A shares of the Fund returned 2.23% (unadjusted for contract charges) during 2014, underperforming the 5.56% return of the primary benchmark, the Barclays Capital U.S. Universal Index, and the 5.97% return of the Barclays U.S. Aggregate Bond Index.[1] On a longer-term basis, the Fund has outpaced the primary benchmark in the three-, five- and 10-year periods ended December 31, 2014.

After performing very well through the first six months of the year, the Fund underperformed in the second half and ultimately finished behind its primary benchmark. Early in 2014, the Fund's performance was boosted by the same factors that had fueled its strong showing in the past two calendar years: namely, its overweight vs. the primary benchmark in high-yield bonds, senior loans and emerging-markets debt.[2] During the first half of 2014, all three asset classes were propelled by the environment of improving global growth and investors' willingness to take on higher risks to earn above-average yields.

This backdrop shifted in the second half of the year, however, as the sharp drop in oil prices pressured the outlook for both oil-exporting emerging nations and energy-sensitive issues within the high-yield market. Although we took various steps to mitigate risk, such as reducing the Fund's weighting in high yield and focusing on higher-quality issuers in the emerging markets, the Fund's large allocations to these segments was a headwind to performance from July onward. Nevertheless, we continue to see opportunities in all three market segments given the backdrop of improving domestic growth and investors' ongoing "reach for yield" at a time of ultra-low interest rates. We therefore remain on the lookout for opportunities to capitalize on unwarranted sell-offs in securities that we believe offer a favorable trade-off of risk and reward.

On the plus side, the Fund's performance was helped by its positions in investment-grade corporates, mortgage- and asset-backed securities, and international government bonds.

Throughout the period, the Fund used derivatives — including forward currency contracts — to hedge currency risk in certain portfolio positions, offsetting the potential impact of the downturn in foreign currencies relative to the U.S. dollar. It also used interest rate contracts to hedge against potential adverse interest rate movements on portfolio assets. In addition, the Fund used derivatives, including forward currency and interest rate contracts, for non-hedging purposes to seek to enhance potential gains. Derivatives used for non-hedging purposes contributed to returns.

The fund closed the period with a cash weighting of about 17%, which we believe may help dampen the impact of volatility in the near term. In addition, it provides us with cash on hand to take advantage of selective opportunities in securities that we believe have been punished by volatility in the broader market.

We kept the Fund's duration well below that of the primary benchmark throughout the year, and we reduced it further during the fourth quarter.[3] While yields fell significantly in 2014, we believe the move has largely played itself out — meaning that the most likely scenario is that yields will trade higher over time.

We believe our active approach, along with the Fund's go-anywhere investment mandate, provides the flexibility to take advantage of a broad range of market opportunities as they arise. This element of our strategy may become even more important if, as we expect, market conditions become more volatile in the months ahead.

Gary Russell, CFA
William Chepolis, CFA
Philip G. Condon
Darwei Kung
John D. Ryan
Portfolio Managers

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.

1 The Barclays U.S. Universal Index represents the union of the U.S. Aggregate Index, the U.S. High-Yield Corporate Index, the 144A Index, the Eurodollar Index, the Emerging Markets Index and the non-ERISA portion of the CMBS Index.

The Barclays 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 in an index.

2 "Underweight" means the Fund holds a lower weighting in a given sector or security than the primary benchmark. "Overweight" means it holds a higher weighting.

3 Duration, which is expressed in years, measures the sensitivity of the price of a bond or bond fund to a change in interest rates.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/14**	**12/31/13**
Corporate Bonds	52%	60%
Cash Equivalents	17%	2%
Government & Agency Obligations	13%	19%
Exchange-Traded Fund	5%	1%
Loan Participations and Assignments	4%	5%
Collateralized Mortgage Obligations	3%	5%
Municipal Bonds and Notes	2%	2%
Mortgage-Backed Securities Pass-Throughs	2%	2%
Asset-Backed	1%	1%
Commercial Mortgage-Backed Securities	1%	3%
	100%	100%

Quality (Excludes Cash Equivalents and Securities Lending Collateral)	**12/31/14**	**12/31/13**
AAA	8%	20%
AA	4%	3%
A	5%	3%
BBB	19%	18%
BB	32%	25%
B	19%	19%
CCC or Below	5%	4%
Not Rated	8%	8%
	100%	100%

Interest Rate Sensitivity	**12/31/14**	**12/31/13**
Effective Maturity	5.7 years	6.6 years
Effective Duration	3.0 years	4.3 years

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.

Portfolio holdings and characteristics 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 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 deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

	Principal Amount ($)(a)	Value ($)
Corporate Bonds 52.2%		
Consumer Discretionary 5.6%		
Ally Financial, Inc., 8.3%, 2/12/2015	135,000	135,675
AMC Entertainment, Inc., 5.875%, 2/15/2022	30,000	30,450
AMC Networks, Inc., 7.75%, 7/15/2021	15,000	16,050
AmeriGas Finance LLC:		
6.75%, 5/20/2020	70,000	72,100
7.0%, 5/20/2022	60,000	62,100
Apex Tool Group LLC, 144A, 7.0%, 2/1/2021	30,000	25,650
Ashtead Capital, Inc., 144A, 6.5%, 7/15/2022	45,000	47,812
Ashton Woods U.S.A. LLC, 144A, 6.875%, 2/15/2021	50,000	47,625
Avis Budget Car Rental LLC, 5.5%, 4/1/2023 (b)	30,000	30,600
Bed Bath & Beyond, Inc.:		
4.915%, 8/1/2034	40,000	41,275
5.165%, 8/1/2044	50,000	52,314
Block Communications, Inc., 144A, 7.25%, 2/1/2020	65,000	66,300
Cablevision Systems Corp.:		
5.875%, 9/15/2022	15,000	15,188
8.0%, 4/15/2020	10,000	11,300
CCO Holdings LLC:		
7.0%, 1/15/2019	20,000	20,750
7.25%, 10/30/2017	90,000	93,645
7.375%, 6/1/2020	10,000	10,600
Cequel Communications Holdings I LLC:		
144A, 5.125%, 12/15/2021	89,000	86,330
144A, 6.375%, 9/15/2020	160,000	165,600
Clear Channel Worldwide Holdings, Inc.:		
Series A, 6.5%, 11/15/2022	15,000	15,263
Series A, 7.625%, 3/15/2020	20,000	20,750
Series B, 7.625%, 3/15/2020	185,000	194,712
Cogeco Cable, Inc., 144A, 4.875%, 5/1/2020	5,000	5,000
Crown Media Holdings, Inc., 10.5%, 7/15/2019	55,000	59,812
CSC Holdings LLC, 144A, 5.25%, 6/1/2024	75,000	75,375
Cumulus Media Holdings, Inc., 7.75%, 5/1/2019	65,000	65,650
Dana Holding Corp., 5.5%, 12/15/2024	25,000	25,250
DISH DBS Corp.:		
4.25%, 4/1/2018	40,000	40,850
5.0%, 3/15/2023	50,000	48,375
6.75%, 6/1/2021	10,000	10,750
7.125%, 2/1/2016	155,000	162,944
General Motors Financial Co., Inc., 3.25%, 5/15/2018	15,000	15,019
Getty Images, Inc., 144A, 7.0%, 10/15/2020	50,000	39,250
Group 1 Automotive, Inc., 144A, 5.0%, 6/1/2022	40,000	39,100
Harron Communications LP, 144A, 9.125%, 4/1/2020	60,000	65,400
HD Supply, Inc.:		
7.5%, 7/15/2020 (b)	15,000	15,713
11.5%, 7/15/2020	15,000	17,175
Hertz Corp., 6.75%, 4/15/2019	50,000	51,500
Hot Topic, Inc., 144A, 9.25%, 6/15/2021	20,000	21,400
iHeartCommunications, Inc.:		
9.0%, 12/15/2019	70,000	68,950
11.25%, 3/1/2021	40,000	41,200
Jo-Ann Stores Holdings, Inc., 144A, 9.75%, 10/15/2019 (PIK)	25,000	21,250
Live Nation Entertainment, Inc.:		
144A, 5.375%, 6/15/2022	5,000	5,000
144A, 7.0%, 9/1/2020	50,000	52,750
MDC Partners, Inc., 144A, 6.75%, 4/1/2020	30,000	30,900
Mediacom Broadband LLC:		
5.5%, 4/15/2021	5,000	5,025
6.375%, 4/1/2023	65,000	66,625
Mediacom LLC, 7.25%, 2/15/2022	20,000	21,350
MGM Resorts International:		
6.75%, 10/1/2020	76,000	79,800
8.625%, 2/1/2019	85,000	96,369
Numericable-SFR, 144A, 4.875%, 5/15/2019	70,000	69,387
Pinnacle Entertainment, Inc., 6.375%, 8/1/2021	20,000	20,600
Quebecor Media, Inc., 5.75%, 1/15/2023	30,000	30,675
Sabre Holdings Corp., 8.35%, 3/15/2016	55,000	59,125
Seminole Hard Rock Entertainment, Inc., 144A, 5.875%, 5/15/2021	15,000	14,850
Serta Simmons Holdings LLC, 144A, 8.125%, 10/1/2020	35,000	37,012
Sirius XM Radio, Inc., 144A, 5.875%, 10/1/2020	30,000	30,900
Springs Industries, Inc., 6.25%, 6/1/2021	35,000	34,825
Starz LLC, 5.0%, 9/15/2019	25,000	25,188
Taylor Morrison Communities, Inc., 144A, 5.25%, 4/15/2021	40,000	39,400
Time Warner Cable, Inc., 7.3%, 7/1/2038	35,000	48,260
UCI International, Inc., 8.625%, 2/15/2019	20,000	19,100
Univision Communications, Inc., 144A, 7.875%, 11/1/2020	25,000	26,625
Viking Cruises Ltd., 144A, 8.5%, 10/15/2022	30,000	32,475
		2,998,293
Consumer Staples 2.1%		
Big Heart Pet Brands, 7.625%, 2/15/2019	55,000	54,037
Chiquita Brands International, Inc., 7.875%, 2/1/2021	14,000	15,050
Cott Beverages, Inc.:		
144A, 5.375%, 7/1/2022	35,000	32,113
144A, 6.75%, 1/1/2020	25,000	25,000
FAGE Dairy Industry SA, 144A, 9.875%, 2/1/2020	85,000	88,825
JBS Investments GmbH:		
144A, 7.25%, 4/3/2024	70,000	68,775
144A, 7.75%, 10/28/2020	200,000	207,100
JBS U.S.A. LLC:		
144A, 7.25%, 6/1/2021	80,000	82,400
144A, 8.25%, 2/1/2020	25,000	26,313

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

		Principal Amount ($)(a)	Value ($)
Marfrig Overseas Ltd., 144A, 9.5%, 5/4/2020		100,000	101,000
Post Holdings, Inc., 144A, 6.75%, 12/1/2021		15,000	14,550
Reynolds Group Issuer, Inc.:			
5.75%, 10/15/2020		235,000	240,875
6.875%, 2/15/2021		100,000	104,375
Roundy's Supermarkets, Inc., 144A, 10.25%, 12/15/2020		10,000	8,700
Smithfield Foods, Inc., 6.625%, 8/15/2022		30,000	31,350
The WhiteWave Foods Co., 5.375%, 10/1/2022		30,000	30,900
			1,131,363
Energy 6.7%			
Access Midstream Partners LP, 6.125%, 7/15/2022		55,000	58,437
Afren PLC, 144A, 10.25%, 4/8/2019		140,000	91,000
Antero Resources Corp., 144A, 5.125%, 12/1/2022		45,000	42,412
Antero Resources Finance Corp., 5.375%, 11/1/2021		35,000	33,862
Baytex Energy Corp.:			
144A, 5.125%, 6/1/2021		10,000	8,500
144A, 5.625%, 6/1/2024		15,000	12,750
Berry Petroleum Co., LLC:			
6.375%, 9/15/2022		30,000	22,800
6.75%, 11/1/2020		140,000	112,000
BreitBurn Energy Partners LP:			
7.875%, 4/15/2022		30,000	23,175
8.625%, 10/15/2020		30,000	25,800
California Resources Corp.:			
144A, 5.0%, 1/15/2020		20,000	17,350
144A, 5.5%, 9/15/2021		43,000	36,765
144A, 6.0%, 11/15/2024		5,000	4,225
Chaparral Energy, Inc., 7.625%, 11/15/2022		20,000	13,100
Crestwood Midstream Partners LP:			
6.125%, 3/1/2022		20,000	19,100
7.75%, 4/1/2019		65,000	66,625
Delek & Avner Tamar Bond Ltd., 144A, 5.082%, 12/30/2023		200,000	199,563
Dresser-Rand Group, Inc., 6.5%, 5/1/2021		45,000	48,375
Ecopetrol SA, 5.875%, 5/28/2045		450,000	416,250
Endeavor Energy Resources LP, 144A, 7.0%, 8/15/2021		75,000	66,375
EP Energy LLC, 6.875%, 5/1/2019		60,000	60,900
EV Energy Partners LP, 8.0%, 4/15/2019		155,000	131,750
GeoPark Latin America Ltd. Agencia en Chile, 144A, 7.5%, 2/11/2020		200,000	175,000
Halcon Resources Corp., 8.875%, 5/15/2021		25,000	18,813
Hilcorp Energy I LP, 144A, 5.0%, 12/1/2024		25,000	22,000
Holly Energy Partners LP, 6.5%, 3/1/2020		20,000	19,800
Jupiter Resources, Inc., 144A, 8.5%, 10/1/2022		25,000	18,813
Kinder Morgan, Inc.:			
3.05%, 12/1/2019		75,000	74,404
5.55%, 6/1/2045		50,000	51,211
7.25%, 6/1/2018		55,000	62,318
Linn Energy LLC, 6.25%, 11/1/2019		25,000	21,125
MEG Energy Corp.:			
144A, 6.5%, 3/15/2021		40,000	36,500
144A, 7.0%, 3/31/2024		95,000	85,975
Memorial Resource Development Corp., 144A, 5.875%, 7/1/2022		25,000	22,625
Midstates Petroleum Co., Inc., 10.75%, 10/1/2020		30,000	15,900
Murphy Oil U.S.A., Inc., 6.0%, 8/15/2023		40,000	41,800
Northern Oil & Gas, Inc., 8.0%, 6/1/2020		90,000	68,175
Offshore Drilling Holding SA, 144A, 8.625%, 9/20/2020		200,000	174,000
Pacific Rubiales Energy Corp., 144A, 5.625%, 1/19/2025		282,000	216,435
Pertamina Persero PT, 144A, 5.625%, 5/20/2043		200,000	188,000
Petroleos de Venezuela SA, 144A, 9.0%, 11/17/2021		300,000	131,250
Regency Energy Partners LP:			
5.0%, 10/1/2022		15,000	14,175
5.875%, 3/1/2022		5,000	4,988
RSP Permian, Inc., 144A, 6.625%, 10/1/2022		15,000	13,950
Sabine Pass Liquefaction LLC, 5.625%, 2/1/2021		105,000	103,162
SESI LLC:			
6.375%, 5/1/2019		40,000	38,800
7.125%, 12/15/2021		115,000	110,400
Seventy Seven Energy, Inc., 6.5%, 7/15/2022 (b)		5,000	2,925
Seventy Seven Operating LLC, 6.625%, 11/15/2019		25,000	19,000
Swift Energy Co., 7.875%, 3/1/2022		55,000	28,463
Talos Production LLC, 144A, 9.75%, 2/15/2018		60,000	54,600
Targa Resources Partners LP, 144A, 4.125%, 11/15/2019		10,000	9,625
Tesoro Corp., 4.25%, 10/1/2017		35,000	36,137
Transocean, Inc., 3.8%, 10/15/2022		145,000	117,497
Triangle U.S.A. Petroleum Corp., 144A, 6.75%, 7/15/2022		20,000	13,200
WPX Energy, Inc.:			
5.25%, 1/15/2017 (b)		40,000	40,400
5.25%, 9/15/2024		15,000	13,950
			3,576,530
Financials 10.9%			
Aflac, Inc., 3.625%, 11/15/2024		65,000	66,275
Banco Continental SAECA, 144A, 8.875%, 10/15/2017		200,000	210,000
Banco do Brasil SA, 144A, 9.0%, 6/29/2049		200,000	186,000
Banco Santander Brasil SA, 144A, 8.0%, 3/18/2016	BRL	400,000	143,782
Bank of China Ltd., 144A, 5.0%, 11/13/2024		200,000	205,514
Barclays Bank PLC, 7.625%, 11/21/2022		400,000	437,370
BBVA Bancomer SA, 144A, 6.75%, 9/30/2022		150,000	165,000
CBL & Associates LP, (REIT), 4.6%, 10/15/2024		120,000	121,532
China Overseas Finance Cayman II Ltd., REG S, 5.5%, 11/10/2020		250,000	270,229

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

		Principal Amount ($)(a)	Value ($)
CIMPOR Financial Operations BV, 144A, 5.75%, 7/17/2024		250,000	219,350
CIT Group, Inc.:			
3.875%, 2/19/2019		145,000	144,637
5.0%, 5/15/2017		80,000	83,000
5.25%, 3/15/2018		90,000	93,825
Country Garden Holdings Co., Ltd., 144A, 11.125%, 2/23/2018		200,000	212,102
Development Bank of Kazakhstan JSC, Series 3, REG S, 6.5%, 6/3/2020		500,000	508,749
Everest Reinsurance Holdings, Inc., 4.868%, 6/1/2044		50,000	52,365
Hellas Telecommunications Finance, 144A, 8.082%**, 7/15/2015 (PIK)*	EUR	109,187	0
Hospitality Properties Trust, (REIT), 5.0%, 8/15/2022		110,000	115,916
International Lease Finance Corp.:			
3.875%, 4/15/2018		65,000	65,000
5.75%, 5/15/2016		20,000	20,750
6.25%, 5/15/2019		50,000	54,625
8.625%, 9/15/2015		40,000	41,700
8.75%, 3/15/2017		120,000	132,900
Kaisa Group Holdings Ltd., 144A, 8.875%, 3/19/2018		250,000	166,875
Macquarie Group Ltd., 144A, 6.0%, 1/14/2020		200,000	226,535
Morgan Stanley, Series H, 5.45%, 7/29/2049		20,000	20,036
MPT Operating Partnership LP:			
(REIT), 6.375%, 2/15/2022		45,000	47,812
(REIT), 6.875%, 5/1/2021		50,000	53,500
Nationwide Financial Services, Inc., 144A, 5.3%, 11/18/2044		65,000	68,572
Navient Corp., 5.5%, 1/25/2023		125,000	119,687
Neuberger Berman Group LLC:			
144A, 5.625%, 3/15/2020		25,000	26,125
144A, 5.875%, 3/15/2022		45,000	47,362
Omega Healthcare Investors, Inc., (REIT), 4.95%, 4/1/2024		130,000	135,283
Popular, Inc., 7.0%, 7/1/2019		20,000	20,000
Royal Bank of Scotland Group PLC, 6.1%, 6/10/2023		100,000	108,459
Scentre Group Trust 1, 144A, 3.5%, 2/12/2025		155,000	155,607
Schahin II Finance Co. SPV Ltd., 144A, 5.875%, 9/25/2022 (b)		179,867	144,568
Seminole Tribe of Florida, Inc., 144A, 7.804%, 10/1/2020		70,000	74,200
The Goldman Sachs Group, Inc., Series L, 5.7%, 12/29/2049 (b)		35,000	35,403
TIAA Asset Management Finance Co., LLC:			
144A, 2.95%, 11/1/2019		115,000	115,223
144A, 4.125%, 11/1/2024		95,000	97,320
Trust F/1401, (REIT), 144A, 5.25%, 12/15/2024		200,000	206,020

	Principal Amount ($)(a)	Value ($)
Turkiye Is Bankasi, 144A, 6.0%, 10/24/2022	250,000	250,875
Yapi ve Kredi Bankasi AS, 144A, 5.5%, 12/6/2022	200,000	191,520
		5,861,603
Health Care 3.0%		
Aviv Healthcare Properties LP:		
6.0%, 10/15/2021	15,000	15,600
7.75%, 2/15/2019	85,000	88,570
Biomet, Inc.:		
6.5%, 8/1/2020	55,000	58,850
6.5%, 10/1/2020	15,000	15,825
Community Health Systems, Inc.:		
5.125%, 8/15/2018	185,000	191,475
5.125%, 8/1/2021	5,000	5,188
6.875%, 2/1/2022 (b)	30,000	31,781
7.125%, 7/15/2020	60,000	63,975
Crimson Merger Sub, Inc., 144A, 6.625%, 5/15/2022	70,000	62,912
Endo Finance LLC:		
144A, 5.375%, 1/15/2023	35,000	34,300
144A, 5.75%, 1/15/2022	35,000	35,000
HCA, Inc.:		
5.25%, 4/15/2025	20,000	20,900
6.5%, 2/15/2020	210,000	235,305
7.5%, 2/15/2022	80,000	91,400
Hologic, Inc., 6.25%, 8/1/2020	30,000	31,200
LifePoint Hospitals, Inc, 5.5%, 12/1/2021	35,000	35,787
Mallinckrodt International Finance SA, 4.75%, 4/15/2023	75,000	72,000
Medtronic, Inc., 144A, 4.625%, 3/15/2045	40,000	43,360
Par Pharmaceutical Companies, Inc., 7.375%, 10/15/2020	55,000	57,475
Physio-Control International, Inc., 144A, 9.875%, 1/15/2019	48,000	50,880
Tenet Healthcare Corp., 6.25%, 11/1/2018	80,000	86,800
Valeant Pharmaceuticals International, Inc.:		
144A, 6.375%, 10/15/2020	35,000	36,575
144A, 6.75%, 8/15/2018	70,000	74,464
144A, 7.5%, 7/15/2021	140,000	151,200
		1,590,822
Industrials 5.6%		
ADT Corp.:		
3.5%, 7/15/2022 (b)	20,000	17,050
4.125%, 4/15/2019	5,000	4,950
5.25%, 3/15/2020	40,000	40,500
6.25%, 10/15/2021	25,000	25,688
Armored Autogroup, Inc., 9.25%, 11/1/2018	60,000	59,700
Artesyn Embedded Technologies, Inc., 144A, 9.75%, 10/15/2020	40,000	37,900
Belden, Inc., 144A, 5.5%, 9/1/2022	55,000	54,588
Bombardier, Inc.:		
144A, 4.75%, 4/15/2019	20,000	20,075
144A, 5.75%, 3/15/2022	55,000	55,687
144A, 6.0%, 10/15/2022	35,000	35,350
144A, 7.75%, 3/15/2020	45,000	48,825
Casella Waste Systems, Inc., 7.75%, 2/15/2019	80,000	81,200
Covanta Holding Corp., 5.875%, 3/1/2024	30,000	30,525

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

	Principal Amount ($)(a)	Value ($)
CTP Transportation Products LLC, 144A, 8.25%, 12/15/2019	35,000	36,925
DigitalGlobe, Inc., 144A, 5.25%, 2/1/2021	25,000	23,750
Ducommun, Inc., 9.75%, 7/15/2018	65,000	69,550
Empresas ICA SAB de CV, 144A, 8.875%, 5/29/2024	200,000	183,000
Florida East Coast Holdings Corp., 144A, 6.75%, 5/1/2019	65,000	64,350
FTI Consulting, Inc., 6.75%, 10/1/2020	145,000	151,887
Garda World Security Corp., 144A, 7.25%, 11/15/2021	45,000	44,550
Gates Global LLC, 144A, 6.0%, 7/15/2022	30,000	28,731
GenCorp, Inc., 7.125%, 3/15/2021	80,000	83,784
Grupo KUO SAB De CV, 144A, 6.25%, 12/4/2022	200,000	196,900
Huntington Ingalls Industries, Inc., 7.125%, 3/15/2021	10,000	10,800
Kenan Advantage Group, Inc., 144A, 8.375%, 12/15/2018	25,000	25,750
Meritor, Inc.:		
6.25%, 2/15/2024	30,000	30,450
6.75%, 6/15/2021	40,000	41,800
Navios Maritime Holdings, Inc.:		
144A, 7.375%, 1/15/2022	110,000	100,650
8.125%, 2/15/2019	60,000	52,800
Noble Group Ltd., 144A, 6.625%, 8/5/2020	250,000	256,250
Nortek, Inc., 8.5%, 4/15/2021	75,000	80,250
Odebrecht Offshore Drilling Finance Ltd., 144A, 6.625%, 10/1/2022	192,480	172,270
Oshkosh Corp., 5.375%, 3/1/2022	22,500	22,950
Ply Gem Industries, Inc.:		
6.5%, 2/1/2022	40,000	37,600
144A, 6.5%, 2/1/2022	20,000	18,600
SBA Communications Corp., 5.625%, 10/1/2019	30,000	30,675
Spirit AeroSystems, Inc.:		
5.25%, 3/15/2022	40,000	40,700
6.75%, 12/15/2020	75,000	79,500
Titan International, Inc., 6.875%, 10/1/2020	90,000	79,200
TransDigm, Inc.:		
6.0%, 7/15/2022	40,000	39,900
6.5%, 7/15/2024	25,000	25,125
7.5%, 7/15/2021	125,000	133,125
Triumph Group, Inc., 5.25%, 6/1/2022	20,000	19,950
United Rentals North America, Inc.:		
5.75%, 7/15/2018	60,000	62,550
7.375%, 5/15/2020	95,000	102,600
7.625%, 4/15/2022	95,000	104,452
XPO Logistics, Inc., 144A, 7.875%, 9/1/2019	15,000	15,675
		2,979,087

Information Technology 2.9%

	Principal Amount ($)(a)	Value ($)
ACI Worldwide, Inc., 144A, 6.375%, 8/15/2020	15,000	15,675
Activision Blizzard, Inc., 144A, 5.625%, 9/15/2021	130,000	136,500
Audatex North America, Inc., 144A, 6.0%, 6/15/2021	25,000	25,750
BMC Software Finance, Inc., 144A, 8.125%, 7/15/2021	65,000	61,100
Boxer Parent Co., Inc., 144A, 9.0%, 10/15/2019 (PIK)	40,000	34,000
Cardtronics, Inc., 144A, 5.125%, 8/1/2022	20,000	19,500
CDW LLC:		
6.0%, 8/15/2022	30,000	30,975
8.5%, 4/1/2019	18,000	18,968
EarthLink Holdings Corp., 7.375%, 6/1/2020	30,000	30,450
Entegris, Inc., 144A, 6.0%, 4/1/2022	20,000	20,250
Equinix, Inc., 5.375%, 4/1/2023	105,000	105,000
First Data Corp.:		
144A, 6.75%, 11/1/2020	72,000	76,860
144A, 7.375%, 6/15/2019	45,000	47,362
144A, 8.75%, 1/15/2022 (PIK)	60,000	64,500
144A, 8.875%, 8/15/2020	85,000	91,162
Freescale Semiconductor, Inc., 144A, 6.0%, 1/15/2022	40,000	41,800
Hughes Satellite Systems Corp.:		
6.5%, 6/15/2019	70,000	75,075
7.625%, 6/15/2021	40,000	44,000
Jabil Circuit, Inc., 7.75%, 7/15/2016	30,000	32,138
KLA-Tencor Corp., 4.65%, 11/1/2024	115,000	119,053
NCR Corp.:		
5.875%, 12/15/2021	10,000	10,275
6.375%, 12/15/2023	20,000	20,800
NXP BV, 144A, 3.75%, 6/1/2018	35,000	35,000
Sanmina Corp., 144A, 4.375%, 6/1/2019	5,000	4,963
Seagate HDD Cayman, 144A, 5.75%, 12/1/2034	120,000	126,556
Tencent Holdings Ltd., 144A, 3.375%, 5/2/2019	200,000	203,287
Ymobile Corp., 144A, 8.25%, 4/1/2018	60,000	62,850
		1,553,849

Materials 5.4%

	Principal Amount ($)(a)	Value ($)
Anglo American Capital PLC, 144A, 4.125%, 9/27/2022	250,000	247,558
Ashland, Inc., 3.875%, 4/15/2018	20,000	20,200
Berry Plastics Corp., 5.5%, 5/15/2022	60,000	60,900
Cascades, Inc., 144A, 5.5%, 7/15/2022	20,000	19,900
Cemex SAB de CV, 144A, 6.5%, 12/10/2019	200,000	204,900
Clearwater Paper Corp., 144A, 5.375%, 2/1/2025	40,000	39,400
Crown Americas LLC, 6.25%, 2/1/2021	10,000	10,525
Exopack Holding Corp., 144A, 10.0%, 6/1/2018	40,000	42,400
First Quantum Minerals Ltd.:		
144A, 6.75%, 2/15/2020	70,000	63,350
144A, 7.0%, 2/15/2021	60,000	54,000
FMG Resources (August 2006) Pty Ltd.:		
144A, 6.0%, 4/1/2017	55,000	52,594
144A, 8.25%, 11/1/2019 (b)	45,000	40,950
Fresnillo PLC, 144A, 5.5%, 11/13/2023	200,000	196,000
Glencore Funding LLC, 144A, 4.125%, 5/30/2023	110,000	107,333
Greif, Inc., 7.75%, 8/1/2019	195,000	220,350

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	Principal Amount ($)(a)	Value ($)
GTL Trade Finance, Inc., 144A, 5.893%, 4/29/2024	200,000	193,000
Hexion U.S. Finance Corp.:		
6.625%, 4/15/2020	85,000	83,300
8.875%, 2/1/2018	60,000	53,400
Huntsman International LLC, 8.625%, 3/15/2021 (b)	25,000	26,813
Kaiser Aluminum Corp., 8.25%, 6/1/2020	40,000	43,400
KGHM International Ltd., 144A, 7.75%, 6/15/2019	115,000	118,450
Novelis, Inc., 8.75%, 12/15/2020	215,000	227,900
Owens-Brockway Glass Container, Inc., 7.375%, 5/15/2016	30,000	31,725
Packaging Dynamics Corp., 144A, 8.75%, 2/1/2016	72,000	72,000
Plastipak Holdings, Inc., 144A, 6.5%, 10/1/2021	40,000	39,800
Polymer Group, Inc., 7.75%, 2/1/2019	49,000	50,776
Rain CII Carbon LLC, 144A, 8.0%, 12/1/2018	45,000	45,450
Sealed Air Corp., 144A, 8.375%, 9/15/2021	30,000	33,525
Signode Industrial Group Lux SA, 144A, 6.375%, 5/1/2022	30,000	29,250
Tronox Finance LLC, 6.375%, 8/15/2020	30,000	30,075
Turkiye Sise ve Cam Fabrikalari AS, 144A, 4.25%, 5/9/2020	300,000	292,783
WR Grace & Co-Conn:		
144A, 5.125%, 10/1/2021	15,000	15,375
144A, 5.625%, 10/1/2024	5,000	5,213
Yamana Gold, Inc., 4.95%, 7/15/2024	120,000	117,117
		2,889,712
Telecommunication Services 7.1%		
B Communications Ltd., 144A, 7.375%, 2/15/2021	35,000	37,013
CenturyLink, Inc.:		
Series V, 5.625%, 4/1/2020	15,000	15,563
Series W, 6.75%, 12/1/2023 (b)	35,000	38,325
Cincinnati Bell, Inc.:		
8.375%, 10/15/2020	235,000	246,750
8.75%, 3/15/2018 (b)	171,000	175,702
CommScope, Inc., 144A, 5.0%, 6/15/2021	35,000	34,475
CPI International, Inc., 8.75%, 2/15/2018	45,000	46,238
Digicel Group Ltd.:		
144A, 7.125%, 4/1/2022	35,000	32,550
144A, 8.25%, 9/30/2020	305,000	295,850
Digicel Ltd., 144A, 8.25%, 9/1/2017	300,000	303,750
Frontier Communications Corp.:		
6.25%, 9/15/2021	20,000	20,100
6.875%, 1/15/2025	20,000	20,000
7.125%, 1/15/2023	200,000	203,500
8.25%, 4/15/2017	62,000	68,975
8.5%, 4/15/2020	20,000	22,300
Intelsat Jackson Holdings SA:		
5.5%, 8/1/2023	55,000	54,664
7.25%, 10/15/2020	195,000	205,969
7.5%, 4/1/2021	215,000	230,050
Intelsat Luxembourg SA, 8.125%, 6/1/2023	10,000	10,200

	Principal Amount ($)(a)	Value ($)
Level 3 Communications, Inc., 8.875%, 6/1/2019	10,000	10,602
Level 3 Escrow II, Inc., 144A, 5.375%, 8/15/2022	90,000	90,450
Level 3 Financing, Inc.:		
6.125%, 1/15/2021	20,000	20,700
7.0%, 6/1/2020	75,000	79,031
8.125%, 7/1/2019	45,000	47,813
8.625%, 7/15/2020	50,000	53,937
Millicom International Cellular SA, 144A, 4.75%, 5/22/2020	200,000	188,500
MTN Mauritius Investments Ltd., 144A, 4.755%, 11/11/2024	200,000	196,000
Sprint Communications, Inc.:		
144A, 7.0%, 3/1/2020	40,000	43,200
144A, 9.0%, 11/15/2018	175,000	199,045
Sprint Corp., 7.125%, 6/15/2024	200,000	186,000
T-Mobile U.S.A., Inc.:		
6.125%, 1/15/2022	15,000	15,225
6.625%, 11/15/2020	65,000	66,137
UPCB Finance V Ltd., 144A, 7.25%, 11/15/2021	30,000	32,813
UPCB Finance VI Ltd., 144A, 6.875%, 1/15/2022	10,000	10,875
Wind Acquisition Finance SA, 144A, 6.5%, 4/30/2020	30,000	30,675
Windstream Corp.:		
6.375%, 8/1/2023	40,000	37,400
7.5%, 4/1/2023	75,000	74,625
7.75%, 10/15/2020	20,000	20,600
7.75%, 10/1/2021	55,000	56,100
7.875%, 11/1/2017	205,000	221,912
8.125%, 9/1/2018	70,000	72,625
		3,816,239
Utilities 2.9%		
AES Corp.:		
3.234%**, 6/1/2019	20,000	19,500
8.0%, 10/15/2017	2,000	2,245
8.0%, 6/1/2020	175,000	199,937
Calpine Corp.:		
5.375%, 1/15/2023	35,000	35,350
5.75%, 1/15/2025	35,000	35,438
Dynegy Finance I, Inc., 144A, 7.625%, 11/1/2024	5,000	5,100
Empresa Electrica Angamos SA, 144A, 4.875%, 5/25/2029	200,000	196,500
Energy Future Holdings Corp., Series Q, 6.5%, 11/15/2024*	100,000	78,000
Inkia Energy Ltd., 144A, 8.375%, 4/4/2021	200,000	212,000
IPALCO Enterprises, Inc., 5.0%, 5/1/2018	145,000	152,975
NGL Energy Partners LP, 144A, 5.125%, 7/15/2019	30,000	28,800
NRG Energy, Inc.:		
144A, 6.25%, 5/1/2024	100,000	101,750
7.875%, 5/15/2021	30,000	32,325
Perusahaan Listrik Negara PT, 144A, 5.25%, 10/24/2042	500,000	455,625
RJS Power Holdings LLC, 144A, 5.125%, 7/15/2019	30,000	29,625
		1,585,170
Total Corporate Bonds (Cost $28,560,435)		**27,982,668**

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

	Principal Amount ($)(a)	Value ($)
Mortgage-Backed Securities Pass-Throughs 1.4%		
Federal National Mortgage Association, 4.0%, 3/1/2042 (c) (Cost $745,773)	700,000	**747,359**
Asset-Backed 1.3%		
Home Equity Loans 0.1%		
CIT Group Home Equity Loan Trust, "AF6", Series 2002-1, 6.2%, 2/25/2030	47,702	**47,559**
Miscellaneous 1.2%		
ARES CLO Ltd., "D", Series 2012-3A, 144A, 4.878%**, 1/17/2024	250,000	249,999
Domino's Pizza Master Issuer LLC, "A2", Series 2012-1A, 144A, 5.216%, 1/25/2042	144,938	151,946
Hilton Grand Vacations Trust, "B", Series 2014-AA, 144A, 2.07%, 11/25/2026	266,263	261,917
		663,862
Total Asset-Backed (Cost $707,410)		**711,421**
Commercial Mortgage-Backed Securities 1.3%		
Commercial Mortgage Trust, "AM", Series 2007-GG11, 5.867%, 12/10/2049	290,000	314,318
Del Coronado Trust, "M", Series 2013-HDMZ, 144A, 5.161%**, 3/15/2018	80,000	80,064
JPMorgan Chase Commercial Mortgage Securities Corp., "C", Series 2012-HSBC, 144A, 4.021%, 7/5/2032	150,000	156,860
Wachovia Bank Commercial Mortgage Trust, "A4", Series 2005-C22, 5.269%**, 12/15/2044	126,388	129,086
Total Commercial Mortgage-Backed Securities (Cost $638,638)		**680,328**
Collateralized Mortgage Obligations 2.8%		
Banc of America Mortgage Securities, "2A2", Series 2004-A, 2.693%**, 2/25/2034	90,373	89,566
Bear Stearns Adjustable Rate Mortgage Trust, "2A1", Series 2005-11, 2.92%**, 12/25/2035	121,347	121,957
Countrywide Home Loans, "2A5", Series 2004-13, 5.75%, 8/25/2034	79,177	79,040
Federal Home Loan Mortgage Corp.:		
"AI", Series 4016, Interest Only, 3.0%, 9/15/2025	1,093,385	98,492
"ZG", Series 4213, 3.5%, 6/15/2043	91,121	91,302
"JI", Series 3558, Interest Only, 4.5%, 12/15/2023	31,231	1,104
"PI", Series 3843, Interest Only, 4.5%, 5/15/2038	393,117	42,582
"HI", Series 2934, Interest Only, 5.0%, 2/15/2020	100,134	8,833
"WI", Series 3010, Interest Only, 5.0%, 7/15/2020	157,492	14,029
"JS", Series 3572, Interest Only, 6.639%***, 9/15/2039	617,635	95,892
Federal National Mortgage Association:		
"BI", Series 2010-13, Interest Only, 5.0%, 12/25/2038	60,628	3,699
"PI", Series 2006-20, Interest Only, 6.511%***, 11/25/2030	379,977	63,212
"SI", Series 2007-23, Interest Only, 6.601%***, 3/25/2037	244,244	33,523
Government National Mortgage Association:		
"ZJ", Series 2013-106, 3.5%, 7/20/2043	183,744	183,712
"IV", Series 2009-69, Interest Only, 5.5%, 8/20/2039	319,645	55,187
"IN", Series 2009-69, Interest Only, 5.5%, 8/20/2039	324,567	53,682
"IJ", Series 2009-75, Interest Only, 6.0%, 8/16/2039	300,958	54,089
"AI", Series 2007-38, Interest Only, 6.299%***, 6/16/2037	83,386	13,382
JPMorgan Mortgage Trust, "2A1", Series 2006-A2, 2.609%**, 4/25/2036	272,199	249,533
Merrill Lynch Mortgage Investors Trust, "2A", Series 2003-A6, 2.524%**, 10/25/2033	72,643	72,847
Wells Fargo Mortgage-Backed Securities Trust, "2A3",Series 2004-EE, 2.612%**, 12/25/2034	102,217	101,951
Total Collateralized Mortgage Obligations (Cost $1,416,742)		**1,527,614**

		Principal Amount ($)(a)	Value ($)
Government & Agency Obligations 12.9%			
Other Government Related (d) 0.2%			
TMK OAO, 144A, 6.75%, 4/3/2020		200,000	**112,000**
Sovereign Bonds 7.7%			
Federative Republic of Brazil, 12.5%, 1/5/2016	BRL	250,000	94,754
Government of New Zealand:			
Series 0427, REG S, 4.5%, 4/15/2027	NZD	620,000	515,865
5.5%, 4/15/2023	NZD	770,000	644,942
Republic of Argentina-Inflation Linked Bond, 5.83%, 12/31/2033	ARS	375	119
Republic of Belarus, REG S, 8.75%, 8/3/2015		145,000	136,546
Republic of Costa Rica, 144A, 4.25%, 1/26/2023		200,000	183,000
Republic of Croatia, 144A, 6.75%, 11/5/2019		400,000	438,000
Republic of El Salvador:			
144A, 6.375%, 1/18/2027		75,000	75,187
144A, 7.65%, 6/15/2035		200,000	212,000
Republic of Hungary:			
4.0%, 3/25/2019		200,000	205,500
Series 19/A, 6.5%, 6/24/2019	HUF	11,600,000	50,664
Republic of Italy, REG S, 144A, 4.75%, 9/1/2044	EUR	460,000	720,905
Republic of Peru, 144A, 5.7%, 8/12/2024	PEN	350,000	117,204

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		Principal Amount ($)(a)	Value ($)
Republic of Slovenia:			
144A, 4.75%, 5/10/2018		200,000	214,000
144A, 5.5%, 10/26/2022		100,000	110,875
Republic of South Africa:			
5.875%, 9/16/2025		20,000	22,525
Series R204, 8.0%, 12/21/2018	ZAR	250,000	22,144
Republic of Sri Lanka, 144A, 5.125%, 4/11/2019		200,000	201,500
United Mexican States:			
Series M, 4.75%, 6/14/2018	MXN	1,300,000	87,917
Series M 20, 8.5%, 5/31/2029	MXN	650,000	53,235
			4,106,882

U.S. Treasury Obligations 5.0%

	Principal Amount ($)(a)	Value ($)
U.S. Treasury Bills:		
0.035%****, 2/12/2015 (e)	254,000	253,995
0.085%****, 6/11/2015 (e)	365,000	364,895
0.086%****, 6/11/2015 (e)	57,000	56,984
U.S. Treasury Bonds:		
3.125%, 8/15/2044	40,000	43,062
3.625%, 2/15/2044	86,000	101,205
U.S. Treasury Notes:		
1.0%, 8/31/2016 (f)	1,000,000	1,007,500
1.0%, 9/30/2016	500,000	503,672
1.5%, 5/31/2019	232,600	232,018
1.625%, 6/30/2019	19,000	19,048
2.25%, 11/15/2024	107,200	107,920
		2,690,299
Total Government & Agency Obligations (Cost $6,955,678)		**6,909,181**

Loan Participations and Assignments 4.0%

Senior Loans**

	Principal Amount ($)(a)	Value ($)
American Rock Salt Holdings LLC, First Lien Term Loan, 4.75%, 5/20/2021	104,475	102,298
Avis Budget Car Rental LLC, Term Loan B, 3.0%, 3/15/2019	59,246	58,580
Calpine Corp., Term Loan B1, 4.0%, 4/1/2018	191,518	190,081
Crown Castle International Corp., Term Loan B, 3.0%, 1/31/2019	48,759	48,362
CSC Holdings, Inc., Term Loan B, 2.669%, 4/17/2020	111,439	109,310
Cumulus Media Holdings, Inc., Term Loan, 4.25%, 12/23/2020	28,206	27,442
DaVita HealthCare Partners, Inc., Term Loan B, 3.5%, 6/24/2021	69,650	69,096
Goodyear Tire & Rubber Co., Second Lien Term Loan, 4.75%, 4/30/2019	220,000	220,137
HJ Heinz Co., Term Loan B2, 3.5%, 6/5/2020	213,774	212,858
Level 3 Financing, Inc., Term Loan B5, 4.5%, 1/31/2022	60,000	60,150
MacDermid, Inc., First Lien Term Loan, 4.0%, 6/7/2020	54,175	53,210
MEG Energy Corp., Term Loan, 3.75%, 3/31/2020	255,394	244,646
NRG Energy, Inc., Term Loan B, 2.75%, 7/2/2018	117,230	115,194
Par Pharmaceutical Companies, Inc., Term Loan B2, 4.0%, 9/30/2019	116,849	113,928
Quebecor Media, Inc., Term Loan B1, 3.25%, 8/17/2020	88,875	85,653
Tallgrass Operations LLC:		
Term Delayed Draw, 3.75%, 11/13/2017	41,157	39,922
Term Loan B, 4.25%, 11/13/2018	132,532	129,881
Valeant Pharmaceuticals International, Inc.:		
Term Loan B, 3.5%, 2/13/2019	137,133	136,173
Term Loan B, 3.5%, 12/11/2019	115,706	114,934
Total Loan Participations and Assignments (Cost $2,166,988)		**2,131,855**

Municipal Bonds and Notes 1.8%

	Principal Amount ($)(a)	Value ($)
Chicago, IL, Airport Revenue, O'Hare International Airport Revenue, Series B, 6.0%, 1/1/2041	145,000	169,026
Massachusetts, State School Building Authority, Sales Tax Revenue, Qualified School Construction Bond, Series A, 4.885%, 7/15/2028	300,000	331,530
Orlando & Orange County, FL, Expressway Authority Revenue, Series C, 5.0%, 7/1/2040	145,000	162,270
Port Authority of New York & New Jersey, 4.926%, 10/1/2051	260,000	297,846
Total Municipal Bonds and Notes (Cost $850,171)		**960,672**

Convertible Bond 0.4%

Materials

	Principal Amount ($)(a)	Value ($)
GEO Specialty Chemicals, Inc., 144A, 7.5%, 3/31/2015 (PIK) (Cost $119,886)	120,175	**207,602**

Preferred Security 0.2%

Materials

	Principal Amount ($)(a)	Value ($)
Hercules, Inc., 6.5%, 6/30/2029 (Cost $60,337)	95,000	**85,500**

Common Stocks 0.0%

	Shares	Value ($)
Consumer Discretionary 0.0%		
Dawn Holdings, Inc.* (g)	1	4,121
Trump Entertainment Resorts, Inc.*	6	0
		4,121
Industrials 0.0%		
Congoleum Corp.*	2,500	0
Quad Graphics, Inc.	24	551
		551
Materials 0.0%		
GEO Specialty Chemicals, Inc.*	2,058	**1,365**
Total Common Stocks (Cost $25,217)		**6,037**

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

	Shares	Value ($)
Preferred Stock 0.2%		
Financials		
Ally Financial, Inc., Series G, 144A, 7.0% (Cost $85,128)	89	**89,409**
Warrants 0.0%		
Materials		
GEO Specialty Chemicals, Inc., Expiration Date 3/31/2015*	11,138	7,303
Hercules Trust II, Expiration Date 3/31/2029*	85	835
Total Warrants (Cost $17,432)		**8,138**
Exchange-Traded Fund 5.1%		
SPDR Barclays Convertible Securities (Cost $2,777,628)	58,300	**2,733,687**

	Contract Amount	Value ($)
Call Options Purchased 0.1%		
Options on Interest Rate Swap Contracts		
Pay Fixed Rate — 3.72% – Receive Floating — LIBOR, Swap Expiration Date 4/22/2026, Option Expiration Date 4/20/2016[1]	1,300,000	7,961
Pay Fixed Rate — 4.19% – Receive Floating — LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017[2]	1,500,000	12,377
Pay Fixed Rate — 4.32% – Receive Floating — LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017[3]	1,400,000	9,831
Total Call Options Purchased (Cost $191,320)		**30,169**

	Contract Amount	Value ($)
Put Options Purchased 0.1%		
Options on Interest Rate Swap Contracts		
Receive Fixed Rate — 2.19% – Pay Floating — LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017[2]	1,500,000	30,127
Receive Fixed Rate — 2.32% – Pay Floating — LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017[3]	1,400,000	33,649
Total Put Options Purchased (Cost $98,573)		**63,776**

	Shares	Value ($)
Securities Lending Collateral 1.2%		
Daily Assets Fund Institutional, 0.10% (h) (i) (Cost $633,968)	633,968	**633,968**
Cash Equivalents 16.7%		
Central Cash Management Fund, 0.06% (h) (Cost $8,976,583)	8,976,583	**8,976,583**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $55,027,907)†	101.7	**54,485,967**
Other Assets and Liabilities, Net	(1.7)	**(900,338)**
Net Assets	100.0	**53,585,629**

The following table represents bonds that are in default:

Security	Coupon	Maturity Date		Principal Amount	Cost ($)	Value ($)
Energy Future Holdings Corp.*	6.5%	11/15/2024	USD	100,000	59,374	78,000
Hellas Telecommunications Finance*	8.082%	7/15/2015	EUR	109,187	32,169	0
					91,543	**78,000**

* Non-income producing security.

** 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, 2014.

*** These securities are shown at their current rate as of December 31, 2014.

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

† The cost for federal income tax purposes was $55,023,972. At December 31, 2014, net unrealized depreciation for all securities based on tax cost was $538,005. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $1,252,648 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $1,790,653.

(a) Principal amount stated in U.S. dollars unless otherwise noted.

(b) All or a portion of these securities were on loan. In addition, "Other Assets and Liabilities, Net" may include pending sales that are also on loan. The value of securities loaned at December 31, 2014 amounted to $609,294, which is 1.1% of net assets.

(c) When-issued security.

(d) Government-backed debt issued by financial companies or government-sponsored enterprises.

(e) At December 31, 2014, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

(f) At December 31, 2014, this security has been pledged, in whole or in part, to cover initial margin requirements for open centrally cleared swap contracts.

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

(g) The Fund may purchase securities that are subject to legal or contractual restrictions on resale ("restricted securities"). Restricted securities are securities which have not been registered with the Securities and Exchange Commission under the Securities Act of 1933. The Fund may be unable to sell a restricted security and it may be more difficult to determine a market value for a restricted security. Moreover, if adverse market conditions were to develop during the period between the Fund's decision to sell a restricted security and the point at which the Fund is permitted or able to sell such security, the Fund might obtain a price less favorable than the price that prevailed when it decided to sell. This investment practice, therefore, could have the effect of increasing the level of illiquidity of the Fund. The future value of these securities is uncertain and there may be changes in the estimated value of these securities.

Schedule of Restricted Securities	Acquisition Date	Cost ($)	Value ($)	Value as % of Net Assets
Dawn Holdings, Inc.*	August 2013	5,273	4,121	.01

(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.

CLO: Collateralized Loan Obligation

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.

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.

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

SPDR: Standard & Poor's Depositary Receipt

At December 31, 2014, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation ($)
10 Year U.S. Treasury Note	USD	3/20/2015	20	2,535,938	6,419
United Kingdom Long Gilt Bond	GBP	3/27/2015	3	558,899	12,807
Total unrealized appreciation					**19,226**

At December 31, 2014, open futures contracts sold were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Depreciation ($)
10 Year Australian Bond	AUD	3/16/2015	5	523,088	(7,860)
10 Year U.S. Treasury Note	USD	3/20/2015	3	380,391	(1,015)
Euro-BTP Italian Government Bond	EUR	3/6/2015	10	1,640,828	(11,197)
U.S. Treasury Long Bond	USD	3/20/2015	4	578,250	(14,690)
Total unrealized depreciation					**(34,762)**

At December 31, 2014, open written options contracts were as follows:

Options on Interest Rate Swap Contracts	Swap Effective/ Expiration Date	Contract Amount	Option Expiration Date	Premiums Received ($)	Value ($) (j)
Call Options					
Receive Fixed — 3.19% – Pay Floating — LIBOR	2/3/2017 2/3/2027	700,000[2]	2/1/2017	50,400	(18,547)
Receive Fixed — 3.32% – Pay Floating — LIBOR	2/3/2017 2/3/2027	700,000[3]	2/1/2017	50,631	(16,090)
Receive Fixed — 4.22% – Pay Floating — LIBOR	4/22/2016 4/22/2026	1,300,000[1]	4/20/2016	46,345	(3,263)
Total Call Options				**147,376**	**(37,900)**
Put Options					
Pay Fixed — 3.19% – Receive Floating — LIBOR	2/3/2017 2/3/2027	700,000[2]	2/1/2017	50,400	(44,226)
Pay Fixed — 3.32% – Receive Floating — LIBOR	2/3/2017 2/3/2027	700,000[3]	2/1/2017	50,631	(49,572)
Total Put Options				**101,031**	**(93,798)**
Total				**248,407**	**(131,698)**

(j) Unrealized appreciation on written options on interest rate swap contracts at December 31, 2014 was $116,709.

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

At December 31, 2014, open credit default swap contracts sold were as follows:

Bilateral Swaps

Effective/ Expiration Dates	Notional Amount ($) (k)	Fixed Cash Flows Received	Underlying Debt Obligation/ Quality Rating (l)	Value ($)	Upfront Payments Paid ($)	Unrealized Appreciation ($)
3/21/2011 6/20/2016	120,000[2]	5.0%	HCA, Inc., 6.375%, 1/15/2015, B	8,007	1,319	6,688
12/20/2011 3/20/2017	60,000[4]	5.0%	CIT Group, Inc., 5.5%, 2/15/2019, BB–	5,034	1,121	3,913
6/20/2013 9/20/2018	40,000[4]	5.0%	DISH DBS Corp., 6.75%, 6/1/2021, BB–	4,890	2,658	2,232
6/20/2013 9/20/2018	125,000[5]	5.0%	HCA, Inc., 8.0%, 10/1/2018, B	16,024	7,431	8,593
6/20/2013 9/20/2018	100,000[6]	5.0%	Sprint Communications, Inc., 6.0%, 12/1/2016, BB–	4,871	4,418	453
Total unrealized appreciation						**21,879**

(k) 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, if any.

(l) 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.

At December 31, 2014, open interest rate swap contracts were as follows:

Centrally Cleared Swaps

Effective/ Expiration Dates	Notional Amount ($)	Cash Flows Paid by the Fund	Cash Flows Received by the Fund	Value ($)	Unrealized Appreciation/ (Depreciation) ($)
12/16/2015 9/18/2017	3,600,000	Fixed — 1.557%	Floating — LIBOR	4,429	27
12/16/2015 9/16/2020	2,000,000	Floating — LIBOR	Fixed — 2.214%	(1,068)	(3)
6/17/2015 6/18/2025	4,000,000	Fixed — 2.404%	Floating — LIBOR	6,498	6,498
12/16/2015 9/16/2025	3,000,000	Fixed — 2.64%	Floating — LIBOR	(17,763)	(36)
12/16/2015 9/17/2035	200,000	Fixed — 2.938%	Floating — LIBOR	(4,198)	(4)
12/16/2015 9/18/2045	500,000	Floating — LIBOR	Fixed — 2.998%	16,646	9
Total net unrealized appreciation					**6,491**

Counterparties:

1 Nomura International PLC

2 JPMorgan Chase Securities, Inc.

3 BNP Paribas

4 Credit Suisse

5 Goldman Sachs & Co.

6 Bank of America

At December 31, 2014, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
CAD	1,265,089	GBP	700,000	1/5/2015	2,186	Societe Generale
USD	10,467	JPY	1,254,600	1/5/2015	7	Societe Generale
EUR	900,000	USD	1,126,957	1/5/2015	37,911	Barclays Bank PLC
EUR	900,000	JPY	133,309,800	1/5/2015	23,910	Barclays Bank PLC
AUD	1,000,000	NZD	1,065,118	1/5/2015	14,446	BNP Paribas
USD	1,401,826	NZD	1,800,000	1/5/2015	2,264	Australia & New Zealand Banking Group Ltd.
MXN	5,700,000	USD	413,336	1/15/2015	27,228	JPMorgan Chase Securities, Inc.
EUR	562,000	USD	698,291	1/20/2015	18,134	Societe Generale
SGD	1,787,000	USD	1,405,653	1/20/2015	57,160	Australia & New Zealand Banking Group Ltd.
CAD	850,000	USD	752,972	1/20/2015	21,630	Societe Generale
CAD	775,040	USD	685,830	1/20/2015	18,984	Australia & New Zealand Banking Group Ltd.

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

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
NZD	1,100,000	USD	858,432	2/5/2015	2,902	Australia & New Zealand Banking Group Ltd.
NZD	1,046,000	AUD	1,000,000	2/5/2015	1,028	Australia & New Zealand Banking Group Ltd.
USD	7,204	RUB	481,200	2/17/2015	500	Barclays Bank PLC
Total unrealized appreciation					**228,290**	

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
NZD	1,055,540	AUD	1,000,000	1/5/2015	(6,974)	Morgan Stanley
USD	1,090,551	JPY	130,000,000	1/5/2015	(5,228)	UBS AG
USD	1,096,808	EUR	900,000	1/5/2015	(7,762)	Societe Generale
AUD	1,000,000	NZD	1,045,127	1/5/2015	(1,148)	Australia & New Zealand Banking Group Ltd.
USD	8,138	NZD	10,413	1/5/2015	(16)	Citigroup, Inc.
USD	8,459	CAD	9,800	1/5/2015	(24)	Citigroup, Inc.
NZD	1,800,000	USD	1,381,573	1/5/2015	(22,518)	Australia & New Zealand Banking Group Ltd.
GBP	700,000	CAD	1,255,289	1/5/2015	(10,621)	UBS AG
NZD	1,084,795	AUD	1,000,000	1/5/2015	(29,795)	Australia & New Zealand Banking Group Ltd.
JPY	134,564,400	EUR	900,000	1/5/2015	(34,384)	Barclays Bank PLC
USD	281,282	ZAR	3,200,000	1/15/2015	(5,092)	UBS AG
USD	272,378	ZAR	3,100,000	1/15/2015	(4,819)	Citigroup, Inc.
USD	8,824	ZAR	100,000	1/15/2015	(193)	Commonwealth Bank of Australia
USD	837,432	MXN	11,400,000	1/15/2015	(65,216)	JPMorgan Chase Securities, Inc.
USD	407,709	ZAR	4,650,000	1/15/2015	(6,371)	BNP Paribas
NZD	1,466,000	USD	1,135,451	1/20/2015	(6,530)	Australia & New Zealand Banking Group Ltd.
USD	684,219	CAD	775,040	1/20/2015	(17,372)	Societe Generale
USD	1,365,084	SGD	1,787,000	1/20/2015	(16,590)	BNP Paribas
GBP	700,000	CAD	1,265,620	2/5/2015	(2,190)	Societe Generale
USD	8,619	ZAR	100,000	2/10/2015	(24)	Citigroup, Inc.
RUB	481,200	USD	7,475	2/17/2015	(229)	Barclays Bank PLC
Total unrealized depreciation					**(243,096)**	

Currency Abbreviations

ARS	Argentine Peso	GBP	British Pound	PEN	Peruvian Nuevo Sol
AUD	Australian Dollar	HUF	Hungarian Forint	RUB	Russian Ruble
BRL	Brazilian Real	JPY	Japanese Yen	SGD	Singapore Dollar
CAD	Canadian Dollar	MXN	Mexican Peso	USD	United States Dollar
EUR	Euro	NZD	New Zealand Dollar	ZAR	South African Rand

For information on the Fund's policy and additional disclosures regarding options purchased, futures contracts, credit default swap contracts, interest rate swap contracts, forward foreign currency exchange contracts and written option contracts, please refer to Note B in the accompanying Notes to Financial Statements.

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 level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

The following is a summary of the inputs used as of December 31, 2014 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 (m)				
Corporate Bonds	$ —	$ 27,982,668	$ 0	$ 27,982,668
Mortgage-Backed Securities Pass-Throughs	—	747,359	—	747,359
Asset-Backed	—	711,421	—	711,421
Commercial Mortgage-Backed Securities	—	680,328	—	680,328
Collateralized Mortgage Obligations	—	1,527,614	—	1,527,614
Government & Agency Obligations	—	6,909,181	—	6,909,181
Loan Participations and Assignments	—	2,091,933	39,922	2,131,855
Municipal Bonds and Notes	—	960,672	—	960,672
Convertible Bond	—	—	207,602	207,602
Preferred Security	—	85,500	—	85,500
Common Stocks (m)	551	—	5,486	6,037
Preferred Stock	—	89,409	—	89,409
Warrants	—	—	8,138	8,138
Exchange-Traded Fund	2,733,687	—	—	2,733,687
Short-Term Investments (m)	9,610,551	—	—	9,610,551
Derivatives (n)				
Purchased Options	—	93,945	—	93,945
Futures Contracts	19,226	—	—	19,226
Credit Default Swap Contracts	—	21,879	—	21,879
Interest Rate Swap Contracts	—	6,534	—	6,534
Forward Foreign Currency Exchange Contracts	—	228,290	—	228,290
Total	**$ 12,364,015**	**$ 42,136,733**	**$ 261,148**	**$ 54,761,896**

Liabilities	Level 1	Level 2	Level 3	Total
Derivatives (n)				
Futures Contracts	$ (34,762)	$ —	$ —	$ (34,762)
Written Options	—	(131,698)	—	(131,698)
Interest Rate Swap Contracts	—	(43)	—	(43)
Forward Foreign Currency Exchange Contracts	—	(243,096)	—	(243,096)
Total	**$ (34,762)**	**$ (374,837)**	**$ —**	**$ (409,599)**

There have been no transfers between fair value measurement levels during the year ended December 31, 2014.

(m) See Investment Portfolio for additional detailed categorizations.

(n) Derivatives include value of options purchased, unrealized appreciation (depreciation) on futures contracts, credit default swap contracts, interest rate swap contracts and forward foreign currency exchange contracts, and written options, at value.

Statement of Assets and Liabilities

as of December 31, 2014

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $45,417,356) — including $609,294 of securities loaned	$	44,875,416
Investment in Daily Assets Fund Institutional (cost $633,968)*		633,968
Investment in Central Cash Management Fund (cost $8,976,583)		8,976,583
Total investments in securities, at value (cost $55,027,907)		54,485,967
Cash		49,394
Foreign currency, at value (cost $56,183)		54,069
Receivable for investments sold		379,684
Receivable for investments sold — when-issued/delayed delivery securities		729,869
Receivable for Fund shares sold		430
Dividends receivable		139,190
Interest receivable		556,949
Receivable for variation margin on centrally cleared swaps		383
Unrealized appreciation on bilateral swap contracts		21,879
Unrealized appreciation on forward foreign currency exchange contracts		228,290
Upfront payments paid on bilateral swap contracts		16,947
Other assets		1,229
Total assets	$	56,664,280
Liabilities		
Payable upon return of securities loaned		633,968
Payable for investments purchased		370,263
Payable for investments purchased — when-issued/delayed delivery securities		1,472,607
Payable for Fund shares redeemed		83,785
Payable for variation margin on futures contracts		11,873
Options written, at value (premiums received $248,407)		131,698
Unrealized depreciation on forward foreign currency exchange contracts		243,096
Accrued management fee		5,280
Accrued Trustees' fees		1,070
Other accrued expenses and payables		125,011
Total liabilities		3,078,651
Net assets, at value	**$**	**53,585,629**
Net Assets Consist of		
Undistributed net investment income		2,083,561
Net unrealized appreciation (depreciation) on:		
Investments		(541,940)
Swap contracts		28,370
Futures		(15,536)
Foreign currency		(18,013)
Written options		116,709
Accumulated net realized gain (loss)		(1,119,380)
Paid-in capital		53,051,858
Net assets, at value	**$**	**53,585,629**
Class A		
Net Asset Value, offering and redemption price per share ($53,585,629 ÷ 4,786,192 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**11.20**

* Represents collateral on securities loaned.

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

Statement of Operations

for the year ended December 31, 2014

Investment Income	
Income:	
Interest	$ 2,791,372
Dividends	122,153
Income distributions — Central Cash Management Fund	3,081
Securities lending income, including income from Daily Assets Fund Institutional, net of borrower rebates	2,861
Total income	2,919,467
Expenses:	
Management fee	321,002
Administration fee	58,363
Services to shareholders	635
Custodian fee	72,334
Professional fees	97,587
Reports to shareholders	24,770
Trustees' fees and expenses	3,957
Pricing fee	46,060
Other	6,008
Total expenses before expense reductions	630,716
Expense reductions	(182,724)
Total expenses after expense reductions	447,992
Net investment income	**2,471,475**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Capital gain distributions from exchange-traded fund	75,397
Investments	(115,468)
Swap contracts	(131,202)
Futures	(393,448)
Foreign currency	397,865
	(166,856)
Change in net unrealized appreciation (depreciation) on:	
Investments	(774,558)
Swap contracts	(20,955)
Unfunded loan commitment	125
Futures	(11,419)
Written options	106,002
Foreign currency	(269,330)
	(970,135)
Net gain (loss)	**(1,136,991)**
Net increase (decrease) in net assets resulting from operations	**$ 1,334,484**

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, 2014	2013
Operations:		
Net investment income	$ 2,471,475	$ 2,911,005
Net realized gain (loss)	(166,856)	(1,186,626)
Change in net unrealized appreciation (depreciation)	(970,135)	(2,619,441)
Net increase (decrease) in net assets resulting from operations	1,334,484	(895,062)
Distributions to shareholders from:		
Net investment income:		
Class A	(2,905,554)	(3,703,120)
Net realized gains:		
Class A	—	(2,113,421)
Total distributions	(2,905,554)	(5,816,541)
Fund share transactions:		
Class A		
Proceeds from shares sold	3,829,411	8,233,284
Reinvestment of distributions	2,905,554	5,816,541
Payments for shares redeemed	(12,535,275)	(19,881,192)
Net increase (decrease) in net assets from Class A share transactions	(5,800,310)	(5,831,367)
Increase (decrease) in net assets	(7,371,380)	(12,542,970)
Net assets at beginning of period	60,957,009	73,499,979
Net assets at end of period (including undistributed net investment income of $2,083,561 and $2,602,311, respectively)	**$ 53,585,629**	**$ 60,957,009**

Other Information		
Class A		
Shares outstanding at beginning of period	5,284,551	5,832,490
Shares sold	334,959	666,814
Shares issued to shareholders in reinvestment of distributions	258,501	491,677
Shares redeemed	(1,091,819)	(1,706,430)
Net increase (decrease) in Class A shares	(498,359)	(547,939)
Shares outstanding at end of period	**4,786,192**	**5,284,551**

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

Financial Highlights

Class A	2014	Years Ended December 31, 2013	2012	2011	2010
Selected Per Share Data					
Net asset value, beginning of period	**$11.53**	**$12.60**	**$11.90**	**$11.96**	**$11.61**
Income (loss) from investment operations:					
Net investment income[a]	.49	.49	.57	.63	.66
Net realized and unrealized gain (loss)	(.23)	(.59)	.92	(.01)	.47
Total from investment operations	.26	(.10)	1.49	.62	1.13
Less distributions from:					
Net investment income	(.59)	(.62)	(.76)	(.68)	(.78)
Net realized gains	—	(.35)	(.03)	—	—
Total distributions	(.59)	(.97)	(.79)	(.68)	(.78)
Net asset value, end of period	**$11.20**	**$11.53**	**$12.60**	**$11.90**	**$11.96**
Total Return (%)[b]	2.23	(1.04)	13.08	5.31	10.05
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	54	61	73	69	76
Ratio of expenses before expense reductions (%)	1.08	1.02	.99	.99	.95
Ratio of expenses after expense reductions (%)	.77	.74	.77	.79	.86
Ratio of net investment income (%)	4.23	4.16	4.72	5.38	5.62
Portfolio turnover rate (%)	185	183	164	144	167

[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

Deutsche Unconstrained Income VIP (formerly DWS Unconstrained Income VIP) (the "Fund") is a diversified series of Deutsche Variable Series II (formerly 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 level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities.

Debt securities and loan participations and assignments are valued at prices supplied by independent pricing services approved by the Fund's Board. 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, prepayment speeds and other data, as well as broker quotes. If the pricing services are unable to provide valuations, debt securities are valued at the average of the most recent reliable bid quotations or evaluated prices, as applicable, obtained from broker-dealers and loan participations and assignments are valued at the mean of the most recent bid and ask quotations or evaluated prices, as applicable, obtained from one or more broker-dealers. Certain securities may be valued on the basis of a price provided by a single source or broker-dealer. No active trading market may exist for some senior loans and they may be subject to restrictions on resale. The inability to dispose of senior loans in a timely fashion could result in losses. These securities are generally categorized as Level 2.

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. Equity 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. Equity securities and ETFs are generally 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.

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 at prices supplied by a Board approved pricing vendor, if available, and otherwise are valued at the price provided by the broker-dealer with which the option was traded. Over-the-counter written or purchased options 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 considered 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.

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. Deutsche Bank AG, as lending agent, lends securities of the Fund to certain financial institutions under the terms of the Security Lending Agreement. The Fund retains benefits of owning the securities it has loaned and continues to receive interest and dividends generated by the 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. If the Fund is not able to recover securities lent, the Fund may sell the collateral and purchase a replacement investment in the market, incurring the risk that the value of the replacement security is greater than the value of the collateral. 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.

As of December 31, 2014, the Fund had securities on loan. The value of the related collateral exceeded the value of the securities loaned at period end.

Loan Participations and Assignments. Loan Participations and Assignments are portions of loans originated by banks and sold in pieces to investors. These 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 refinancing. 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 with only 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. Loans held by the Fund are generally in the form of Assignments, but the Fund may also invest in Participations. All 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 this type of transaction, it is required to segregate cash or other liquid assets at least equal to the amount of the commitment. Additionally, the Fund may be required to post securities and/or cash collateral in accordance with the terms 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, the Fund may be subject to taxes imposed by the governments of countries in which it invests and are generally based on income and/or capital gains earned or repatriated. Estimated tax liabilities on certain foreign securities are recorded on an accrual basis and are reflected as components of interest income or net change in unrealized gain/loss on investments. Tax liabilities realized as a result of security sales are reflected as a component of net realized gain/loss on investments.

At December 31, 2014, the Fund had net tax basis capital loss carryforwards of approximately $1,129,000, which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($829,000) and long-term losses ($300,000).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2014 and has determined that no provision for income tax and/or uncertain tax provisions 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 from net investment income of the Fund, if any, are 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, 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, 2014, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 2,057,423
Capital loss carryforwards	$ (1,129,000)
Unrealized appreciation (depreciation) on investments	$ (538,005)

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

	Years Ended December 31, 2014	2013
Distributions from ordinary income*	$ 2,905,554	$ 5,146,797
Distributions from long-term capital gains	$ —	$ 669,744

* 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 based upon the relative net assets or other appropriate measures.

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. Proceeds from litigation payments, if any, are included in net realized gain (loss) from investments. 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

Swaps. A swap is a contract between two parties to exchange future cash flows at periodic intervals based on the notional amount of the swap. A bilateral swap is a transaction between the fund and a counterparty where cash flows are exchanged between the two parties. A centrally cleared swap is a transaction executed between the fund and a counterparty, then cleared by a clearing member through a central clearinghouse. The central clearinghouse serves as the counterparty, with whom the fund exchanges cash flows.

The value of a 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. Gains or losses are realized when the swap expires or is closed. Certain risks may arise when entering into swap transactions including counterparty default; liquidity; or unfavorable changes in interest rates or the value of the underlying reference security, commodity or index. In connection with bilateral swaps, securities and/or cash may be identified as collateral in accordance with the terms of the swap agreement 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 swap, 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. Upon entering into a centrally cleared swap, 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 notional amount of the swap. Subsequent payments ("variation margin") are made or received by the Fund dependent upon the daily fluctuations in the value of the swap. In a cleared swap transaction, counterparty risk is minimized as the central clearinghouse acts as the counterparty.

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.

Interest Rate Swaps. Interest rate swaps are agreements in which the Fund agrees to pay to 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. For the year ended December 31, 2014, the Fund entered into interest rate swap agreements to gain exposure to different parts of the yield curve while managing overall duration.

A summary of the open interest rate swap contracts as of December 31, 2014 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2014, the investment in interest rate swap contracts had a total notional amount generally indicative of a range from $5,000,000 to $13,300,000.

Credit Default Swaps. Credit default swaps are agreements between a buyer and a seller of protection against predefined credit events for the reference entity. The Fund may enter into credit default swaps to gain exposure to an underlying issuer's credit quality characteristics without directly investing in that issuer or to hedge against the risk of a credit event on debt securities. As a seller of a credit default swap, 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 swap 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 swaps, in which case the Fund functions as the counterparty referenced above. This involves the risk that the swap 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, 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 swaps sold by the Fund. For the year ended December 31, 2014, the Fund entered into credit default swap agreements to gain exposure to the underlying issuer's credit quality characteristics.

Under the terms of a credit default swap, the Fund receives or makes periodic 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 swap 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, 2014 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2014, the investment in credit default swap contracts sold had a total notional value generally indicative of a range from $445,000 to $610,000.

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. The Fund may write or purchase interest rate swaption agreements which are options to enter into a pre-defined swap agreement. The interest rate swaption agreement will specify whether the buyer of the swaption will be a fixed-rate receiver or a fixed-rate payer upon exercise. Certain options, including options on indices, will require cash settlement by the Fund if the option is exercised. For the year ended December 31, 2014, the Fund entered into options on interest rate swaps in order to hedge 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.

A summary of the open purchased option contracts as of December 31, 2014 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, 2014, the investment in written option contracts had a total value generally indicative of a range from approximately $132,000 to $238,000, and purchased option contracts had a total value generally indicative of a range from approximately $94,000 to $276,000.

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, 2014, the Fund entered into interest rate futures to gain exposure to different parts of the yield curve while managing overall duration and 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 disclosed in the Statement of Assets and Liabilities.

A summary of the open futures contracts as of December 31, 2014 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2014, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $357,000 to $12,897,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from approximately $3,123,000 to $12,234,000.

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, 2014, 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.

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, 2014, is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2014, the investment in forward currency contracts short vs. U.S. dollars had a total contract value generally indicative of a range from approximately $6,281,000 to $22,228,000, and the investment in forward currency contracts long vs. U.S. dollars had a total contract value generally indicative of a range from approximately $2,864,000 to $20,021,000. The investment in forward currency contracts long vs. other foreign currencies sold had a total contract value generally indicative of a range from $0 to approximately to $9,640,000.

The following tables summarize the value of the Fund's derivative instruments held as of December 31, 2014 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)	$ 93,945	$ —	$ 6,534	$ 19,226	$ 119,705
Credit Contracts (b)	—	—	21,879	—	21,879
Foreign Exchange Contracts (c)	—	228,290	—	—	228,290
	$ 93,945	**$ 228,290**	**$ 28,413**	**$ 19,226**	**$ 369,874**

Each of the above derivatives is located in the following Statement of Assets and Liabilities accounts:

(a) Includes cumulative appreciation of futures and centrally cleared swap 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 bilateral swap contracts, respectively

(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)	$ (131,698)	$ —	$ (43)	$ (34,762)	$ (166,503)
Foreign Exchange Contracts (c)	—	(243,096)	—	—	(243,096)
	$ (131,698)	**$ (243,096)**	**$ (43)**	**$ (34,762)**	**$ (409,599)**

Each of the above derivatives is located in the following Statement of Assets and Liabilities accounts:

(a) Includes cumulative depreciation of futures and centrally cleared swap 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

(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, 2014 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**
Interest Rate Contracts (a)	$ —	$ (165,659)	$ (393,448)	$ (559,107)
Credit Contracts (a)	—	34,457	—	34,457
Foreign Exchange Contracts (b)	435,858	—	—	435,858
	$ 435,858	**$ (131,202)**	**$ (393,448)**	**$ (88,792)**

Each of the above derivatives is located in the following Statement of Operations accounts:

(a) Net realized gain (loss) from 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**
Interest Rate Contracts (a)	$ (181,752)	$ 106,002	$ —	$ 2,987	$ (11,419)	$ (84,182)
Credit Contracts (a)	—	—	—	(23,942)	—	(23,942)
Foreign Exchange Contracts (b)	—	—	(256,909)	—	—	(256,909)
	$ (181,752)	**$ 106,002**	**$ (256,909)**	**$ (20,955)**	**$ (11,419)**	**$ (365,033)**

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)

As of December 31, 2014, the Fund has transactions subject to enforceable master netting agreements. A reconciliation of the gross amounts on the Statement of Assets and Liabilities to the net amounts by counterparty, including any collateral exposure, is included in the following tables:

Counterparty	Gross Amounts of Assets Presented in the Statement of Assets and Liabilities	Financial Instruments and Derivatives Available for Offset	Collateral Received	Net Amount of Derivative Assets
Australia & New Zealand Banking Group Ltd.	$ 82,338	$ (59,991)	$ —	$ 22,347
Bank of America	453	—	—	453
Barclays Bank PLC	62,321	(34,613)	—	27,708
BNP Paribas	57,926	(57,926)	—	—
Credit Suisse	6,145	—	—	6,145
Goldman Sachs & Co.	8,593	—	—	8,593
JPMorgan Chase Securities, Inc.	76,420	(76,420)	—	—
Nomura International PLC	7,961	(3,263)	—	4,698
Societe Generale	41,957	(27,324)	—	14,633
	$ 344,114	**$ (259,537)**	**$ —**	**$ 84,577**

Counterparty	Gross Amounts of Liabilities Presented in the Statement of Assets and Liabilities	Financial Instruments and Derivatives Available for Offset	Collateral Pledged	Net Amount of Derivative Liabilities
Australia & New Zealand Banking Group Ltd.	$ 59,991	$ (59,991)	$ —	$ —
Barclays Bank PLC	34,613	(34,613)	—	—
BNP Paribas	88,623	(57,926)	—	30,697
Citigroup, Inc.	4,883	—	—	4,883
Commonwealth Bank of Australia	193	—	—	193
JPMorgan Chase Securities, Inc.	127,989	(76,420)	—	51,569
Morgan Stanley	6,974	—	—	6,974
Nomura International PLC	3,263	(3,263)	—	—
Societe Generale	27,324	(27,324)	—	—
UBS AG	20,941	—	—	20,941
	$ 374,794	**$ (259,537)**	**$ —**	**$ 115,257**

C. Purchases and Sales of Securities

During the year ended December 31, 2014, purchases and sales of investment transactions (excluding short-term investments and U.S. Treasury obligations) aggregated $91,436,325 and $104,026,011, respectively. Purchases and sales of U.S. Treasury obligations aggregated $6,062,706 and $8,021,578, respectively.

For the year ended December 31, 2014, transactions for written options on interest rate swap contracts were as follows:

	Contract Amount	Premiums
Outstanding, beginning of period	4,100,000	$ 248,407
Outstanding, end of period	**4,100,000**	**$ 248,407**

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	.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, 2014, the fee pursuant to the Investment Management Agreement was equivalent to an annual rate (exclusive of any applicable waivers/reimbursements) of 0.55% of the Fund's average daily net assets.

For the period from January 1, 2014 through September 30, 2014, the Advisor had contractually agreed to waive its fee and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) at 0.76%.

Effective October 1, 2014 through September 30, 2015, the Advisor has contractually agreed to waive its fee and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) at 0.70%.

For the year ended December 31, 2014, fees waived and/or expenses reimbursed amounted to $182,724.

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, 2014, the Administration Fee was $58,363, of which $4,622 is unpaid.

Service Provider Fees. DeAWM Service Company ("DSC"), 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 DSC and DST Systems, Inc. ("DST"), DSC has delegated certain transfer agent, dividend-paying agent and shareholder service agent functions to DST. DSC compensates DST out of the shareholder servicing fee it receives from the Fund. For the year ended December 31, 2014, the amounts charged to the Fund by DSC aggregated $151, of which $25 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, 2014, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $15,660, of which $7,359 is unpaid.

Trustees' Fees and Expenses. The Fund paid retainer fees to each Trustee not affiliated with the Advisor, plus specified amounts to the Board Chairperson and Vice Chairperson and to each committee Chairperson.

Affiliated Cash Management Vehicles. The Fund may invest uninvested cash balances in Central Cash Management Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. Each affiliated money market fund seeks to provide a high level of current income consistent with liquidity and the preservation of capital. Each affiliated money market fund is managed in accordance with Rule 2a-7 under the Investment Company Act of 1940, which governs the quality, maturity, diversity and liquidity of instruments in which a money market fund may invest. Central Cash Management Fund seeks to maintain a stable net asset value, and Deutsche Variable NAV Money Fund maintains a floating net asset value. The Fund indirectly bears its proportionate share of the expenses of each affiliated money market fund in which it invests. Central Cash Management Fund does not pay the Advisor an investment management fee. To the extent that Deutsche Variable NAV Money Fund pays an investment management fee to the Advisor, the Advisor will waive an amount of the investment management fee payable to the Advisor by the Fund equal to the amount of the investment management fee payable on the Fund's assets invested in Deutsche Variable NAV Money Fund.

Security Lending Fees. Deutsche Bank AG serves as securities lending agent for the Fund. For the year ended December 31, 2014, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $251.

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 risk of loss from default by the issuer is significantly greater. Prices and yields of high-yield securities will fluctuate over time and, during periods of economic uncertainty, volatility of high-yield securities may adversely affect a fund's net asset value. 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, 2014, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 65% and 32%.

H. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 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, 2014.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Deutsche Variable Series II and Shareholders of Deutsche Unconstrained Income VIP:

We have audited the accompanying statement of assets and liabilities, including the investment portfolio, of Deutsche Unconstrained Income VIP (formerly DWS Unconstrained Income VIP) (the "Fund") (one of the series constituting Deutsche Variable Series II (formerly DWS Variable Series II)), as of December 31, 2014, 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 periods indicated therein. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. 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, 2014, 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 Deutsche Unconstrained Income VIP at December 31, 2014, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the periods indicated therein, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

Boston, Massachusetts
February 13, 2015

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, 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, 2014 to December 31, 2014).

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, 2014

Actual Fund Return	**Class A**
Beginning Account Value 7/1/14	$1,000.00
Ending Account Value 12/31/14	$ 974.80
Expenses Paid per $1,000*	$ 3.83

Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 7/1/14	$1,000.00
Ending Account Value 12/31/14	$1,021.32
Expenses Paid per $1,000*	$ 3.92

* Expenses are equal to the Fund's annualized expense ratio, multiplied by the average account value over the period, multiplied by 184 (the number of days in the most recent six-month period), then divided by 365.

Annualized Expense Ratio	**Class A**
Deutsche Variable Series II — Deutsche Unconstrained Income VIP	.77%

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.

For an analysis of the fees associated with an investment in the fund or similar funds, please refer to the current and hypothetical expense calculators for Variable Insurance Products which can be found at deutschefunds.com/EN/resources/calculators.jsp.

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 — deutschefunds.com (click on "proxy voting" at the bottom of the page) — or on the SEC's Web site — 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.

Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees approved the renewal of Deutsche Unconstrained Income VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2014.

In terms of the process that the Board followed prior to approving the Agreement, shareholders should know that:

— In September 2014, all of the Fund's Trustees were independent of DIMA 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 Asset Allocation Oversight Committee, reviewed comprehensive materials received from DIMA, independent third parties and independent counsel. These materials included an analysis of the Fund's performance, fees and expenses, and profitability compiled by a fee consultant retained by the Fund's Independent Trustees (the "Fee Consultant"). The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly meet privately with counsel to discuss contract review and other matters. In addition, the Independent Trustees were advised by the Fee Consultant in the course of their review of the Fund's contractual arrangements and considered a comprehensive report prepared by the Fee Consultant in connection with their deliberations.

— 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 DIMA and its predecessors have managed the Fund since its inception, and the Board believes that a long-term relationship with a capable, conscientious advisor is in the best interests of the Fund. The Board considered, generally, that shareholders chose to invest or remain invested in the Fund knowing that DIMA managed the Fund, and that the Agreement was approved by the Fund's shareholders. DIMA is part of Deutsche Bank AG ("DB"), a major global banking institution that is engaged in a wide range of financial services. The Board believes that there are 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.

As part of the contract review process, the Board carefully considered the fees and expenses of each Deutsche fund overseen by the Board in light of the fund's performance. In many cases, this led to the negotiation and implementation of expense caps. As part of these negotiations, the Board indicated that it would consider relaxing these caps in future years following sustained improvements in performance, among other considerations.

In 2012, DB combined its Asset Management (of which DIMA was a part) and Wealth Management divisions into a new Asset and Wealth Management ("AWM") division. DB has advised the Independent Trustees that the U.S. asset management business is a critical and integral part of DB, and that DB will continue to invest in AWM a significant portion of the savings it has realized by combining its Asset and Wealth Management divisions, including ongoing enhancements to AWM's investment capabilities. DB also has confirmed its commitment to maintaining strong legal and compliance groups within the AWM division.

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

Nature, Quality and Extent of Services. The Board considered the terms of the Agreement, including the scope of advisory services provided under the Agreement. The Board noted that, under the Agreement, DIMA provides portfolio management services to the Fund and that, pursuant to a separate administrative services agreement, DIMA provides administrative services to the Fund. The Board considered the experience and skills of senior management and investment personnel, the resources made available to such personnel, the ability of DIMA to attract and retain high-quality personnel, and the organizational depth and stability of DIMA. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market index(es) and a peer universe compiled by the Fee Consultant using information supplied by Morningstar Direct ("Morningstar"), an independent fund data service.

The Board also noted that it has put into place a process of identifying "Focus Funds" (e.g., funds performing poorly relative to a peer universe), and receives more frequent reporting and information from DIMA regarding such funds, along with DIMA's 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, 2013, the Fund's performance (Class A shares) was in the 4th quartile, 2nd quartile and 4th quartile, respectively, of the applicable Morningstar 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, 2013. The Board noted the disappointing investment performance of the Fund in recent periods and continued to discuss with senior management of DIMA the factors contributing to such underperformance and actions being taken to improve performance. The Board recognized the efforts by DIMA in recent years to enhance its investment platform and improve long-term performance across the Deutsche fund complex.

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 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 DIMA under the Fund's administrative services agreement, were equal to the median of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2013). 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, 2013, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). 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 noted that the expense limitation agreed to by DIMA helped to ensure that the Fund's total (net) operating expenses would remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable funds and considered differences between the Fund and the comparable funds. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts and funds offered primarily to European investors ("Deutsche Europe funds") managed by DIMA and its affiliates. The Board noted that DIMA indicated that it does not manage any institutional accounts or Deutsche Europe funds comparable to the Fund.

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

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs and pre-tax profits realized by DIMA from advising the Deutsche U.S. mutual funds ("Deutsche 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 DIMA and its affiliates with respect to all fund services in totality and by fund. The Board and the Fee Consultant reviewed DIMA's methodology in allocating its costs to the management of the Fund. Based on the information provided, the Board concluded that the pre-tax profits realized by DIMA in connection with the management of the Fund were not unreasonable.

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

Other Benefits to DIMA and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by DIMA and its affiliates, including any fees received by DIMA for administrative services provided to the Fund and any fees received by an affiliate of DIMA for distribution services. The Board also considered benefits to DIMA related to brokerage and soft-dollar allocations, including allocating brokerage to pay for research generated by parties other than the executing broker dealers, which pertain primarily to funds investing in equity securities, along with the incidental public relations benefits to DIMA related to Deutsche Funds advertising and cross-selling opportunities among DIMA products and services. The Board concluded that management fees were reasonable in light of these fallout benefits.

Compliance. The Board considered the significant attention and resources dedicated by DIMA to documenting and enhancing its compliance processes in recent years. The Board noted in particular (i) the experience and seniority of DIMA's and the Fund's chief compliance officer; (ii) the large number of DIMA compliance personnel; and (iii) the substantial commitment of resources by DIMA and its affiliates to compliance matters.

Based on all of the information considered and the conclusions reached, the Board 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 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.

Board Members and Officers

The following table presents certain information regarding the Board Members and Officers of the fund. 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 Kenneth C. Froewiss, Chairman, Deutsche Mutual Funds, P.O. Box 390601, Cambridge, MA 02139. 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.

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 Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Kenneth C. Froewiss (1945) Chairperson since 2013, and 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)	105	—
William McClayton (1944) Vice Chairperson since 2013, and 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	105	—
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); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (provider of disease and care management services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International	105	Portland General Electric[2] (utility company) (2003–present)
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); North Bennett Street School (Boston); former Directorships: Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College	105	Lead Director, Becton Dickinson and Company[2] (medical technology company)
Dawn-Marie Driscoll (1946) Board Member since 1987	Emeritus Executive Fellow, Center for Business Ethics, Bentley University; formerly: President, Driscoll Associates (consulting firm); Partner, Palmer & Dodge (law firm) (1988–1990); Vice President of Corporate Affairs and General Counsel, Filene's (retail) (1978–1988). Directorships: Director of ICI Mutual Insurance Company (since 2007); Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	105	—
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); The Kennel Shop (retailer); former Chairman, National Association of Small Business Investment Companies; former Directorships: BoxTop Media Inc. (advertising); Sun Capital Advisers Trust (mutual funds) (2011–2012)	105	—

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 Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Paul K. Freeman (1950) Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Chair, Independent Directors Council; Investment Company Institute (executive and nominating committees); formerly, Chairman of Education Committee of Independent Directors Council; Project Leader, International Institute for Applied Systems Analysis (1998–2001); Chief Executive Officer, The Eric Group, Inc. (environmental insurance) (1986–1998); Directorships: Denver Zoo Foundation (December 2012–present); former Directorships: Prisma Energy International	105	—
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; 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)	105	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
Rebecca W. Rimel (1951) Board Member since 1995	President and Chief Executive Officer, The Pew Charitable Trusts (charitable organization) (1994 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); Director, Viasys Health Care[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	105	Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc.[2] (health care) (2009–present)
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); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	105	—
Jean Gleason Stromberg (1943) Board Member since 1997	Retired. Formerly, Consultant (1997–2001); Director, Financial Markets U.S. Government Accountability Office (1996–1997); Partner, Norton Rose Fulbright, L.L.P. (law firm) (1978–1996). Directorships: The William and Flora Hewlett Foundation (charitable organization); former Directorships: Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	105	—
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	105	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Brian E. Binder[8] (1972) President and Chief Executive Officer, 2013–present	Managing Director[3] and Head of Fund Administration, Deutsche Asset & Wealth Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012); Chief Administrative Officer, Van Kampen Funds Inc. (2008–2010); and Chief Administrative Officer, Morgan Stanley Investment Management Americas Distribution (2003–2008)
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset & Wealth Management
Melinda Morrow[6] (1970) Vice President, 2012–present	Director,[3] Deutsche Asset & Wealth Management

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset & Wealth 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 & Wealth Management; formerly: Assistant Secretary for DWS family of funds (1997–2010)
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director,[3] Deutsche Asset & Wealth Management
Wayne Salit[6] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset & Wealth Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Hepsen Uzcan[7] (1974) Assistant Secretary, 2013–present	Director,[3] Deutsche Asset & Wealth Management
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset & Wealth Management

1 The length of time served represents the year in which the Board Member joined the board of one or more Deutsche 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 Deutsche funds.

6 Address: 60 Wall Street, New York, NY 10005.

7 Address: One Beacon Street, Boston, MA 02108.

8 Address: 222 South Riverside Plaza, Chicago, IL 60606.

* Robert H. Wadsworth retired from the Board effective December 31, 2014.

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.

Deutsche Asset
& Wealth Management

DeAWM Distributors, Inc.
222 South Riverside Plaza
Chicago, IL 60606
(800) 621-1148

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Dreyfus
Investment Portfolios, MidCap Stock Portfolio

ANNUAL REPORT December 31, 2014

BNY MELLON

Dreyfus

Contents

THE FUND

FOR MORE INFORMATION

A LETTER FROM THE PRESIDENT

Dear Shareholder:

We are pleased to present this annual report for Dreyfus Investment Portfolios, MidCap Stock Portfolio, covering the 12-month period from January 1, 2014, through December 31, 2014. 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.

While U.S. equities' 2014 gains fell short of their impressive 2013 performance, some broad measures of stock market performance posted their sixth consecutive year of positive results. Investor sentiment remained strong in an environment of sustained economic growth, rising corporate profits, muted inflation, and historically low interest rates. It also is noteworthy that stocks advanced despite persistent headwinds stemming from a sluggish global economy, which was characterized by economic weakness in Europe, Japan and China; intensifying geopolitical conflicts; and plummeting commodity prices.

Many economists appear to be optimistic about the prospects for 2015. Our own analysts agree and, in light of the ongoing benefits of low interest rates and depressed energy prices, see the potential for a somewhat faster pace of global growth in 2015 than in 2014. U.S. economic growth also seems poised to accelerate, largely due to the fading of drags from tight fiscal policies adopted in the wake of the Great Recession. Of course, a number of risks to U.S. and global economic growth remain, and changing conditions in 2015 are likely to benefit some industry groups more than others. That's why we urge you to talk regularly with your financial advisor about the potential impact of macroeconomic developments on your investments.

Thank you for your continued confidence and support.

Sincerely,

J. Charles Cardona
President
The Dreyfus Corporation
January 15, 2015

DISCUSSION OF FUND PERFORMANCE

For the period of January 1, 2014, through December 31, 2014, as provided by Warren Chiang, William Cazalet, C. Wesley Boggs, and Ronald Gala, Portfolio Managers

Fund and Market Performance Overview

For the 12-month period ended December 31, 2014, Dreyfus Investment Portfolios, MidCap Stock Portfolio's Initial shares produced a total return of 12.09%, and its Service shares produced a total return of 11.76%.[1] In comparison, the fund's benchmark, the Standard & Poor's MidCap 400® Index (the "S&P 400 Index"), produced a total return of 9.77% for the same period.[2]

A sustained U.S. economic recovery generally helped support stock prices over the reporting period, including those of most midcap stocks. The fund outperformed its benchmark, mainly due to favorable security selection in the information technology, consumer staples, industrials, and health care 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 net assets, plus any borrowings for investment purposes, in stocks of midcap 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.

Midcap Stocks Climbed despite Bouts of Volatility

Midcap stocks began 2014 in the midst of a rally fueled by falling unemployment and intensifying manufacturing activity, but stocks across all capitalization ranges gave up some of their previous gains in January, when concerns arose regarding economic and political instability in the emerging markets. In addition, U.S. GDP contracted at a surprising annualized 2.1% rate over the first quarter of 2014 due to the dampening economic effects of severe winter weather.

Nonetheless, U.S. stocks began to rebound in February, and some broad market indices climbed to record highs by the beginning of July as investors responded to expectations that subdued inflation would allow the Federal Reserve Board to keep short-term interest rates low even as monetary policymakers gradually backed away from their massive quantitative easing program. Investor optimism appeared to be validated during the second quarter of the year, when the U.S. economy rebounded at a robust 4.6% annualized rate as labor markets, manufacturing activity, and consumer confidence improved.

The market encountered renewed volatility in July and September due to disappointing economic data from Europe, China, and Japan, which sparked concerns that a faltering global economy might derail the U.S. expansion. Strong corporate earnings and solid domestic economic data — including an estimated 5.0% annualized GDP growth rate for the third quarter — generally enabled stocks to rebound. However, ongoing turmoil in overseas markets and plummeting commodity prices caused newly risk-averse investors to turn away from smaller growth companies in favor of very large, traditionally defensive stocks with high dividend yields. Consequently, midcap stocks trailed large-cap stocks but produced higher returns than small-cap stocks for the year overall.

Stock Selection Bolstered Fund Results

Our disciplined investment process was effective in identifying some of the midcap segment of the market's best performers. The fund achieved especially strong results among semiconductor manufacturers in the information technology sector, where a proposed acquisition of *International Rectifier* by a Germany-based semiconductor producer generated solid gains, and Integrated Device Technology exhibited robust earnings momentum. However, positive results in the information technology sector were offset to a degree by weakness in real-time information and analysis provider NeuStar, Cl. A, which struggled with concerns regarding the renewal of a key contract.

Other positive performers for 2014 came from the food products segment of the consumer staples sector. Most notably, packaged meat and frozen bakery products producer *Hillshire Brands* was the subject of a bidding war between two protein companies, which helped support a high acquisition price. Among industrial companies, air carrier Southwest Airlines posted better-than-expected earnings and benefited from a decline in fuel costs. In the health care sector, winners included medical insurer Health Net, which reported strong earnings and raised the future guidance it provides to analysts.

Disappointments during 2014 included the materials sector, where stock selection, particularly among chemical producers detracted from returns. Likewise, the energy sector suffered a sharp drop in oil prices over the second half of the year, which led to declines across the sector. Fund holding SM Energy was particularly hard hit after announcing lower-than-expected production due to an operational change.

Finding Ample Opportunities Using a Disciplined Process

As of year-end, our quantitative investment process has continued to identify what we believe are attractive investments among midcap stocks. Indeed, recent bouts of heightened market volatility have provided opportunities to purchase the stocks of companies ranked highly by our process. As the fund's holdings reach fuller valuations, we typically replace them with high quality companies that display attractive valuations. In addition, we continue to maintain a broadly diversified portfolio.

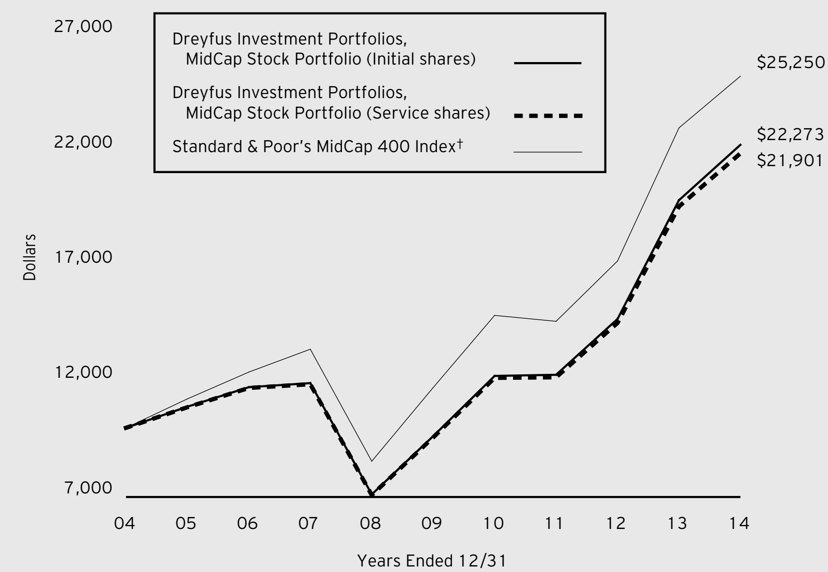
January 15, 2015

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. The investment objective and policies of Dreyfus Investment Portfolios, MidCap Stock Portfolio made available through insurance products may be similar to other funds managed by Dreyfus. However, the investment results of the fund may be higher or lower than, and may not be comparable to, those of any other Dreyfus fund.

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 any index.*

FUND PERFORMANCE



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

Average Annual Total Returns *as of 12/31/14*

	1 Year	5 Years	10 Years
Initial shares	**12.09%**	**18.24%**	**8.34%**
Service shares	**11.76%**	**17.97%**	**8.16%**
Standard & Poor's MidCap 400 Index	**9.77%**	**16.54%**	**9.71%**

† *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 12/31/04 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 for Initial and Service shares (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, 2014 to December 31, 2014. 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, 2014

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.32	$ 5.60
Ending value (after expenses)	$1,038.30	$1,037.00

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

Using the SEC's method to compare expenses

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

Expenses and Value of a $1,000 Investment
assuming a hypothetical 5% annualized return for the six months ended December 31, 2014

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.28	$ 5.55
Ending value (after expenses)	$1,020.97	$1,019.71

† *Expenses are equal to the fund's annualized expense ratio of .84% for Initial shares and 1.09% 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, 2014

Common Stocks—99.3%	Shares	Value ($)
Banks—4.5%		
Associated Banc-Corp	148,000	2,757,240
BancorpSouth	79,100	1,780,541
BankUnited	5,600	162,232
Cathay General Bancorp	58,700	1,502,133
Comerica	11,900	557,396
Cullen/Frost Bankers	16,900	1,193,816
East West Bancorp	5,700	220,647
Fulton Financial	21,100	260,796
KeyCorp	30,300	421,170
		8,855,971
Capital Goods—9.5%		
Huntington Ingalls Industries	30,900	3,475,014
IDEX	39,400	3,066,896
Lennox International	25,200 [a]	2,395,764
Lincoln Electric Holdings	38,000	2,625,420
SPX	30,300	2,603,376
Textron	60,500	2,547,655
Trinity Industries	68,000	1,904,680
		18,618,805
Commercial & Professional Services—2.7%		
Deluxe	34,600	2,153,850
IHS, Cl. A	3,300 [b]	375,804
Manpowergroup	41,100	2,801,787
		5,331,441
Consumer Durables & Apparel—4.5%		
Deckers Outdoor	33,500 [b]	3,049,840
Kate Spade & Company	76,700 [b]	2,455,167
NVR	2,600 [b]	3,315,858
		8,820,865

Common Stocks (continued)	Shares		Value ($)
Consumer Services—.7%			
Domino's Pizza	3,600		339,012
Hyatt Hotels, Cl. A	9,300	b	559,953
Wyndham Worldwide	4,700		403,072
			1,302,037
Diversified Financials—4.4%			
Affiliated Managers Group	9,480	b	2,012,035
CBOE Holdings	12,100		767,382
SEI Investments	61,000		2,442,440
T. Rowe Price Group	2,400		206,064
Waddell & Reed Financial, Cl. A	62,200		3,098,804
			8,526,725
Energy—2.7%			
Dril-Quip	7,000	b	537,110
Helix Energy Solutions Group	120,700	b	2,619,190
SM Energy	39,700		1,531,626
Tesoro	7,400		550,190
			5,238,116
Food & Staples Retailing—1.5%			
Rite Aid	381,200	b	**2,866,624**
Food, Beverage & Tobacco—.6%			
Ingredion	6,300		534,492
Lancaster Colony	7,300		683,572
			1,218,064
Health Care Equipment & Services—7.4%			
Align Technology	23,900	b	1,336,249
Boston Scientific	175,300	b	2,322,725
C.R. Bard	7,600		1,266,312
Health Net	62,000	b	3,318,860
Teleflex	25,700		2,950,874
Universal Health Services, Cl. B	24,500		2,725,870
VCA	12,400	b	604,748
			14,525,638
Household & Personal Products—1.9%			
Energizer Holdings	29,400		**3,779,664**

Common Stocks (continued)	Shares		Value ($)
Insurance—5.9%			
American Financial Group	4,200		255,024
Everest Re Group	20,400		3,474,120
The Hanover Insurance Group	24,900		1,775,868
Lincoln National	12,600		726,642
Old Republic International	151,700		2,219,371
Reinsurance Group of America	13,900		1,217,918
RenaissanceRe Holdings	2,400		233,328
StanCorp Financial Group	22,400		1,564,864
			11,467,135
Materials—4.8%			
Albemarle	6,000	a	360,780
Ball	14,200		968,014
Cabot	36,600		1,605,276
Commercial Metals	106,800		1,739,772
Eagle Materials	5,500		418,165
Olin	18,800		428,076
PolyOne	37,100		1,406,461
Silgan Holdings	7,600		407,360
Worthington Industries	68,900		2,073,201
			9,407,105
Media—2.8%			
John Wiley & Sons, Cl. A	24,000		1,421,760
New York Times, Cl. A	132,000		1,745,040
Starz, Cl. A	78,700	b	2,337,390
			5,504,190
Pharmaceuticals, Biotech & Life Sciences—4.4%			
Charles River Laboratories International	32,200	b	2,049,208
Hospira	15,200	b	931,000
Mettler-Toledo International	12,940	b	3,913,832
PerkinElmer	40,100		1,753,573
			8,647,613
Real Estate—6.3%			
Camden Property Trust	15,500	c	1,144,520
CBL & Associates Properties	87,100	c	1,691,482

Common Stocks (continued)	Shares		Value ($)
Real Estate (continued)			
Corrections Corporation of America	73,035	c	2,654,092
Extra Space Storage	12,500	c	733,000
National Retail Properties	37,200	a,c	1,464,564
Omega Healthcare Investors	44,500	a,c	1,738,615
Potlatch	26,900	c	1,126,303
Weingarten Realty Investors	52,500	c	1,833,300
			12,385,876
Retailing—5.0%			
Abercrombie & Fitch, Cl. A	31,400	a	899,296
Bed Bath & Beyond	10,400	b	792,168
Big Lots	65,400		2,617,308
Dillard's, Cl. A	3,600		450,648
Foot Locker	60,800		3,415,744
O'Reilly Automotive	8,700	b	1,675,794
			9,850,958
Semiconductors & Semiconductor Equipment—4.0%			
Fairchild Semiconductor International	14,500	b	244,760
Integrated Device Technology	159,300	b	3,122,280
Skyworks Solutions	61,300		4,457,123
			7,824,163
Software & Services—10.3%			
Amdocs	10,500		489,878
ANSYS	41,500	b	3,403,000
Broadridge Financial Solutions	4,700		217,046
Computer Sciences	40,500		2,553,525
Convergys	37,300		759,801
DST Systems	30,044		2,828,643
Jack Henry & Associates	29,200		1,814,488
Mentor Graphics	99,100		2,172,272
NeuStar, Cl. A	54,100	a,b	1,503,980

Common Stocks (continued)	Shares		Value ($)
Software & Services (continued)			
PTC	76,000	b	2,785,400
Rovi	67,100	b	1,515,789
			20,043,822
Technology Hardware & Equipment—4.7%			
ARRIS Group	102,700	b	3,100,513
Arrow Electronics	50,300	b	2,911,867
Brocade Communications Systems	124,800		1,477,632
Vishay Intertechnology	120,300		1,702,245
			9,192,257
Transportation—4.1%			
Alaska Air Group	18,200		1,087,632
Kirby	28,600	b	2,309,164
Old Dominion Freight Line	23,600	b	1,832,304
Southwest Airlines	65,600		2,776,192
			8,005,292
Utilities—6.6%			
Atmos Energy	28,100		1,566,294
Entergy	14,000		1,224,720
IDACORP	45,500		3,011,645
National Fuel Gas	41,600		2,892,448
PNM Resources	41,600		1,232,608
Westar Energy	72,500		2,989,900
			12,917,615
Total Common Stocks (cost $168,301,744)			**194,329,976**

Other Investment—.7%			
Registered Investment Company;			
Dreyfus Institutional Preferred Plus Money Market Fund (cost $1,336,380)	1,336,380	d	**1,336,380**

Investment of Cash Collateral for Securities Loaned—2.8%	Shares	Value ($)
Registered Investment Company;		
Dreyfus Institutional Cash Advantage Fund (cost $5,489,803)	5,489,803 [d]	**5,489,803**
Total Investments (cost $175,127,927)	**102.8%**	**201,156,159**
Liabilities, Less Cash and Receivables	**(2.8%)**	**(5,461,518)**
Net Assets	**100.0%**	**195,694,641**

[a] *Security, or portion thereof, on loan. At December 31, 2014, the value of the fund's securities on loan was $5,290,074 and the value of the collateral held by the fund was $5,489,803.*

[b] *Non-income producing security.*

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

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

Portfolio Summary (Unaudited)†

	Value (%)
Software & Services	10.3
Capital Goods	9.5
Health Care Equipment & Services	7.4
Utilities	6.6
Real Estate	6.3
Insurance	5.9
Retailing	5.0
Materials	4.8
Technology Hardware & Equipment	4.7
Banks	4.5
Consumer Durables & Apparel	4.5
Diversified Financials	4.4
Pharmaceuticals, Biotech & Life Sciences	4.4
Transportation	4.1
Semiconductors & Semiconductor Equipment	4.0
Money Market Investments	3.5
Media	2.8
Commercial & Professional Services	2.7
Energy	2.7
Household & Personal Products	1.9
Food & Staples Retailing	1.5
Consumer Services	.7
Food, Beverage & Tobacco	.6
	102.8

† *Based on net assets.*

See notes to financial statements.

STATEMENT OF ASSETS AND LIABILITIES

December 31, 2014

	Cost	Value
Assets ($):		
Investments in securities—See Statement of Investments (including securities on loan, valued at $5,290,074)—Note 1(b):		
Unaffiliated issuers	168,301,744	194,329,976
Affiliated issuers	6,826,183	6,826,183
Cash		434,567
Dividends and securities lending income receivable		212,379
Prepaid expenses		937
		201,804,042
Liabilities ($):		
Due to The Dreyfus Corporation and affiliates—Note 3(b)		139,285
Liability for securities on loan—Note 1(b)		5,489,803
Payable for shares of Beneficial Interest redeemed		416,727
Accrued expenses		63,586
		6,109,401
Net Assets ($)		**195,694,641**
Composition of Net Assets ($):		
Paid-in capital		137,486,489
Accumulated undistributed investment income—net		1,160,450
Accumulated net realized gain (loss) on investments		31,019,470
Accumulated net unrealized appreciation (depreciation) on investments		26,028,232
Net Assets ($)		**195,694,641**

Net Asset Value Per Share

	Initial Shares	Service Shares
Net Assets ($)	160,482,026	35,212,615
Shares Outstanding	6,969,559	1,533,246
Net Asset Value Per Share ($)	**23.03**	**22.97**

See notes to financial statements.

STATEMENT OF OPERATIONS

Year Ended December 31, 2014

Investment Income ($):	
Income:	
Cash dividends:	
Unaffiliated issuers	2,714,337
Affiliated issuers	748
Income from securities lending—Note 1(b)	54,067
Total Income	**2,769,152**
Expenses:	
Management fee—Note 3(a)	1,388,941
Distribution fees—Note 3(b)	65,253
Professional fees	61,793
Trustees' fees and expenses—Note 3(c)	51,851
Prospectus and shareholders' reports	36,490
Custodian fees—Note 3(b)	18,475
Loan commitment fees—Note 2	1,684
Shareholder servicing costs—Note 3(b)	1,033
Registration fees	767
Miscellaneous	16,202
Total Expenses	**1,642,489**
Less—reduction in fees due to earnings credits—Note 3(b)	(4)
Net Expenses	**1,642,485**
Investment Income—Net	**1,126,667**
Realized and Unrealized Gain (Loss) on Investments—Note 4 ($):	
Net realized gain (loss) on investments	31,053,585
Net unrealized appreciation (depreciation) on investments	(11,297,380)
Net Realized and Unrealized Gain (Loss) on Investments	**19,756,205**
Net Increase in Net Assets Resulting from Operations	**20,882,872**

See notes to financial statements.

STATEMENT OF CHANGES IN NET ASSETS

	Year Ended December 31,	
	2014	2013
Operations ($):		
Investment income—net	1,126,667	1,800,471
Net realized gain (loss) on investments	31,053,585	24,580,779
Net unrealized appreciation (depreciation) on investments	(11,297,380)	22,964,034
Net Increase (Decrease) in Net Assets Resulting from Operations	**20,882,872**	**49,345,284**
Dividends to Shareholders from ($):		
Investment income—net:		
Initial Shares	(1,600,836)	(2,004,668)
Service Shares	(180,578)	(239,571)
Net realized gain on investments:		
Initial Shares	(868,833)	–
Service Shares	(126,481)	–
Total Dividends	**(2,776,728)**	**(2,244,239)**
Beneficial Interest Transactions ($):		
Net proceeds from shares sold:		
Initial Shares	9,644,215	9,556,906
Service Shares	16,589,102	4,690,114
Dividends reinvested:		
Initial Shares	2,469,669	2,004,668
Service Shares	307,059	239,571
Cost of shares redeemed:		
Initial Shares	(25,817,267)	(22,485,449)
Service Shares	(8,124,921)	(4,832,159)
Increase (Decrease) in Net Assets from Beneficial Interest Transactions	**(4,932,143)**	**(10,826,349)**
Total Increase (Decrease) in Net Assets	**13,174,001**	**36,274,696**
Net Assets ($):		
Beginning of Period	182,520,640	146,245,944
End of Period	**195,694,641**	**182,520,640**
Undistributed investment income—net	1,160,450	1,815,197

	Year Ended December 31,	
	2014	2013
Capital Share Transactions:		
Initial Shares		
Shares sold	444,102	526,247
Shares issued for dividends reinvested	117,940	114,815
Shares redeemed	(1,194,189)	(1,227,217)
Net Increase (Decrease) in Shares Outstanding	**(632,147)**	**(586,155)**
Service Shares		
Shares sold	749,291	257,048
Shares issued for dividends reinvested	14,678	13,721
Shares redeemed	(375,381)	(265,704)
Net Increase (Decrease) in Shares Outstanding	**388,588**	**5,065**

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	2014	2013	2012	2011	2010
Per Share Data ($):					
Net asset value, beginning of period	20.87	15.68	13.16	13.17	10.46
Investment Operations:					
Investment income—net[a]	.14	.20	.23	.06	.06
Net realized and unrealized gain (loss) on investments	2.35	5.24	2.36	.00[b]	2.76
Total from Investment Operations	2.49	5.44	2.59	.06	2.82
Distributions:					
Dividends from investment income—net	(.21)	(.25)	(.07)	(.07)	(.11)
Dividends from net realized gain on investments	(.12)	–	–	–	–
Total Distributions	(.33)	(.25)	(.07)	(.07)	(.11)
Net asset value, end of period	23.03	20.87	15.68	13.16	13.17
Total Return (%)	12.09	34.99	19.67	.40	27.10
Ratios/Supplemental Data (%):					
Ratio of total expenses to average net assets	.85	.86	.85	.86	.84
Ratio of net expenses to average net assets	.85	.86	.85	.86	.84
Ratio of net investment income to average net assets	.64	1.11	1.58	.50	.54
Portfolio Turnover Rate	83.06	68.72	73.96	81.48	79.28
Net Assets, end of period ($ x 1,000)	160,482	158,682	128,410	123,187	147,155

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

Service Shares	2014	2013	2012	2011	2010
	Year Ended December 31,				
Per Share Data ($):					
Net asset value, beginning of period	20.83	15.65	13.14	13.16	10.46
Investment Operations:					
Investment income—net[a]	.09	.16	.19	.02	.05
Net realized and unrealized gain (loss) on investments	2.34	5.23	2.35	.01	2.76
Total from Investment Operations	2.43	5.39	2.54	.03	2.81
Distributions:					
Dividends from investment income—net	(.17)	(.21)	(.03)	(.05)	(.11)
Dividends from net realized gain on investments	(.12)	–	–	–	–
Total Distributions	(.29)	(.21)	(.03)	(.05)	(.11)
Net asset value, end of period	22.97	20.83	15.65	13.14	13.16
Total Return (%)	11.76	34.70	19.34	.20	26.94
Ratios/Supplemental Data (%):					
Ratio of total expenses to average net assets	1.10	1.11	1.10	1.11	1.09
Ratio of net expenses to average net assets	1.10	1.11	1.10	1.11	.97
Ratio of net investment income to average net assets	.40	.86	1.32	.18	.40
Portfolio Turnover Rate	83.06	68.72	73.96	81.48	79.28
Net Assets, end of period ($ x 1,000)	35,213	23,838	17,836	17,050	19,586

[a] *Based on average shares outstanding.*
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 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 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 of the preceding securities are generally 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 financial futures. 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 Company's Board of Trustees (the "Board"). 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 within Level 2 or 3 of the fair value hierarchy depending on the relevant inputs used.

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

The following is a summary of the inputs used as of December 31, 2014 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 Common Stocks†	194,329,976	–	–	**194,329,976**
Mutual Funds	6,826,183	–	–	**6,826,183**

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

At December 31, 2014, there were no transfers between Level 1 and Level 2 of the fair value hierarchy.

(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 or U.S. Government and Agency securities. The fund is entitled to receive all dividends, interest and distributions on securities loaned, in addition to income earned as a result of the lending transaction. Should a borrower fail to return the securities in a timely manner, The Bank of New York Mellon is required to replace the securities for the benefit of the fund or credit the fund with the market value of the unreturned securities and is subrogated to the fund's rights against the borrower and the collateral. During the period ended December 31, 2014, The Bank of New York Mellon earned $15,074 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" under the Act. Investments in affiliated investment companies during the period ended December 31, 2014 were as follows:

Affiliated Investment Company	Value 12/31/2013 ($)	Purchases ($)	Sales ($)	Value 12/31/2014 ($)	Net Assets (%)
Dreyfus Institutional Preferred Plus Money Market Fund	386,757	20,128,954	19,179,331	1,336,380	.7
Dreyfus Institutional Cash Advantage Fund	8,127,185	76,458,860	79,096,242	5,489,803	2.8
Total	**8,513,942**	**96,587,814**	**98,275,573**	**6,826,183**	**3.5**

(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, 2014, 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 ended December 31, 2014, the fund did not incur any interest or penalties.

Each tax year in the four-year period ended December 31, 2014 remains subject to examination by the Internal Revenue Service and state taxing authorities.

At December 31, 2014, the components of accumulated earnings on a tax basis were as follows: undistributed ordinary income $8,871,634, undistributed capital gains $23,300,391 and unrealized appreciation $25,998,879.

The tax character of distributions paid to shareholders during the fiscal periods ended December 31, 2014 and December 31, 2013 were as follows: ordinary income $1,781,414 and $2,244,239, and long-term capital gains $995,314 and $0, respectively.

NOTE 2—Bank Lines of Credit:

The fund participates with other Dreyfus-managed funds in a $430 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. Prior to October 8, 2014, the unsecured credit facility with Citibank, N.A. was $265 million. 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, 2014, 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 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 Distribution 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 Distribution Plan are payable without regard to actual expenses incurred. During the period ended December 31, 2014, Service shares were charged $65,253 pursuant to the Distribution Plan.

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

The fund compensates Dreyfus Transfer, Inc., a wholly-owned subsidiary of the Manager, under a transfer agency agreement for providing transfer agency and cash management services for the fund. The majority of transfer agency fees are comprised of amounts paid on a per account basis, while cash management fees are related to fund subscriptions and redemptions. During the period ended December 31, 2014, the fund was charged $883 for transfer agency services and $61 for cash management services. These fees are included in Shareholder servicing costs in the Statement of Operations. Cash management fees were partially offset by earnings credits of $4.

The fund compensates The Bank of New York Mellon under a custody agreement for providing custodial services for the fund. These fees are determined based on net assets, geographic region and transaction activity. During the period ended December 31, 2014, the fund was charged $18,475 pursuant to the custody agreement.

During the period ended December 31, 2014, the fund was charged $7,771 for services performed by the Chief Compliance Officer and his staff.

The components of "Due to The Dreyfus Corporation and affiliates" in the Statement of Assets and Liabilities consist of: management fees $123,398, Distribution Plan fees $7,191, custodian fees $6,627, Chief Compliance Officer fees $1,851 and transfer agency fees $218.

(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, 2014, amounted to $153,834,492 and $160,918,926, respectively.

At December 31, 2014, the cost of investments for federal income tax purposes was $175,157,280; accordingly, accumulated net unrealized appreciation on investments was $25,998,879, consisting of $34,110,034 gross unrealized appreciation and $8,111,155 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, 2014, 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, 2014 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, 2014, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

New York, New York
February 11, 2015

IMPORTANT TAX INFORMATION (Unaudited)

For federal tax purposes, the portfolio hereby reports 99.95% of the ordinary dividends paid during the fiscal year ended December 31, 2014 as qualifying for the corporate dividends received deduction. Shareholders will receive notification in early 2015 of the percentage applicable to the preparation of their 2014 income tax returns. Also, the fund hereby reports $.1162 per share as a long-term capital gain distribution paid on March 19, 2014.

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

At a meeting of the fund's Board of Trustees held on July 15-16, 2014, 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, a majority of whom are not "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 Dreyfus representatives. 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 considered information provided to them at the meeting and in previous presentations from Dreyfus representatives regarding the nature, extent, and quality of the services provided to funds in the Dreyfus fund complex. 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 (such as retail direct or intermediary, in which intermediaries typically are paid by the fund and/or Dreyfus) and Dreyfus' corresponding need for broad, deep, and diverse resources to be able to provide ongoing shareholder services to each intermediary or distribution channel, as applicable to the fund.

The Board 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 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 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, 2014, 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 the date of its analysis. 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 discussed the results of the comparisons and noted that the fund's total return performance was above the Performance Group and Performance Universe medians for all periods, except for the ten-year period when the fund's performance was 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 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. The Board noted that the fund's contractual management fee was below the Expense Group median, the fund's actual management fee was below the Expense Group median and at the Expense Universe median and the fund's total expenses were below the Expense Group median and slightly above the Expense Universe median.

Dreyfus representatives reviewed with the Board 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(s) 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 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 its affiliates and the resulting profitability percentage for managing the fund and the aggregate profitability percentage to Dreyfus and its affiliates for managing the funds in the Dreyfus fund complex, 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 also 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 considered on the advice of its counsel the profitability analysis (1) as part of its 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. Dreyfus representatives noted that a discussion of economies of scale is predicated on a fund having achieved a substantial size with increasing assets and that, if a fund's assets had been stable or decreasing, the possibility that Dreyfus may have realized any economies of scale would be less. Dreyfus representatives 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 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 was satisfied with the fund's 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.

In evaluating the Agreement, the Board considered these conclusions and determinations and also relied on its previous knowledge, gained through meetings and other interactions with Dreyfus and its affiliates, of the fund and the services provided to the fund by Dreyfus. The Board also relied on information received on a routine and regular basis throughout the year relating to the operations of the fund and the investment management and other services provided under the Agreement, including information on the investment performance of the fund in comparison to similar mutual funds and benchmark performance indices; general market outlook as applicable to the fund; and compliance reports. In addition, 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 and Dreyfus representatives. Certain aspects of the arrangements may receive greater scrutiny in some years than in others, and the Board's conclusions may be based, in part, on their consideration of the same or similar arrangements in prior years. The Board determined to renew the Agreement.

BOARD MEMBERS INFORMATION (Unaudited)

INDEPENDENT BOARD MEMBERS

Joseph S. DiMartino (71)
Chairman of the Board (1995)

Principal Occupation During Past 5 Years:
• Corporate Director and Trustee (1995-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 (1997-present)
• The Newark Group, a provider of a national market of paper recovery facilities, paperboard mills and paperboard converting plants, Director (2000-2010)
• Sunair Services Corporation, a provider of certain outdoor-related services to homes and businesses, Director (2005-2009)

No. of Portfolios for which Board Member Serves: 146

Gordon J. Davis (73)
Board Member (2012)

Principal Occupation During Past 5 Years:
• Partner in the law firm of Venable LLP (2012-present)
• Partner in the law firm of Dewey & LeBoeuf LLP (1994-2012)

Other Public Company Board Memberships During Past 5 Years:
• Consolidated Edison, Inc., a utility company, Director (1997-present)
• The Phoenix Companies, Inc., a life insurance company, Director (2000-present)

No. of Portfolios for which Board Member Serves: 62

Nathan Leventhal (71)
Board Member (2009)

Principal Occupation During Past 5 Years:
• Chairman of the Avery-Fisher Artist Program (1997-2014)
• Commissioner, NYC Planning Commission (2007-2011)

Other Public Company Board Membership During Past 5 Years:
• Movado Group, Inc., Director (2003-present)

No. of Portfolios for which Board Member Serves: 52

Robin A. Melvin (51)
Board Member (2014)

Principal Occupation During Past 5 Years:
- Board Member, Illinois Mentoring Partnership, non-profit organization dedicated to increasing the quantity and quality of mentoring services in Illinois (2013-present)
- Director, Boisi Family Foundation, a private family foundation that supports youth-serving organizations that promote the self sufficiency of youth from disadvantaged circumstances (1995-2012)

No. of Portfolios for which Board Member Serves: 114

Roslyn M. Watson (65)
Board Member (2014)

Principal Occupation During Past 5 Years:
- Principal, Watson Ventures, Inc., a real estate investment company (1993-present)

No. of Portfolios for which Board Member Serves: 70

Benaree Pratt Wiley (68)
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 Membership 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: 70

J. Charles Cardona (58)
Board Member (2014)†

Principal Occupation During Past 5 Years:

- President and a Director of the Manager, Executive Vice President of the Distributor, President of Dreyfus Institutional Services Division (2008-present)

No. of Portfolios for which Board Member Serves: 38

J. Charles Cardona is deemed to be an "interested person" (as defined in the Act) of the Company as a result of his affiliation with The Dreyfus Corporation.

Isabel P. Dunst (67)
Board Member (2014)

Principal Occupation During Past 5 Years:

- Partner, Hogan Lovells LLP (1990-present)

No. of Portfolios for which Board Member Serves: 38

Isabel P. Dunst is deemed to be an "interested person" (as defined in the Act) of the Company as a result of her affiliation with Hogan Lovells LLP, which provides legal services to BNY Mellon and certain of its affiliates.

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† J. Charles Cardona was elected as a Board Member of the Company on February 27, 2014.

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 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.

Clifford L. Alexander, Jr., Emeritus Board Member
Whitney I. Gerard, Emeritus Board Member
Arthur A. Hartman, Emeritus Board Member
George L. Perry, Emeritus Board Member

BRADLEY J. SKAPYAK, President since January 2010.

Chief Operating Officer and a director of the Manager since June 2009, Chairman of Dreyfus Transfer, Inc., an affiliate of the Manager and the transfer agent of the funds, since May 2011 and Executive Vice President of the Distributor since June 2007. 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 69 investment companies (comprised of 146 portfolios) managed by the Manager. He is 56 years old and has been an employee of the Manager since February 1988.

JOHN PAK, Chief Legal Officer since March 2013.

Deputy General Counsel, Investment Management, of BNY Mellon since August 2014; Chief Legal Officer of the Manager since August 2012; from March 2005 to July 2012, Managing Director of Deutsche Bank, Deputy Global Head of Deutsche Asset Management Legal and Regional Head of Deutsche Asset Management Americas Legal. He is an officer of 70 investment companies (comprised of 171 portfolios) managed by the Manager. He is 46 years old and has been an employee of the Manager since August 2012.

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

Assistant General Counsel of BNY Mellon, and an officer of 70 investment companies (comprised of 171 portfolios) managed by the Manager. She is 52 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 70 investment companies (comprised of 171 portfolios) managed by the Manager. She is 41 years old and has been an employee of the Manager since July 1995.

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

Managing Counsel of BNY Mellon and Secretary of the Manager, and an officer of 70 investment companies (comprised of 171 portfolios) managed by the Manager. He is 48 years old and has been an employee of the Manager since December 1996.

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

Managing Counsel of BNY Mellon, and an officer of 70 investment companies (comprised of 171 portfolios) managed by the Manager. She is 59 years old and has been an employee of the Manager since October 1988.

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

Managing Counsel of BNY Mellon, and an officer of 70 investment companies (comprised of 171 portfolios) managed by the Manager. He is 53 years old and has been an employee of the Manager since June 2000.

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

Senior Managing Counsel of BNY Mellon, and an officer of 70 investment companies (comprised of 171 portfolios) managed by the Manager. He is 51 years old and has been an employee of the Manager since February 1991.

SARAH S. KELLEHER, Vice President and Assistant Secretary since April 2014.

Senior Counsel of BNY Mellon, and an officer of 70 investment companies (comprised of 171 portfolios) managed by the Manager; from August 2005 to March 2013, Associate General Counsel of Third Avenue Management. She is 39 years old and has been an employee of the Manager since March 2013.

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

Senior Managing Counsel of BNY Mellon, and an officer of 70 investment companies (comprised of 171 portfolios) managed by the Manager. He is 49 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 70 investment companies (comprised of 171 portfolios) managed by the Manager. He is 56 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 70 investment companies (comprised of 171 portfolios) managed by the Manager. He is 55 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 70 investment companies (comprised of 171 portfolios) managed by the Manager. He is 46 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 70 investment companies (comprised of 171 portfolios) managed by the Manager. He is 50 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 70 investment companies (comprised of 171 portfolios) managed by the Manager. He is 47 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 70 investment companies (comprised of 171 portfolios) managed by the Manager. He is 47 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 (70 investment companies, comprised of 171 portfolios). He is 57 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.

MATTHEW D. CONNOLLY, Anti-Money Laundering Compliance Officer since April 2012.

Anti-Money Laundering Compliance Officer of the Distributor since October 2011; from March 2010 to September 2011, Global Head, KYC Reviews and Director of UBS Investment Bank; until March 2010, AML Compliance Officer and Senior Vice President of Citi Global Wealth Management. He is an officer of 65 investment companies (comprised of 166 portfolios) managed by the Manager. He is 42 years old and has been an employee of the Distributor since October 2011.

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.

0174AR1214

The Dreyfus Socially Responsible Growth Fund, Inc.

ANNUAL REPORT December 31, 2014

BNY MELLON

Dreyfus

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

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THE FUND

FOR MORE INFORMATION

A LETTER FROM THE PRESIDENT

Dear Shareholder:

We are pleased to present this annual report for Dreyfus Socially Responsible Growth Fund, covering the 12-month period from January 1, 2014, through December 31, 2014. 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.

While U.S. equities' 2014 gains fell short of their impressive 2013 performance, some broad measures of stock market performance posted their sixth consecutive year of positive results. Investor sentiment remained strong in an environment of sustained economic growth, rising corporate profits, muted inflation, and historically low interest rates. It also is noteworthy that stocks advanced despite persistent headwinds stemming from a sluggish global economy, which was characterized by economic weakness in Europe, Japan and China; intensifying geopolitical conflicts; and plummeting commodity prices.

Many economists appear to be optimistic about the prospects for 2015. Our own analysts agree and, in light of the ongoing benefits of low interest rates and depressed energy prices, see the potential for a somewhat faster pace of global growth in 2015 than in 2014. U.S. economic growth also seems poised to accelerate, largely due to the fading of drags from tight fiscal policies adopted in the wake of the Great Recession. Of course, a number of risks to U.S. and global economic growth remain, and changing conditions in 2015 are likely to benefit some industry groups more than others. That's why we urge you to talk regularly with your financial advisor about the potential impact of macroeconomic developments on your investments.

Thank you for your continued confidence and support.

Sincerely,

J. Charles Cardona
President
The Dreyfus Corporation
January 15, 2015

DISCUSSION OF FUND PERFORMANCE

For the period of January 1, 2014, through December 31, 2014, as provided by Warren Chiang, C. Wesley Boggs, Ronald Gala and William Cazalet, Portfolio Managers

Fund and Market Performance Overview

For the 12-month period ended December 31, 2014, The Dreyfus Socially Responsible Growth Fund's Initial shares produced a total return of 13.45%, and the fund's Service shares returned 13.13%.[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 13.66% for the same period.[2]

U.S. equities advanced during the reporting period when a domestic economic recovery gained momentum. The fund's returns underperformed its benchmark, as strong results in the information technology and industrials sectors were balanced by shortfalls in the energy and financials sectors.

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 net 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.

Stocks Climbed despite Global Headwinds

U.S. stocks began 2014 in the midst of a rally fueled by falling unemployment and intensifying manufacturing activity, but they gave up some of their gains in January when concerns arose regarding economic and political instability in the emerging markets. In addition, U.S. GDP contracted at an annualized 2.1% rate over the first quarter of 2014 due to the dampening effects of severe winter weather.

Equities began to rebound in February, and the S&P 500 Index climbed to new highs through the beginning of July as it became clear that the economic recovery was back on track. Investors also responded positively to low inflation and expectations that short-term interest rates would stay low. In fact, the U.S. economy rebounded at a robust 4.6% annualized rate during the second quarter of the year.

The market encountered renewed volatility in July and September when disappointing economic data from Europe, China, and Japan sparked concerns that a faltering global economy might derail the U.S. expansion. After a bout of heightened volatility, investors appeared to shrug off these concerns amid reports of strong corporate earnings and solid domestic economic data, including an estimated 5.0% annualized GDP growth rate for the third quarter. Stocks generally rebounded, but ongoing turmoil in overseas markets and plummeting commodity prices caused investors to turn from smaller growth companies toward very large, traditionally defensive stocks with high dividend yields. In this environment, large-cap stocks substantially outperformed small-cap stocks.

Industrial and Technology Stocks Bolstered Relative Results

Our quantitative models worked well during the reporting period, as valuation, earnings, and volatility factors generally proved effective. The fund achieved especially strong results in the information technology sector, where semiconductor equipment maker Applied Materials advanced after higher enterprise spending among its customers boosted earnings forecasts. In the industrials sector, Southwest Airlines climbed strongly due to falling fuel costs and strong operational management. Among consumer discretionary stocks, investors responded positively to strong earnings and a favorable outlook from diversified hospitality company Marriott International, Cl. A.

Disappointments during the reporting period included several holdings in the energy sector — including Denbury Resources, ConocoPhillips, and Devon Energy — that were hurt by plummeting oil prices, particularly after the Organization of the Petroleum Exporting Countries (OPEC) left production targets unchanged. Shortfalls in the financials sector were spread among a number of holdings.

Our environmental, social, and governance ("ESG") criteria led to some changes in the fund's holdings over the reporting period. Most notably, we added a position in papermaker Kimberly-Clark, which has demonstrated its commitment to fighting illegal logging and obtaining pulp from sustainable sources. In contrast, we eliminated a position in fashion accessories seller Michael Kors Holdings, which has not yet signed fire and safety agreements covering its factories in Bangladesh.

Doing Well While Doing Good

We have remained cautiously optimistic regarding U.S. stocks. Despite economic struggles in overseas markets and falling commodity prices, we expect the U.S. economic recovery to continue to support corporate earnings. As always, we intend to employ our disciplined process to identify socially responsible companies with the strengths required to prosper as economic and market conditions evolve.

January 15, 2015

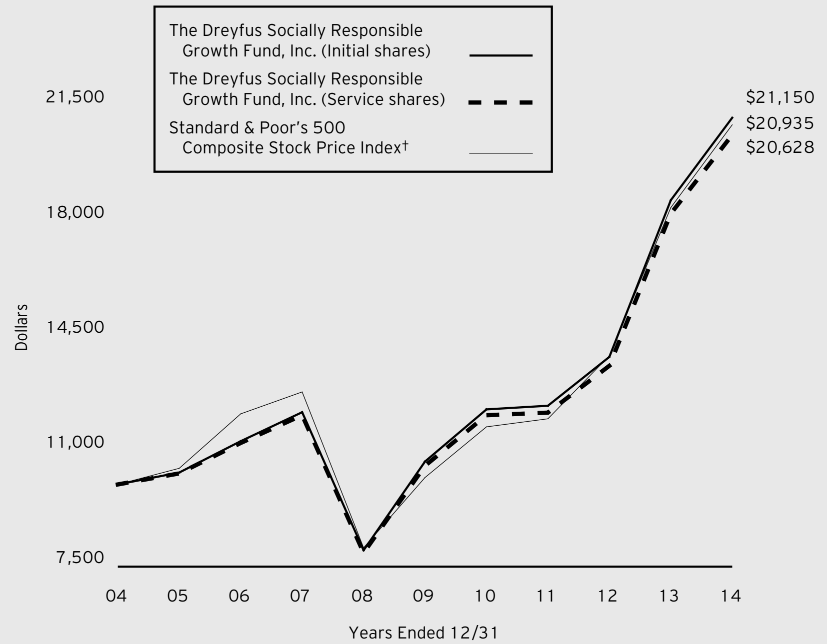
Equity funds are subject generally to market, market sector, market liquidity, issuer, and investment style risks, among other factors, to varying degrees, all of which are more fully described in the fund's prospectus.

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. The investment objective and policies of The Dreyfus Socially Responsible Growth Fund, Inc. made available through insurance products may be similar to other funds managed by Dreyfus. However, the investment results of the fund may be higher or lower than, and may not be comparable to, those of any other Dreyfus fund.

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 12/31/14*

	1 Year	5 Years	10 Years
Initial shares	**13.45%**	**14.61%**	**7.78%**
Service shares	**13.13%**	**14.31%**	**7.51%**
Standard & Poor's 500 Composite Stock Price Index	**13.66%**	**15.44%**	**7.67%**

† *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 12/31/04 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 for Initial and Service shares. 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, 2014 to December 31, 2014. 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, 2014

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.23	$ 5.56
Ending value (after expenses)	$1,045.00	$1,043.50

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, 2014

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.18	$ 5.50
Ending value (after expenses)	$1,021.07	$1,019.76

† *Expenses are equal to the fund's annualized expense ratio of .82% for Initial shares and 1.08% 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, 2014

Common Stocks—98.7%	Shares	Value ($)
Banks—1.9%		
Comerica	92,700	4,342,068
KeyCorp	74,850	1,040,415
		5,382,483
Capital Goods—10.1%		
3M	16,550	2,719,496
Caterpillar	36,800	3,368,304
Cummins	10,200	1,470,534
Fluor	21,850	1,324,766
General Electric	73,750	1,863,663
Ingersoll-Rand	39,800	2,522,922
Jacobs Engineering Group	20,650 [a]	922,848
Lockheed Martin	16,350	3,148,519
Masco	113,850	2,869,020
Pall	8,300	840,043
Parker Hannifin	20,100	2,591,895
Rockwell Automation	6,100	678,320
Snap-on	18,250	2,495,505
Textron	37,500	1,579,125
		28,394,960
Commercial & Professional Services—.9%		
Pitney Bowes	103,500	**2,522,295**
Consumer Durables & Apparel—.5%		
PVH	11,000	**1,409,870**
Consumer Services—2.2%		
Marriott International, Cl. A	79,550	**6,207,286**
Diversified Financials—5.2%		
American Express	46,250	4,303,100
Franklin Resources	62,800	3,477,236
Northern Trust	20,700	1,395,180
T. Rowe Price Group	63,150	5,422,059
		14,597,575

Common Stocks (continued)	Shares		Value ($)
Energy—8.5%			
Baker Hughes	59,900		3,358,593
ConocoPhillips	65,950		4,554,507
Denbury Resources	179,150	b	1,456,489
Devon Energy	23,100		1,413,951
EOG Resources	13,450		1,238,342
Hess	13,450		992,879
Marathon Petroleum	31,250		2,820,625
National Oilwell Varco	34,150		2,237,850
ONEOK	24,600		1,224,834
Phillips 66	19,450		1,394,565
Schlumberger	13,200		1,127,412
Spectra Energy	57,150		2,074,545
			23,894,592
Food, Beverage & Tobacco—4.5%			
Campbell Soup	31,300		1,377,200
Coca-Cola Enterprises	94,550		4,181,001
McCormick & Co.	15,100		1,121,930
Mondelez International, Cl. A	105,400		3,828,655
PepsiCo	23,600		2,231,616
			12,740,402
Health Care Equipment & Services—4.3%			
Aetna	17,200		1,527,876
AmerisourceBergen	32,000		2,885,120
Becton Dickinson & Co.	17,825		2,480,527
Cardinal Health	14,700		1,186,731
Cigna	15,000		1,543,650
Edwards Lifesciences	18,400	a	2,343,792
			11,967,696
Household & Personal Products—2.9%			
Clorox	37,250		3,881,823
Estee Lauder, Cl. A	19,100		1,455,420

Common Stocks (continued)	Shares		Value ($)
Household & Personal Products (continued)			
Kimberly-Clark	25,100		2,900,054
			8,237,297
Insurance—2.1%			
ACE	10,500		1,206,240
Marsh & McLennan	55,800		3,193,992
Travelers	15,600		1,651,260
			6,051,492
Materials—6.4%			
Alcoa	119,150		1,881,378
Ball	77,250		5,266,132
Dow Chemical	26,700		1,217,787
Ecolab	11,950		1,249,014
International Flavors & Fragrances	44,500		4,510,520
Sigma-Aldrich	28,350		3,891,605
			18,016,436
Media—5.4%			
DIRECTV	48,200	a	4,178,940
Discovery Communications, Cl. A	14,800	a	509,860
Scripps Networks Interactive, Cl. A	49,900		3,755,973
Time Warner	29,500		2,519,890
Time Warner Cable	16,950		2,577,417
Walt Disney	16,200		1,525,878
			15,067,958
Pharmaceuticals, Biotech & Life Sciences—13.1%			
Agilent Technologies	81,250		3,326,375
Allergan	10,950		2,327,860
AstraZeneca, ADR	27,050		1,903,779
Biogen Idec	13,050	a	4,429,823
Bristol-Myers Squibb	32,800		1,936,184
Eli Lilly & Co.	21,100		1,455,689

Common Stocks (continued)	Shares		Value ($)
Pharmaceuticals, Biotech & Life Sciences (continued)			
Gilead Sciences	58,350	a	5,500,071
Merck & Co.	92,600		5,258,754
Novartis, ADR	6,250		579,125
PerkinElmer	79,500		3,476,535
Thermo Fisher Scientific	9,400		1,177,726
Waters	33,650	a	3,793,028
Zoetis	41,500		1,785,745
			36,950,694
Retailing—1.4%			
Gap	91,400		**3,848,854**
Semiconductors & Semiconductor Equipment—2.1%			
Applied Materials	131,000		3,264,520
Intel	73,200		2,656,428
			5,920,948
Software & Services—10.5%			
Accenture, Cl. A	31,550		2,817,730
CA	32,950		1,003,327
Citrix Systems	22,300	a	1,422,740
Cognizant Technology Solutions, Cl. A	15,100	a	795,166
Computer Sciences	23,300		1,469,065
Google, Cl. A	1,160	a	615,566
Google, Cl. C	1,140	a	600,096
International Business Machines	19,725		3,164,679
Intuit	45,750		4,217,693
Microsoft	102,850		4,777,383
Oracle	75,325		3,387,365
Symantec	50		1,283
Teradata	64,500	a	2,817,360
Xerox	169,600		2,350,656
			29,440,109

Common Stocks (continued)	Shares	Value ($)
Technology Hardware & Equipment—9.7%		
Apple	97,300	10,739,974
Cisco Systems	132,075	3,673,666
Corning	172,800	3,962,304
EMC	51,625	1,535,328
Hewlett-Packard	127,100	5,100,523
Jabil Circuit	50	1,091
Motorola Solutions	16,700	1,120,236
Seagate Technology	16,900	1,123,850
		27,256,972
Telecommunication Services—.9%		
Verizon Communications	54,100	**2,530,798**
Transportation—4.7%		
Expeditors International of Washington	31,100	1,387,371
Norfolk Southern	30,650	3,359,546
Southwest Airlines	152,700	6,462,264
Union Pacific	15,900	1,894,167
		13,103,348
Utilities—1.4%		
NextEra Energy	25,600	2,721,024
PG&E	22,100	1,176,604
		3,897,628
Total Common Stocks (cost $208,433,845)		**277,439,693**

Other Investment—1.4%		
Registered Investment Company;		
Dreyfus Institutional Preferred Plus Money Market Fund (cost $3,814,776)	3,814,776 [c]	**3,814,776**

Investment of Cash Collateral for Securities Loaned–.5%	Shares	Value ($)
Registered Investment Company;		
Dreyfus Institutional Cash Advantage Fund (cost $1,507,543)	1,507,543 [c]	**1,507,543**
Total Investments (cost $213,756,164)	**100.6%**	**282,762,012**
Liabilities, Less Cash and Receivables	**(.6%)**	**(1,646,735)**
Net Assets	**100.0%**	**281,115,277**

ADR—American Depository Receipts

[a] *Non-income producing security.*

[b] *Security, or portion thereof, on loan. At December 31, 2014, the value of the fund's securities on loan was $1,441,921 and the value of the collateral held by the fund was $1,507,543.*

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

Portfolio Summary (Unaudited)†

	Value (%)		Value (%)
Pharmaceuticals, Biotech & Life Sciences	13.1	Consumer Services	2.2
Software & Services	10.5	Insurance	2.1
Capital Goods	10.1	Semiconductors & Semiconductor Equipment	2.1
Technology Hardware & Equipment	9.7	Banks	1.9
Energy	8.5	Money Market Investments	1.9
Materials	6.4	Retailing	1.4
Media	5.4	Utilities	1.4
Diversified Financials	5.2	Commercial & Professional Services	.9
Transportation	4.7	Telecommunication Services	.9
Food, Beverage & Tobacco	4.5	Consumer Durables & Apparel	.5
Health Care Equipment & Services	4.3		
Household & Personal Products	2.9		**100.6**

† *Based on net assets.*

See notes to financial statements.

STATEMENT OF ASSETS AND LIABILITIES

December 31, 2014

	Cost	Value
Assets ($):		
Investments in securities—See Statement of Investments (including securities on loan, valued at $1,441,921)—Note 1(b):		
Unaffiliated issuers	208,433,845	277,439,693
Affiliated issuers	5,322,319	5,322,319
Cash		40,866
Dividends and securities lending income receivable		348,531
Prepaid expenses		8,272
		283,159,681
Liabilities ($):		
Due to The Dreyfus Corporation and affiliates—Note 3(c)		193,522
Liability for securities on loan—Note 1(b)		1,507,543
Payable for shares of Common Stock redeemed		265,651
Accrued expenses		77,688
		2,044,404
Net Assets ($)		**281,115,277**
Composition of Net Assets ($):		
Paid-in capital		174,235,225
Accumulated undistributed investment income—net		2,772,856
Accumulated net realized gain (loss) on investments		35,101,348
Accumulated net unrealized appreciation (depreciation) on investments		69,005,848
Net Assets ($)		**281,115,277**

Net Asset Value Per Share

	Initial Shares	Service Shares
Net Assets ($)	270,483,004	10,632,273
Shares Outstanding	5,884,230	233,243
Net Asset Value Per Share ($)	**45.97**	**45.58**

See notes to financial statements.

STATEMENT OF OPERATIONS

Year Ended December 31, 2014

Investment Income ($):	
Income:	
Cash dividends (net of $9,563 foreign taxes withheld at source):	
Unaffiliated issuers	5,112,140
Affiliated issuers	2,018
Income from securities lending—Note 1(b)	2,643
Total Income	**5,116,801**
Expenses:	
Management fee—Note 3(a)	2,066,848
Professional fees	89,500
Directors' fees and expenses—Note 3(d)	78,473
Prospectus and shareholders' reports	47,194
Custodian fees—Note 3(c)	25,545
Distribution fees—Note 3(b)	24,233
Loan commitment fees—Note 2	2,285
Shareholder servicing costs—Note 3(c)	1,508
Interest expense—Note 2	84
Miscellaneous	6,978
Total Expenses	**2,342,648**
Less—reduction in fees due to earnings credits—Note 3(c)	(6)
Net Expenses	**2,342,642**
Investment Income—Net	**2,774,159**
Realized and Unrealized Gain (Loss) on Investments—Note 4 ($):	
Net realized gain (loss) on investments	35,125,017
Net unrealized appreciation (depreciation) on investments	(3,224,985)
Net Realized and Unrealized Gain (Loss) on Investments	**31,900,032**
Net Increase in Net Assets Resulting from Operations	**34,674,191**

See notes to financial statements.

STATEMENT OF CHANGES IN NET ASSETS

	Year Ended December 31,	
	2014	2013
Operations ($):		
Investment income—net	2,774,159	2,904,763
Net realized gain (loss) on investments	35,125,017	24,857,613
Net unrealized appreciation (depreciation) on investments	(3,224,985)	43,580,868
Net Increase (Decrease) in Net Assets Resulting from Operations	**34,674,191**	**71,343,244**
Dividends to Shareholders from ($):		
Investment income—net:		
Initial Shares	(2,824,636)	(2,903,989)
Service Shares	(79,619)	(77,437)
Net realized gain on investments:		
Initial Shares	(18,473,730)	–
Service Shares	(647,248)	–
Total Dividends	**(22,025,233)**	**(2,981,426)**
Capital Stock Transactions ($):		
Net proceeds from shares sold:		
Initial Shares	25,341,730	23,366,293
Service Shares	1,819,641	1,246,467
Dividends reinvested:		
Initial Shares	21,298,366	2,903,989
Service Shares	726,867	77,437
Cost of shares redeemed:		
Initial Shares	(53,057,045)	(35,165,859)
Service Shares	(1,143,249)	(1,245,153)
Increase (Decrease) in Net Assets from Capital Stock Transactions	**(5,013,690)**	**(8,816,826)**
Total Increase (Decrease) in Net Assets	**7,635,268**	**59,544,992**
Net Assets ($):		
Beginning of Period	273,480,009	213,935,017
End of Period	**281,115,277**	**273,480,009**
Undistributed investment income—net	2,772,856	2,902,952

	Year Ended December 31,	
	2014	2013
Capital Share Transactions:		
Initial Shares		
Shares sold	572,802	593,292
Shares issued for dividends reinvested	514,577	79,846
Shares redeemed	(1,207,470)	(906,877)
Net Increase (Decrease) in Shares Outstanding	**(120,091)**	**(233,739)**
Service Shares		
Shares sold	41,632	31,743
Shares issued for dividends reinvested	17,672	2,140
Shares redeemed	(26,392)	(32,040)
Net Increase (Decrease) in Shares Outstanding	**32,912**	**1,843**

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	2014	2013	2012	2011	2010
Per Share Data ($):					
Net asset value, beginning of period	44.09	33.24	29.91	29.90	26.26
Investment Operations:					
Investment income—net[a]	.45	.46	.44	.24	.25
Net realized and unrealized gain (loss) on investments	5.07	10.87	3.15	.04	3.62
Total from Investment Operations	5.52	11.33	3.59	.28	3.87
Distributions:					
Dividends from investment income—net	(.48)	(.48)	(.26)	(.27)	(.23)
Dividends from net realized gain on investments	(3.16)	–	–	–	–
Total Distributions	(3.64)	(.48)	(.26)	(.27)	(.23)
Net asset value, end of period	45.97	44.09	33.24	29.91	29.90
Total Return (%)	13.45	34.34	11.98	.90	14.82
Ratios/Supplemental Data (%):					
Ratio of total expenses to average net assets	.84	.86	.85	.85	.89
Ratio of net expenses to average net assets	.84	.86	.85	.85	.89
Ratio of net investment income to average net assets	1.02	1.19	1.34	.80	.93
Portfolio Turnover Rate	45.05	38.81	48.84	67.88	32.75
Net Assets, end of period ($ x 1,000)	270,483	264,713	207,383	208,013	227,893

[a] *Based on average shares outstanding.*

See notes to financial statements.

	Year Ended December 31,				
Service Shares	2014	2013	2012	2011	2010
Per Share Data ($):					
Net asset value, beginning of period	43.76	33.01	29.70	29.71	26.10
Investment Operations:					
Investment income—net[a]	.33	.36	.36	.17	.18
Net realized and unrealized gain (loss) on investments	5.04	10.78	3.13	.02	3.60
Total from Investment Operations	5.37	11.14	3.49	.19	3.78
Distributions:					
Dividends from investment income—net	(.39)	(.39)	(.18)	(.20)	(.17)
Dividends from net realized gain on investments	(3.16)	–	–	–	–
Total Distributions	(3.55)	(.39)	(.18)	(.20)	(.17)
Net asset value, end of period	45.58	43.76	33.01	29.70	29.71
Total Return (%)	13.13	33.99	11.70	.65	14.54
Ratios/Supplemental Data (%):					
Ratio of total expenses to average net assets	1.09	1.11	1.10	1.10	1.14
Ratio of net expenses to average net assets	1.09	1.11	1.10	1.10	1.14
Ratio of net investment income to average net assets	.76	.93	1.09	.55	.68
Portfolio Turnover Rate	45.05	38.81	48.84	67.88	32.75
Net Assets, end of period ($ x 1,000)	10,632	8,767	6,552	6,167	6,494

[a] *Based on average shares outstanding.*

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 150 million shares of $.001 par value Common Stock in each of the following classes of shares: Initial and Service. Initial shares are subject to a Shareholder Services Plan fee and Service shares are subject to a Distribution Plan 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. For open short positions, asked prices are 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 of the preceding securities are generally categorized within Level 1 of the fair value hierarchy.

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. These securities are generally categorized within Level 2 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 financial futures. 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 fund's Board of Directors (the "Board"). 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 within Level 2 or 3 of the fair value hierarchy depending on the relevant inputs used.

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

The following is a summary of the inputs used as of December 31, 2014 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 Common Stocks†	274,956,789	–	–	**274,956,789**
Equity Securities–Foreign Common Stocks†	2,482,904	–	–	**2,482,904**
Mutual Funds	5,322,319	–	–	**5,322,319**

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

At December 31, 2014, there were no transfers between Level 1 and Level 2 of the fair value hierarchy.

(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 or U.S. Government and Agency securities. The fund is entitled to receive all dividends, interest and distributions on securities loaned, in addition to income earned as a result of the lending transaction. Should a borrower fail to return the securities in a timely manner, The Bank of New York Mellon is required to replace the securities for the benefit of the fund or credit the fund with the market value of the unreturned securities and is subrogated to the fund's rights against the borrower and the collateral. During the period ended December 31, 2014, The Bank of New York Mellon earned $696 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" under the Act. Investments in affiliated investment companies during the period ended December 31, 2014, were as follows:

Affiliated Investment Company	Value 12/31/2013 ($)	Purchases ($)	Sales ($)	Value 12/31/2014 ($)	Net Assets (%)
Dreyfus Institutional Preferred Plus Money Market Fund	2,281,098	34,663,284	33,129,606	3,814,776	1.4
Dreyfus Institutional Cash Advantage Fund	–	11,191,429	9,683,886	1,507,543	.5
Total	**2,281,098**	**45,854,713**	**42,813,492**	**5,322,319**	**1.9**

(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, 2014, 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 ended December 31, 2014, the fund did not incur any interest or penalties.

Each tax year in the four-year period ended December 31, 2014 remains subject to examination by the Internal Revenue Service and state taxing authorities.

At December 31, 2014, the components of accumulated earnings on tax basis were as follows: undistributed ordinary income $4,662,944, undistributed capital gains $33,235,833 and unrealized appreciation $68,981,275.

The tax character of distributions paid to shareholders during the fiscal periods ended December 31, 2014 and December 31, 2013 were as follows: ordinary income $3,658,185 and $2,981,426, and long-term capital gains $18,367,048 and $0, respectively.

NOTE 2—Bank Lines of Credit:

The fund participates with other Dreyfus-managed funds in a $430 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. Prior to October 8, 2014, the unsecured credit facility with Citibank, N.A. was $265 million. 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.

The average amount of borrowings outstanding under the Facilities during the period ended December 31, 2014 was approximately $7,700 with a related weighted average annualized interest rate of 1.09%.

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 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 Distribution 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 Distribution Plan are payable without regard to actual expenses incurred. During the period ended December 31, 2014, Service shares were charged $24,233 pursuant to the Distribution 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.

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

The fund compensates Dreyfus Transfer, Inc., a wholly-owned subsidiary of the Manager, under a transfer agency agreement for providing transfer agency and cash management services for the fund. The majority of transfer agency fees are comprised of amounts paid on a per account basis, while cash management fees are related to fund subscriptions and redemptions. During the period ended December 31, 2014, the fund was charged $1,264 for transfer agency services and $104 for cash management services. These fees are included in Shareholder servicing costs in the Statement of Operations. Cash management fees were partially offset by earnings credits of $6.

The fund compensates The Bank of New York Mellon under a custody agreement for providing custodial services for the fund. These fees are determined based on net assets, geographic region and transaction activity. During the period ended December 31, 2014, the fund was charged $25,545 pursuant to the custody agreement.

During the period ended December 31, 2014, the fund was charged $7,771 for services performed by the Chief Compliance Officer and his staff.

The components of "Due to The Dreyfus Corporation and affiliates" in the Statement of Assets and Liabilities consist of: management fees $179,461, Distribution Plan fees $2,246, Shareholder Services Plan fees $142, custodian fees $9,500, Chief Compliance Officer fees $1,851 and transfer agency fees $322.

(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, 2014, amounted to $123,443,150 and $149,158,756, respectively.

At December 31, 2014, the cost of investments for federal income tax purposes was $213,780,737; accordingly, accumulated net unrealized appreciation on investments was $68,981,275, consisting of $72,259,677 gross unrealized appreciation and $3,278,402 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, 2014, 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, 2014 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, 2014, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

New York, New York
February 11, 2015

IMPORTANT TAX INFORMATION (Unaudited)

For federal tax purposes, the fund hereby reports 100% of the ordinary dividends paid during the fiscal year ended December 31, 2014 as qualifying for the corporate dividends received deduction. Shareholders will receive notification in early 2015 of the percentage applicable to the preparation of their 2014 income tax returns. Also, the fund hereby reports $.1244 per share as a short-term capital gain distribution and $3.0306 per share as a long-term capital gain distribution paid on March 17, 2014.

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

At a meeting of the fund's Board of Directors held on July 15-16, 2014, 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, a majority of whom are not "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 Dreyfus representatives. 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.

<u>Analysis of Nature, Extent, and Quality of Services Provided to the Fund.</u> The Board considered information provided to them at the meeting and in previous presentations from Dreyfus representatives regarding the nature, extent, and quality of the services provided to funds in the Dreyfus fund complex. 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 (such as retail direct or intermediary, in which intermediaries typically are paid by the fund and/or Dreyfus) and Dreyfus' corresponding need for broad, deep, and diverse resources to be able to provide ongoing shareholder services to each intermediary or distribution channel, as applicable to the fund.

The Board 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 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 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 ("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, all for various periods ended May 31, 2014, (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"), all for various periods ended May 31, 2014, 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 ("Expense Universe 1") and the Performance Group 2 funds ("Expense Universe 2"), the information for which was derived in part from fund financial statements available to Lipper as of the date of its analysis. Dreyfus previously had furnished the Board with a description of the methodology Lipper used to select the Performance Groups and Performance Universes and the Expense Groups and 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 discussed the results of the comparisons and noted that the fund's total return performance was, for the various periods, above the Performance Group 1, Performance Universe 1, Performance Group 2 and Performance Universe 2 medians , except for the two-year period when the fund's performance was below the Performance Group 1 and Performance Group 2 medians, the three-year period when the fund's performance was at the Performance Group 2 median and the ten-year period when the fund's performance was at the Performance

Group 2 median and below the Performance Group 1, Performance Universe 1 and Performance Universe 1 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 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. The Board noted that the fund's contractual management fee was above the Expense Group 1 and Expense Group 2 medians, the fund's actual management fee was above the medians of the Expense Groups and Expense Universes and the fund's total expenses were above the Expense Group 1 and Expense Universe 1 medians, at the Expense Group 2 median and below the Expense Universe 2 median.

Dreyfus representatives reviewed with the Board 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 (s) 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 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 its affiliates and the resulting profitability percentage for managing the fund and the aggregate profitability percentage to Dreyfus and its affiliates for managing the funds in the Dreyfus fund complex, 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 also 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 considered on the advice of its counsel the profitability analysis (1) as part of its 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. Dreyfus representatives 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 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 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.

In evaluating the Agreement, the Board considered these conclusions and determinations and also relied on its previous knowledge, gained through meetings and other interactions with Dreyfus and its affiliates, of the fund and the services provided to the fund by Dreyfus. The Board also relied on information received on a routine and regular basis throughout the year relating to the operations of the fund and the investment management and other services provided under the Agreement, including information on the investment performance of the fund in comparison to similar mutual funds and benchmark performance indices; general market outlook as applicable to the fund; and compliance reports. In addition, 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 and Dreyfus representatives. Certain aspects of the arrangements may receive greater scrutiny in some years than in others, and the Board's conclusions may be based, in part, on their consideration of the same or similar arrangements in prior years. The Board determined to renew the Agreement.

BOARD MEMBERS INFORMATION (Unaudited)

INDEPENDENT BOARD MEMBERS

Joseph S. DiMartino (71)
Chairman of the Board (1995)

Principal Occupation During Past 5 Years:
- Corporate Director and Trustee (1995-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 (1997-present)
- The Newark Group, a provider of a national market of paper recovery facilities, paperboard mills and paperboard converting plants, Director (2000-2010)
- Sunair Services Corporation, a provider of certain outdoor-related services to homes and businesses, Director (2005-2009)

No. of Portfolios for which Board Member Serves: 146

Nathan Leventhal (71)
Board Member (2009)

Principal Occupation During Past 5 Years:
- Chairman of the Avery-Fisher Artist Program (1997-2014)
- Commissioner, NYC Planning Commission (2007-2011)

Other Public Company Board Membership During Past 5 Years:
- Movado Group, Inc., Director (2003-present)

No. of Portfolios for which Board Member Serves: 52

Robin A. Melvin (51)
Board Member (2014)

Principal Occupation During Past 5 Years:
- Board Member, Illinois Mentoring Partnership, non-profit organization dedicated to increasing the quantity and quality of mentoring services in Illinois (2013-present)
- Director, Boisi Family Foundation, a private family foundation that supports youth-serving organizations that promote the self sufficiency of youth from disadvantaged circumstances (1995-2012)

No. of Portfolios for which Board Member Serves: 114

Roslyn M. Watson (65)
Board Member (2014)

Principal Occupation During Past 5 Years:
• Principal, Watson Ventures, Inc., a real estate investment company (1993-present)

No. of Portfolios for which Board Member Serves: 70

Benaree Pratt Wiley (68)
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 Membership 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: 70

J. Charles Cardona (58)
Board Member (2014)†

Principal Occupation During Past 5 Years:

• President and a Director of the Manager, Executive Vice President of the Distributor, President of Dreyfus Institutional Services Division (2008-present)

No. of Portfolios for which Board Member Serves: 38

J. Charles Cardona is deemed to be an "interested person" (as defined in the Act) of the fund as a result of his affiliation with The Dreyfus Corporation.

Gordon J. Davis (73)
Board Member (2012)

Principal Occupation During Past 5 Years:

• Partner in the law firm of Venable LLP (2012-present)
• Partner in the law firm of Dewey & LeBoeuf LLP (1994-2012)

Other Public Company Board Memberships During Past 5 Years:

• Consolidated Edison, Inc., a utility company, Director (1997-present)
• The Phoenix Companies, Inc., a life insurance company, Director (2000-present)

No. of Portfolios for which Board Member Serves: 62

Gordon J. Davis is deemed to be an "interested person" (as defined in the Act) of the fund as a result of his affiliation with Venable LLP, which provides legal services to the fund.

Isabel P. Dunst (67)
Board Member (2014)

Principal Occupation During Past 5 Years:

• Partner, Hogan Lovells LLP (1990-present)

No. of Portfolios for which Board Member Serves: 38

Isabel P. Dunst is deemed to be an "interested person" (as defined in the Act) of the fund as a result of her affiliation with Hogan Lovells LLP, which provides legal services to BNY Mellon and certain of its affiliates.

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† J. Charles Cardona was elected as a Board Member of the fund on February 27, 2014.

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 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.

Clifford L. Alexander, Jr., Emeritus Board Member
Whitney I. Gerard, Emeritus Board Member
Arthur A. Hartman, Emeritus Board Member
George L. Perry, Emeritus Board Member

BRADLEY J. SKAPYAK, President since January 2010.

Chief Operating Officer and a director of the Manager since June 2009, Chairman of Dreyfus Transfer, Inc., an affiliate of the Manager and the transfer agent of the funds, since May 2011 and Executive Vice President of the Distributor since June 2007. 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 69 investment companies (comprised of 146 portfolios) managed by the Manager. He is 56 years old and has been an employee of the Manager since February 1988.

JOHN PAK, Chief Legal Officer since March 2013.

Deputy General Counsel, Investment Management, of BNY Mellon since August 2014; Chief Legal Officer of the Manager since August 2012; from March 2005 to July 2012, Managing Director of Deutsche Bank, Deputy Global Head of Deutsche Asset Management Legal and Regional Head of Deutsche Asset Management Americas Legal. He is an officer of 70 investment companies (comprised of 171 portfolios) managed by the Manager. He is 46 years old and has been an employee of the Manager since August 2012.

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

Assistant General Counsel of BNY Mellon, and an officer of 70 investment companies (comprised of 171 portfolios) managed by the Manager. She is 52 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 70 investment companies (comprised of 171 portfolios) managed by the Manager. She is 41 years old and has been an employee of the Manager since July 1995.

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

Managing Counsel of BNY Mellon and Secretary of the Manager, and an officer of 70 investment companies (comprised of 171 portfolios) managed by the Manager. He is 48 years old and has been an employee of the Manager since December 1996.

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

Managing Counsel of BNY Mellon, and an officer of 70 investment companies (comprised of 171 portfolios) managed by the Manager. She is 59 years old and has been an employee of the Manager since October 1988.

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

Managing Counsel of BNY Mellon, and an officer of 70 investment companies (comprised of 171 portfolios) managed by the Manager. He is 53 years old and has been an employee of the Manager since June 2000.

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

Senior Managing Counsel of BNY Mellon, and an officer of 70 investment companies (comprised of 171 portfolios) managed by the Manager. He is 51 years old and has been an employee of the Manager since February 1991.

SARAH S. KELLEHER, Vice President and Assistant Secretary since April 2014.

Senior Counsel of BNY Mellon, and an officer of 70 investment companies (comprised of 171 portfolios) managed by the Manager; from August 2005 to March 2013, Associate General Counsel of Third Avenue Management. She is 39 years old and has been an employee of the Manager since March 2013.

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

Senior Managing Counsel of BNY Mellon, and an officer of 70 investment companies (comprised of 171 portfolios) managed by the Manager. He is 49 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 70 investment companies (comprised of 171 portfolios) managed by the Manager. He is 56 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 70 investment companies (comprised of 171 portfolios) managed by the Manager. He is 55 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 70 investment companies (comprised of 171 portfolios) managed by the Manager. He is 46 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 70 investment companies (comprised of 171 portfolios) managed by the Manager. He is 50 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 70 investment companies (comprised of 171 portfolios) managed by the Manager. He is 47 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 70 investment companies (comprised of 171 portfolios) managed by the Manager. He is 47 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 (70 investment companies, comprised of 171 portfolios). He is 57 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.

MATTHEW D. CONNOLLY, Anti-Money Laundering Compliance Officer since April 2012.

Anti-Money Laundering Compliance Officer of the Distributor since October 2011; from March 2010 to September 2011, Global Head, KYC Reviews and Director of UBS Investment Bank; until March 2010, AML Compliance Officer and Senior Vice President of Citi Global Wealth Management. He is an officer of 65 investment companies (comprised of 166 portfolios) managed by the Manager. He is 42 years old and has been an employee of the Distributor since October 2011.

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.
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Process chlorine free.
Vegetable-based ink.

Printed in U.S.A.

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Invesco

Annual Report to Shareholders **December 31, 2014**

Invesco V.I. Managed Volatility Fund

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 most recent 12-month period ended June 30 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 US 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-VIMGV-AR-1

Management's Discussion of Fund Performance

Performance summary

Reflecting a modification to its investment strategy, Invesco V.I. Utilities Fund was renamed Invesco V.I. Managed Volatility Fund on April 30, 2014. The results and commentary for this reporting period include the impact of these changes. For the year ended December 31, 2014, Invesco V.I. Managed Volatility Fund outperformed the Russell 1000 Value Index, the Fund's broad market benchmark. However, the Fund underperformed the style-specific index used by Invesco V.I. Utilities Fund, the S&P 500 Utilities Sector Total Return Index. Stock selection was the primary driver of overall performance.

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

Fund vs. Indexes

Total returns, 12/31/13 to 12/31/14, excluding variable product issuer charges. If variable product issuer charges were included, returns would be lower.

Series I Shares	20.57%
Series II Shares	20.23
Russell 1000 Value Index▼ (Broad Market Index)*	13.45
S&P 500 Index▼ (Former Broad Market Index)*	13.69
Barclays U.S. Government/Credit Index▼ (Style-Specific Index)*	6.01
S&P 500 Utilities Sector Total Return Index▼ (Former Style-Specific Index)*	28.98
Lipper VUF Equity Income Funds Index■ (Peer Group Index)*	10.33
Lipper VUF Utility Funds Classification Average■ (Former Peer Group)*	15.44

Source(s): ▼FactSet Research Systems Inc.; ■Lipper Inc.

*The Fund has elected to use the Russell 1000 Value Index, the Barclays U.S. Government/Credit Index and the Lipper VUF Equity Income Funds Index as its broad market, style-specific and peer group benchmarks, respectively, rather than the S&P 500 Index, the S&P 500 Utilities Sector Total Return Index and the Lipper VUF Utility Funds Classification Average, respectively, because the new indexes more closely reflect the performance of the types of securities in which the Fund invests.

Market conditions and your Fund

Slow and steady improvement in the US economy and historically low interest rates led the US equity market higher during the year ended December 31, 2014. As the US economy continued along a slow growth path, the US Federal Reserve reduced its asset purchase program throughout 2014, finally ending all purchases in October. In the early months of 2014, the stock market turned volatile, pulling back as investors began to worry that stocks may have risen too far, too fast in 2013. Unusually cold winter weather also impacted consumers, but only briefly. Relatively quickly, corporate earnings bounced back and remained generally strong through the rest of the year. Stocks rallied through the summer despite political upheaval in Ukraine and signs of economic sluggishness in China.

As investors wrestled with evidence that US growth appeared to be on stronger footing than the rest of the world, in mid-September the price of oil began a sharp decline, along with US equities. Despite the unknown economic impact of significantly lower oil prices for an extended period, the US equity market stabilized and recovered, ending the year in positive territory.

While the Fund was transitioned to a more diversified strategy after April 30, 2014, companies in the utilities sector had the largest impact on performance for the year. Material overweight exposure to the utilities sector versus the Russell 1000 Value Index, followed by stock selection within the sector, were the largest contributors to relative performance.

Pepco Holdings was the largest contributor in the sector, posting returns of over 40% for the reporting period, after Exelon (not a Fund holding) announced plans to acquire Pepco. We sold our holdings in Pepco toward the end of the reporting period, after it reached fair value.

Underweight exposure to, and stock selection in, the financials sector also boosted relative Fund performance. **Citigroup** and **JPMorgan Chase**, leaders in the banking industry, and **Morgan Stanley**, a diversified financials firm, were the top contributors within this sector, each posting double-digit returns over the reporting period.

Stock selection in, and underweight exposure to, the industrials sector also helped relative performance for the reporting period, as the industrials sector posted only a mid-single-digit return. Also, **General Dynamics**, an aerospace company, assisted relative Fund performance. The company beat profit forecasts and provided positive guidance on strong demand for its Gulfstream jets. The Fund's underweight position in **General Electric**, compared to the Fund's style-specific benchmark, contributed to relative performance as well.

We used currency forward contracts during the reporting period for the purpose of hedging currency exposure of non-US-based companies held in the portfolio. Derivatives were used solely for the purpose of hedging and not for speculative purposes or leverage. The use of currency forward contracts had a large positive impact on the Fund's performance relative to the Russell 1000 Value Index for the reporting period. This was mainly due to the strength of the US dollar versus many major foreign currencies.

Portfolio Composition

By security type

Common Stocks & Other Equity Interests	65.4%
Bonds & Notes	20.3
U.S. Treasury Securities	7.5
Preferred Stocks	0.2
Money Market Funds Plus Other Assets Less Liabilities	6.6

Top 10 Equity Holdings*

1.	Citigroup Inc.	3.1%
2.	JPMorgan Chase & Co.	3.0
3.	General Electric Co.	2.0
4.	Morgan Stanley	1.7
5.	Royal Dutch Shell PLC-Class A	1.7
6.	Bank of America Corp.	1.5
7.	Target Corp.	1.2
8.	Applied Materials, Inc.	1.2
9.	PNC Financial Services Group, Inc. (The)	1.2
10.	Comcast Corp.-Class A	1.1

Total Net Assets	$72.5 million
Total Number of Holdings*	215

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.

On the negative side, stock selection and underweight exposure to the consumer staples sector was a large detractor from relative performance. Notably, **Avon Products**, within the household and personal products industry, was a large detractor, posting double-digit negative returns for the reporting period. Despite improving earnings, the stock performed poorly after settling bribery charges with the Justice Department near the end of the reporting period. We sold our position in this stock during the reporting period.

Underweight exposure to health care stocks also dampened the Fund's performance versus the Russell 1000 Value Index, our style-specific benchmark.

The Fund's convertible and high-grade bond holdings posted positive returns; however, they detracted from performance versus the Russell 1000 Value Index, as bonds generally underperformed equities.

The Fund's allocation to cash also acted as a large detractor in the strong equity market. The Fund is a balanced or moderate allocation fund; therefore, allocations to cash and/or fixed income securities typically are detractors during periods of strong equity market performance. Cash is utilized for investment opportunities and the fixed income allocation may provide income and capital preservation during equity market downturns.

As part of our mandate, and to potentially reduce portfolio volatility during a market downturn, we sold short S&P 500 futures contracts during the reporting period for the purpose of reducing equity exposure in the Fund. Derivatives were used solely for the purpose of reducing volatility and not for speculative purposes. The use of S&P 500 futures contracts had a slight negative impact on the Fund's performance relative to the Russell 1000 Value Index for the reporting period.

Equity markets, although providing investors strong absolute returns, experienced continued volatility during the reporting due to political unrest in Eastern Europe, a sluggish Chinese economy and sharply falling oil prices. We believe that market volatility creates opportunities to invest in companies with attractive valuations and strong fundamentals. We believe that ultimately those valuations and fundamentals will be reflected in those companies' stock prices.

Thank you for your continued investment in Invesco V.I. Managed Volatility Fund and for sharing our long-term investment horizon.

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.

Thomas Bastian
Chartered Financial Analyst, Portfolio Manager, is manager of Invesco V.I. Managed Volatility Fund. He joined Invesco in 2010. Mr. Bastian earned a BA in accounting from St. John's University and an MBA in finance from University of Michigan.

Chuck Burge
Portfolio Manager, is manager of Invesco V.I. Managed Volatility Fund. He joined Invesco in 2002. Mr. Burge earned a BS in economics from Texas A&M University and an MBA in finance and accounting from Rice University.

Mary Jayne Maly
Chartered Financial Analyst, Portfolio Manager, is manager of Invesco V.I. Managed Volatility Fund. She joined Invesco in 2010. Ms. Maly earned a BA from the University of Pittsburgh and an MBA from the Thunderbird School of Global Management.

Sergio Marcheli
Portfolio Manager, is manager of Invesco V.I. Managed Volatility Fund. He joined Invesco in 2010. Mr. Marcheli earned a BBA from the University of Houston and an MBA from the University of St. Thomas.

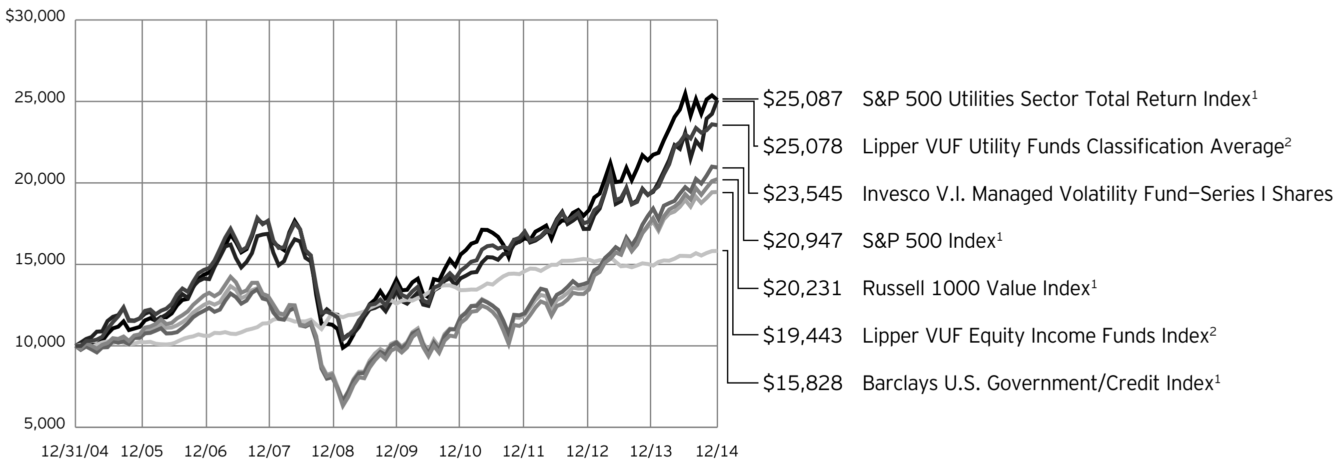
Duy Nguyen
Chartered Financial Analyst, Portfolio Manager and Director of Quantitative Research for the quantitative strategies team, is manager of Invesco V.I. Managed Volatility Fund. He joined Invesco in 2000. Mr. Nguyen earned a BBA from The University of Texas at Austin and an MS from the University of Houston.

James Roeder
Chartered Financial Analyst, Portfolio Manager, is manager of Invesco V.I. Managed Volatility Fund. He joined Invesco in 2010. Mr. Roeder earned a BS in accounting from Clemson University and an MBA in economics and finance from the University of Chicago Booth School of Business.

Your Fund's Long-Term Performance

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

Fund and index data from 12/31/04



1 Source: FactSet Research Systems Inc.
2 Source: Lipper Inc.

Past performance cannot guarantee comparable future results.

The Fund has elected to use the Russell 1000 Value Index, the Barclays U.S. Government/Credit Index and the Lipper VUF Equity Income Funds Index as its broad market, style-specific and peer group benchmarks, respectively, rather than the S&P 500 Index, the S&P 500 Utilities Index and the Lipper VUF Utility Funds Classification Average, respectively, because the new indexes more closely reflect the performance of the types of securities in which the Fund invests. Because this is the first reporting period since we adopted the new indexes, SEC guidelines require that we compare performance to both the old and new indexes.

Average Annual Total Returns *As of 12/31/14*	
Series I Shares	
Inception (12/30/94)	7.68%
10 Years	8.94
5 Years	11.36
1 Year	20.57
Series II Shares	
Inception (4/30/04)	10.25%
10 Years	8.67
5 Years	11.07
1 Year	20.23

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 1.03% and 1.28%, respectively.[1,2] 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 1.09% and 1.34%, 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. Managed Volatility 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 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, 2015. See current prospectus for more information.
2 Total annual Fund operating expenses after any contractual fee waivers and/or expense reimbursements by the adviser in effect through at least June 30, 2016. See current prospectus for more information.

Invesco V.I. Managed Volatility Fund's investment objective is both capital appreciation and current income while managing portfolio volatility.

- Unless otherwise stated, information presented in this report is as of December 31, 2014, 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

Active trading risk. The Fund engages in frequent trading of portfolio securities. Active trading results in added expenses and may result in a lower return and increased tax liability.

Call risk. If interest rates fall, it is possible that issuers of debt securities with high interest rates will prepay or call their securities before their maturity dates. In this event, the proceeds from the called securities would likely be reinvested by the Fund in securities bearing the new, lower interest rates, resulting in a possible decline in the Fund's income and distributions to shareholders.

Changing fixed income market conditions risk. The current historically low interest rate environment was created in part by the Federal Reserve Board (FRB) and certain foreign central banks keeping the federal funds and equivalent foreign rates at or near zero. There is a risk that interest rates will rise when the FRB and central banks raise these rates. This risk is heightened due to the "tapering" of the FRB's quantitative easing program and other similar foreign central bank actions. This tapering and eventual increase in the federal funds and equivalent foreign rates may expose fixed income markets to heightened volatility and reduced liquidity for certain fixed income investments, particularly those with longer maturities. In addition, decreases in fixed income dealer market-making capacity may also potentially lead to heightened volatility and reduced liquidity in the fixed income markets. As a result, the value of the Fund's investments and share price may decline. Changes in central bank policies could also result in higher than normal shareholder redemptions, which could potentially increase portfolio turnover and the Fund's transaction costs.

Convertible securities risk. The Fund may own convertible securities, the value of which may be affected by market interest rates, the risk that the issuer will default, the value of the underlying stock or the right of the issuer to buy back the convertible securities.

Credit risk. The issuer of instruments in which the Fund invests may be unable to meet interest and/or principal payments, thereby causing its instruments to decrease in value and lowering the issuer's credit rating.

Depositary receipts risk. Depositary receipts involve many of the same risks as those associated with direct investment in foreign securities. In addition, the underlying issuers of certain depositary receipts, particularly unsponsored or unregistered depositary receipts, are under no obligation to distribute shareholder communications to the holders of such receipts or to pass through to them any voting rights with respect to the deposited securities.

Derivatives risk. The value of a derivative instrument depends largely on (and is derived from) the value of an underlying security, currency, commodity, interest rate, index or other asset (each referred to as an underlying asset). In addition to risks relating to the underlying assets, the use of derivatives may include other, possibly greater, risks, including counterparty, leverage and liquidity risks. Counterparty risk is the risk that the counterparty to the derivative contract will default on its obligation to pay the Fund the amount owed or otherwise perform under the derivative contract. Derivatives create leverage risk because they do not require payment up front equal to the economic exposure created by owning the derivative. As a result, an adverse change in the value of the underlying asset could result in the Fund sustaining a loss that is substantially greater than the amount invested in the derivative, which may make the Fund's returns more volatile and increase the risk of loss. Derivative instruments may also be less liquid than more traditional investments and the Fund may be unable to sell or close out its derivative positions at a desirable time or price. This risk may be more acute under adverse market conditions, during which the Fund may be most in need of liquidating its derivative positions. Derivatives may also be harder to value, less tax efficient and subject to changing government regulation that could impact the Fund's ability to use certain derivatives or their cost. Also, derivatives used for hedging or to gain or limit exposure to a particular market segment may not provide the expected benefits, particularly during adverse market conditions.

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.

Hedging risk. A hedge is an investment made in order to reduce the risk of adverse price movements in a security by taking an offsetting position in a related security (often a derivative, such as an option or a short sale). Hedging may be ineffective due to unexpected changes in the market, changes in the values of the security and related security, or changes in the correlation of the security and related security. For gross currency hedges, there is an additional risk that these transactions create exposure to currencies in which the Fund's securities are not denominated. Moreover, while hedging can reduce or eliminate losses it can also reduce or eliminate gains.

Income risk. The income you receive from the Fund is based primarily on prevailing interest rates, which can vary widely over the short- and long-term. If interest rates drop, your income from the Fund may drop as well.

Interest rate risk. Interest rate risk refers to the risk that bond prices generally fall as interest rates rise; conversely, bond prices generally rise as interest rates fall. Specific bonds differ in their sensitivity to changes in interest rates depending on their individual characteristics, including duration.

Management risk. The investment techniques and risk analysis used by the Fund's portfolio managers may not produce the desired results. Because the Fund's investment process relies heavily on its asset allocation process, market movements that are counter to the portfolio managers' expectations may have a significant adverse effect on the Fund's net asset value. Further, the portfolio managers' use of short derivative positions and instruments that provide economic leverage increases the volatility of the Fund's net asset value, which increases the potential of greater losses that may cause the Fund to liquidate positions when it may not be advantageous to do so.

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.

Preferred securities risk. Preferred securities may include provisions that permit the issuer, in its discretion, to defer or omit distributions for a certain period of time. If the Fund owns a security that is deferring or omitting its distributions, the Fund may be required to report the distribution on its tax returns, even though it may not have received this income. Further, preferred securities may lose substantial value due to the omission or deferment of dividend payments.

REIT risk/real estate risk. Investments in real estate related instruments may be affected by economic, legal, cultural, environmental or technological factors that affect property values, rents or occupancies of real estate related to the Fund's holdings. Real estate companies, including REITs or similar structures, tend to be small- and mid-cap companies, and their shares may be more volatile and less liquid. The value of investments in real estate related companies may be affected by the quality of management, the ability to repay loans, the utilization of leverage and financial covenants related thereto, whether the company carries adequate insurance and environmental factors. If a real estate related company defaults, the Fund may own real estate directly, which involves the following additional risks: environmental liabilities; difficulty in valuing and selling the real estate; and economic or regulatory changes.

Short sales risk. Short sales may cause the Fund to repurchase a security at a higher price, thereby causing a loss. A short position in a security poses more risk than holding the same security long. As there is no limit on how much the price of the security can increase, the Fund's exposure is unlimited. In order to establish a short position in a security, the Fund must borrow the security from a broker. The Fund may not always be able to borrow a security the Fund seeks to sell short at a particular time or at an acceptable price. The Fund also may not always be able to close out the short position by replacing the borrowed securities at a particular time or at an acceptable price. The Fund will incur increased transaction costs associated with selling securities short. In addition, taking short positions in securities results in a form of leverage which may cause the Fund to be volatile.

Small- and mid-capitalization risks. Stocks of small- and mid-sized companies tend to be more vulnerable to adverse developments 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.

Value investing style risk. The Fund emphasizes a value style of investing, which focuses on undervalued companies with characteristics for improved valuations. This style of investing is subject to the risk that the valuations never improve or that the returns on value equity securities are less than returns on other styles of investing or the overall stock market. Value stocks also may decline in price, even though in theory they are already underpriced.

Volatility management risk. The risk that the Adviser's strategy for managing portfolio volatility may not produce the desired result or that the Adviser is unable to trade certain derivatives effectively or in a timely manner. There can be no guarantee that the Fund will maintain its target volatility level. Additionally, maintenance of the target volatility level will not ensure that the Fund will deliver competitive returns. The use of derivatives in connection with the Fund's managed volatility strategy may expose the Fund to losses (some of which may be sudden) that it would not have otherwise been exposed to if it had only invested directly in equity and/or fixed income securities. Efforts to manage the Fund's volatility could limit the Fund's gains in rising markets and may expose the Fund to costs to which it would otherwise not have been exposed. The Fund's managed volatility strategy may result in the Fund outperforming the general securities market during periods of flat or negative market performance, and underperforming the general securities market during periods of positive market performance. The gains and losses of the Fund's futures positions may not correlate with the Fund's direct investments in equity securities; as a result, these futures contracts may decline in value at the same time as the Fund's direct investments in equity securities decline in value. The proprietary and third-party risk models used by the Adviser may perform differently than expected and may negatively affect performance and the ability of the Fund to maintain its volatility at or below its target maximum annual volatility level for various reasons, including errors in using or building the models, technical issues implementing the models and various non-quantitative factors (such as, market or trading system dysfunctions, and investor fear or over-reaction).

Zero coupon securities risk. The value, interest rates, and liquidity of non-cash paying instruments, such as zero coupon and pay-in-kind securities, are subject to greater fluctuation than other types of securities.

About indexes used in this report

The **Russell 1000® Value Index** is an unmanaged index considered representative of large-cap value stocks. The Russell 1000 Value Index is a trademark/service mark of the Frank Russell Co. Russell® is a trademark of the Frank Russell Co.

The **Barclays U.S. Government/Credit Index** includes treasuries and agencies that represent the government portion of the index, and includes publically issued US corporate and foreign debentures and secured notes that meet specified maturity, liquidity and quality requirements.

The **Lipper VUF Equity Income Funds Index** is an unmanaged index considered representative of equity income variable insurance underlying funds tracked by Lipper.

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

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

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

The Fund is not managed to track the performance of any particular index, including the index(es) described 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 returns shown in management's discussion of Fund performance are based on net asset values calculated for shareholder transactions. Generally accepted accounting principles require adjustments to be made to the net assets of the Fund at period end for financial reporting purposes, and as such, the net asset values for shareholder transactions and the returns based on those net asset values may differ from the net asset values and returns reported in the Financial Highlights. Additionally, the returns and net asset values shown throughout this report are at the Fund level only and do not include variable product issuer charges. If such charges were included, the total returns would be lower.

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

Schedule of Investments[a]

December 31, 2014

	Shares	Value
Common Stocks & Other Equity Interests-65.42%		
Aerospace & Defense-0.71%		
General Dynamics Corp.	3,737	$ 514,286
Agricultural Products-0.81%		
Archer-Daniels-Midland Co.	11,344	589,888
Application Software-1.27%		
Adobe Systems Inc.[b]	7,419	539,361
Citrix Systems, Inc.[b]	6,006	383,183
		922,544
Asset Management & Custody Banks-1.71%		
Northern Trust Corp.	7,145	481,573
State Street Corp.	9,637	756,504
		1,238,077
Automobile Manufacturers-0.78%		
General Motors Co.	16,201	565,577
Biotechnology-0.93%		
Amgen Inc.	4,227	673,319
Cable & Satellite-1.90%		
Comcast Corp.-Class A	14,104	818,173
Time Warner Cable Inc.	3,676	558,973
		1,377,146
Communications Equipment-0.94%		
Cisco Systems, Inc.	24,427	679,437
Construction Machinery & Heavy Trucks-0.79%		
Caterpillar Inc.	6,261	573,069
Consumer Finance-0.38%		
Synchrony Financial[b]	9,193	273,492
Diversified Banks-8.28%		
Bank of America Corp.	62,165	1,112,132
Citigroup Inc.	41,786	2,261,040
Comerica Inc.	10,237	479,501
JPMorgan Chase & Co.	34,407	2,153,190
		6,005,863
Diversified Chemicals-0.33%		
Dow Chemical Co. (The)	5,242	239,088
Diversified Metals & Mining-0.40%		
Freeport-McMoRan Inc.	12,339	288,239
Electric Utilities-0.47%		
FirstEnergy Corp.	8,840	344,672
Electronic Components-0.86%		
Corning Inc.	27,243	624,682
General Merchandise Stores-1.21%		
Target Corp.	11,549	$ 876,684
Health Care Equipment-0.61%		
Medtronic, Inc.	6,083	439,193
Health Care Services-0.27%		
Express Scripts Holding Co.[b]	2,333	197,535
Hotels, Resorts & Cruise Lines-1.06%		
Carnival Corp.	16,968	769,159
Household Products-0.85%		
Procter & Gamble Co. (The)	6,766	616,315
Hypermarkets & Super Centers-0.21%		
Wal-Mart Stores, Inc.	1,742	149,603
Industrial Conglomerates-1.96%		
General Electric Co.	56,115	1,418,026
Industrial Machinery-0.82%		
Ingersoll-Rand PLC	9,436	598,148
Insurance Brokers-2.21%		
Aon PLC	5,278	500,513
Marsh & McLennan Cos., Inc.	11,855	678,580
Willis Group Holdings PLC	9,532	427,129
		1,606,222
Integrated Oil & Gas-3.73%		
Exxon Mobil Corp.	5,239	484,345
Occidental Petroleum Corp.	5,337	430,216
Royal Dutch Shell PLC-Class A (United Kingdom)	36,166	1,198,852
Total S.A. (France)	11,468	591,306
		2,704,719
Integrated Telecommunication Services-1.08%		
Koninklijke KPN N.V. (Netherlands)	33,944	107,023
Orange S.A. (France)	7,612	129,457
Telecom Italia S.p.A. (Italy)[b]	71,115	75,422
Telefonica S.A. (Spain)	5,258	75,213
Verizon Communications Inc.	8,501	397,677
		784,792
Internet Software & Services-1.08%		
eBay Inc.[b]	13,993	785,287
Investment Banking & Brokerage-3.26%		
Charles Schwab Corp. (The)	20,676	624,209
Goldman Sachs Group, Inc. (The)	2,788	540,398
Morgan Stanley	30,994	1,202,567
		2,367,174
IT Consulting & Other Services-0.77%		
Amdocs Ltd.	11,982	559,020

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

	Shares	Value
Managed Health Care-1.49%		
Anthem, Inc.	4,094	$ 514,493
UnitedHealth Group Inc.	5,632	569,339
		1,083,832
Movies & Entertainment-1.49%		
Time Warner Inc.	3,672	313,662
Viacom Inc.-Class B	10,184	766,346
		1,080,008
Multi-Utilities-0.51%		
PG&E Corp.	6,912	367,995
Oil & Gas Drilling-0.41%		
Ensco PLC-Class A	9,842	294,768
Oil & Gas Equipment & Services-0.73%		
Baker Hughes Inc.	9,463	530,590
Oil & Gas Exploration & Production-1.90%		
Anadarko Petroleum Corp.	4,724	389,734
Apache Corp.	8,501	532,758
Canadian Natural Resources Ltd. (Canada)	14,745	455,879
		1,378,371
Other Diversified Financial Services-0.88%		
Voya Financial, Inc.	15,043	637,522
Packaged Foods & Meats-1.32%		
Mondelez International Inc.-Class A	15,897	577,459
Unilever N.V.-New York Shares (United Kingdom)	9,702	378,766
		956,225
Pharmaceuticals-5.26%		
Eli Lilly and Co.	9,593	661,821
Hospira, Inc.[(b)]	3,973	243,346
Merck & Co., Inc.	13,006	738,611
Novartis AG (Switzerland)	7,497	689,550
Pfizer Inc.	11,775	366,791
Sanofi (France)	4,980	453,876
Teva Pharmaceutical Industries Ltd.-ADR (Israel)	11,430	657,339
		3,811,334
Publishing-0.59%		
Thomson Reuters Corp.	10,523	424,525
Railroads-0.54%		
CSX Corp.	10,745	389,291
Regional Banks-2.96%		
BB&T Corp.	10,821	420,829
Citizens Financial Group Inc.	13,378	332,577
Fifth Third Bancorp	21,152	430,972
First Horizon National Corp.	7,355	99,881
PNC Financial Services Group, Inc. (The)	9,487	865,499
		2,149,758

	Shares	Value
Security & Alarm Services-0.72%		
Tyco International PLC	11,866	$ 520,502
Semiconductor Equipment-1.19%		
Applied Materials, Inc.	34,765	866,344
Semiconductors-1.59%		
Broadcom Corp.-Class A	11,236	486,856
Intel Corp.	18,262	662,728
		1,149,584
Specialized Finance-0.53%		
CME Group Inc.-Class A	4,338	384,564
Systems Software-1.71%		
Microsoft Corp.	12,490	580,161
Symantec Corp.	25,640	657,794
		1,237,955
Technology Hardware, Storage & Peripherals-0.59%		
NetApp, Inc.	10,332	428,261
Tobacco-0.69%		
Philip Morris International Inc.	6,116	498,148
Wireless Telecommunication Services-0.64%		
Vodafone Group PLC-ADR (United Kingdom)	13,647	466,318
Total Common Stocks & Other Equity Interests (Cost $44,445,151)		47,437,151

	Principal Amount	
Bonds and Notes-20.26%		
Aerospace & Defense-0.21%		
L-3 Communications Corp., Sr. Unsec. Gtd. Global Notes, 3.95%, 05/28/24	$ 150,000	151,578
Agricultural Products-0.21%		
Bunge Ltd Finance Corp., Sr. Unsec. Gtd. Global Notes, 5.10%, 07/15/15	150,000	153,262
Air Freight & Logistics-0.27%		
UTi Worldwide Inc., Sr. Unsec. Conv. Notes, 4.50%, 03/01/19[(c)]	174,000	193,031
Airlines-0.10%		
American Airlines Pass Through Trust, Series 2014-1, Class A, Sr. Sec. Pass Through Ctfs., 3.70%, 10/01/26	25,000	25,297
United Airlines Pass Through Trust, Series 2014-2, Class A, Sr. Sec. Pass Through Ctfs., 3.75%, 09/03/26	30,000	30,431
Virgin Australia Pass Through Trust (Australia), Series 2013-1, Class A, Sec. Gtd. Pass Through Ctfs., 5.00%, 10/23/23[(c)]	17,900	18,370
		74,098
Apparel Retail-0.03%		
Ross Stores, Inc., Sr. Unsec. Notes, 3.38%, 09/15/24	19,000	19,046

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

	Principal Amount	Value
Application Software–0.39%		
Citrix Systems Inc., Sr. Unsec. Conv. Notes, 0.50%, 04/15/19[(c)]	$ 268,000	$ 282,573
Asset Management & Custody Banks–0.52%		
Apollo Management Holdings L.P., Sr. Unsec. Gtd. Notes, 4.00%, 05/30/24[(c)]	40,000	42,816
Blackstone Holdings Finance Co. LLC, Sr. Unsec. Gtd. Notes, 5.00%, 06/15/44[(c)]	150,000	160,989
KKR Group Finance Co III LLC, Sr. Unsec. Gtd. Bonds, 5.13%, 06/01/44[(c)]	160,000	174,115
		377,920
Automobile Manufacturers–0.28%		
Ford Motor Credit Co. LLC, Sr. Unsec. Notes, 2.75%, 05/15/15	200,000	201,405
Biotechnology–0.34%		
BioMarin Pharmaceutical Inc., Sr. Unsec. Sub. Conv. Notes, 1.50%, 10/15/20	115,000	141,522
Celgene Corp., Sr. Unsec. Global Notes, 4.63%, 05/15/44	100,000	104,177
		245,699
Broadcasting–1.00%		
Discovery Communications LLC, Sr. Unsec. Gtd. Global Notes, 3.70%, 06/01/15	200,000	202,313
Grupo Televisa S.A.B. (Mexico), Sr. Unsec. Global Notes, 5.00%, 05/13/45	200,000	205,505
Liberty Media Corp., Sr. Unsec. Conv. Bonds, 1.38%, 10/15/23	324,000	321,165
		728,983
Cable & Satellite–0.97%		
Comcast Corp., Sr. Unsec. Gtd. Global Notes, 5.70%, 05/15/18	150,000	169,103
Cox Communications, Inc., Sr. Unsec. Notes, 8.38%, 03/01/39[(c)]	150,000	214,775
DIRECTV Holdings LLC/DIRECTV Financing Co., Inc., Sr. Unsec. Gtd. Global Notes, 5.15%, 03/15/42	150,000	155,343
Time Warner Cable, Inc., Sr. Unsec. Gtd. Notes, 5.00%, 02/01/20	150,000	165,448
		704,669
Catalog Retail–0.23%		
Liberty Interactive LLC, Sr. Unsec. Conv. Global Bonds, 0.75%, 03/30/23[(d)]	81,000	115,526
QVC, Inc., Sr. Sec. Gtd. Global Notes, 5.45%, 08/15/34	50,000	48,874
		164,400
Coal & Consumable Fuels–0.08%		
Peabody Energy Corp., Jr. Unsec. Sub. Conv. Deb., 4.75%, 12/15/41	114,000	60,420
Communications Equipment–0.37%		
Ciena Corp., Sr. Unsec. Conv. Notes, 4.00%, 12/15/20[(c)]	81,000	100,794

	Principal Amount	Value
Communications Equipment–(continued)		
JDS Uniphase Corp., Sr. Unsec. Conv. Bonds, 0.63%, 08/15/18[(d)]	$ 155,000	$ 164,494
		265,288
Consumer Finance–0.16%		
American Express Co., Unsec. Sub. Global Notes, 3.63%, 12/05/24	18,000	18,224
American Express Credit Corp., Sr. Unsec. Medium-Term Notes, 2.75%, 09/15/15	95,000	96,486
		114,710
Diversified Banks–2.23%		
Banco Inbursa S.A. Institucion de Banca Multiple (Mexico), Sr. Unsec. Notes, 4.13%, 06/06/24[(c)]	150,000	149,182
BNP Paribas S.A. (France), Unsec. Sub. Notes, 4.25%, 10/15/24	200,000	203,268
Citigroup Inc., Sr. Unsec. Global Notes, 6.01%, 01/15/15	150,000	150,206
2.65%, 03/02/15	40,000	40,104
Unsec. Sub. Notes, 4.00%, 08/05/24	60,000	60,163
JPMorgan Chase & Co., Unsec. Sub. Global Notes, 3.88%, 09/10/24	40,000	40,126
Series V, Jr. Unsec. Sub. Global Notes, 5.00%[(e)]	150,000	147,375
Series X, Jr. Unsec. Sub. Global Notes, 6.10%[(e)]	60,000	60,300
Mizuho Financial Group Cayman 3 Ltd. (Japan), Unsec. Gtd. Sub. Notes, 4.60%, 03/27/24[(c)]	200,000	209,954
Santander Holdings USA Inc., Sr. Unsec. Global Notes, 3.00%, 09/24/15	150,000	151,700
Santander U.S. Debt S.A. Unipersonal (Spain), Sr. Unsec. Gtd. Notes, 3.72%, 01/20/15[(c)]	200,000	200,481
Wells Fargo & Co., Unsec. Sub. Medium-Term Notes, 4.10%, 06/03/26	95,000	97,038
4.65%, 11/04/44	100,000	104,010
		1,613,907
Diversified Chemicals–0.06%		
Eastman Chemical Co., Sr. Unsec. Global Notes, 2.70%, 01/15/20	43,000	43,207
Drug Retail–0.11%		
CVS Health Corp., Sr. Unsec. Global Notes, 3.38%, 08/12/24	20,000	20,278
Walgreens Boots Alliance Inc., Sr. Unsec. Gtd. Global Notes, 3.30%, 11/18/21	32,000	32,283
4.50%, 11/18/34	24,000	25,059
		77,620

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

	Principal Amount	Value
Fertilizers & Agricultural Chemicals-0.03%		
Monsanto Co., Sr. Unsec. Global Notes, 2.13%, 07/15/19	$ 15,000	$ 14,942
3.38%, 07/15/24	10,000	10,196
		25,138
Food Distributors-0.07%		
Sysco Corp., Sr. Unsec. Gtd. Notes, 3.50%, 10/02/24	47,000	48,507
General Merchandise Stores-0.02%		
Dollar General Corp., Sr. Unsec. Global Notes, 3.25%, 04/15/23	20,000	18,242
Health Care Distributors-0.07%		
AmerisourceBergen Corp., Sr. Unsec. Bonds, 3.40%, 05/15/24	50,000	50,177
Health Care Equipment-0.78%		
Becton, Dickinson and Co., Sr. Unsec. Notes, 2.68%, 12/15/19	17,000	17,156
CareFusion Corp., Sr. Unsec. Global Notes, 3.88%, 05/15/24	165,000	169,959
4.88%, 05/15/44	170,000	180,876
Medtronic Inc., Sr. Unsec. Notes, 3.15%, 03/15/22[c]	58,000	58,803
4.38%, 03/15/35[c]	21,000	22,157
NuVasive Inc., Sr. Unsec. Conv. Notes, 2.75%, 07/01/17	94,000	119,967
		568,918
Health Care Facilities-0.69%		
Brookdale Senior Living Inc., Sr. Unsec. Conv. Notes, 2.75%, 06/15/18	174,000	237,619
HealthSouth Corp., Sr. Unsec. Sub. Conv. Notes, 2.00%, 12/01/20[d]	235,000	262,465
		500,084
Health Care REIT's-0.03%		
HCP, Inc., Sr. Unsec. Global Notes, 3.88%, 08/15/24	25,000	25,482
Health Care Services-0.46%		
Express Scripts Holding Co., Sr. Unsec. Gtd. Global Notes, 2.25%, 06/15/19	50,000	49,527
Omnicare, Inc., Sr. Unsec. Gtd. Sub. Conv. Notes, 3.50%, 02/15/44	128,000	153,600
Series OCR, Sr. Unsec. Gtd. Conv. Notes, 3.25%, 01/15/21[d]	114,000	132,454
		335,581
Integrated Oil & Gas-0.02%		
Suncor Energy Inc. (Canada), Sr. Unsec. Notes, 3.60%, 12/01/24	18,000	17,799
Integrated Telecommunication Services-0.44%		
Telefonica Emisiones SAU (Spain), Sr. Unsec. Gtd. Global Notes, 7.05%, 06/20/36	150,000	200,647

	Principal Amount	Value
Integrated Telecommunication Services-(continued)		
Verizon Communications, Inc., Sr. Unsec. Global Notes, 4.40%, 11/01/34	$ 120,000	120,772
		321,419
Internet Retail-0.07%		
Amazon.com, Inc., Sr. Unsec. Global Notes, 4.80%, 12/05/34	49,000	51,334
Investment Banking & Brokerage-0.65%		
Jefferies Group LLC, Sr. Unsec. Conv. Deb., 3.88%, 11/01/17[d]	124,000	128,573
Macquarie Group Ltd. (Australia), Sr. Unsec. Notes, 6.00%, 01/14/20[c]	150,000	168,431
Morgan Stanley, Sr. Unsec. Global Medium-Term Notes, 2.38%, 07/23/19	175,000	173,559
		470,563
Managed Health Care-0.81%		
Anthem, Inc., Sr. Unsec. Global Notes, 1.25%, 09/10/15	105,000	105,420
Sr. Unsec. Conv. Bonds, 2.75%, 10/15/42	281,000	485,076
		590,496
Movies & Entertainment-0.10%		
Live Nation Entertainment, Inc., Sr. Unsec. Conv. Notes, 2.50%, 05/15/19[c]	48,000	50,820
Viacom Inc., Sr. Unsec. Global Notes, 4.85%, 12/15/34	19,000	19,513
		70,333
Multi-Line Insurance-0.51%		
American Financial Group, Inc., Sr. Unsec. Notes, 9.88%, 06/15/19	150,000	192,885
American International Group, Inc., Sr. Unsec. Global Notes, 2.30%, 07/16/19	20,000	20,027
Farmers Exchange Capital III, Unsec. Sub. Notes, 5.45%, 10/15/54[c]	70,000	72,828
Hartford Financial Services Group Inc. (The), Sr. Unsec. Notes, 4.00%, 03/30/15	35,000	35,278
Nationwide Financial Services Inc., Sr. Unsec. Notes, 5.30%, 11/18/44[c]	50,000	52,825
		373,843
Multi-Utilities-0.29%		
Dominion Resources, Inc., Jr. Unsec. Sub. Notes, 5.75%, 10/01/54	14,000	14,641
Enable Midstream Partners L.P., Sr. Unsec. Gtd. Notes, 2.40%, 05/15/19[c]	200,000	194,506
		209,147
Office REIT's-0.21%		
Highwoods Realty L.P., Sr. Unsec. Notes, 3.20%, 06/15/21	150,000	149,606
Oil & Gas Equipment & Services-0.13%		
Helix Energy Solutions Group, Inc., Sr. Unsec. Conv. Notes, 3.25%, 03/15/18[d]	84,000	93,608

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

	Principal Amount	Value
Oil & Gas Exploration & Production–0.64%		
Cobalt International Energy Inc., Sr. Unsec. Conv. Notes, 2.63%, 12/01/19	$ 129,000	$ 78,045
ConocoPhillips Co., Sr. Unsec. Gtd. Global Notes, 2.88%, 11/15/21	46,000	46,476
4.15%, 11/15/34	49,000	50,469
Devon Energy Corp., Sr. Unsec. Global Notes, 2.25%, 12/15/18	25,000	24,938
3.25%, 05/15/22	20,000	19,658
Marathon Oil Corp., Sr. Unsec. Notes, 0.90%, 11/01/15	90,000	89,774
Stone Energy Corp., Sr. Unsec. Gtd. Conv. Notes, 1.75%, 03/01/17	174,000	152,141
		461,501
Oil & Gas Storage & Transportation–0.27%		
Enterprise Products Operating LLC, Sr. Unsec. Gtd. Notes, 2.55%, 10/15/19	20,000	19,817
Kinder Morgan Inc., Sr. Unsec. Gtd. Notes, 5.30%, 12/01/34	28,000	28,545
Williams Partners L.P., Sr. Unsec. Global Notes, 3.80%, 02/15/15	150,000	150,521
		198,883
Other Diversified Financial Services–0.07%		
ERAC USA Finance LLC, Sr. Unsec. Gtd. Notes, 2.35%, 10/15/19[(c)]	50,000	49,668
Packaged Foods & Meats–0.39%		
General Mills, Inc., Sr. Unsec. Global Notes, 2.20%, 10/21/19	45,000	44,744
Grupo Bimbo S.A.B. de C.V. (Mexico), Sr. Unsec. Gtd. Notes, 3.88%, 06/27/24[(c)]	200,000	200,554
Tyson Foods, Inc., Sr. Unsec. Gtd. Global Bonds, 3.95%, 08/15/24	13,000	13,489
4.88%, 08/15/34	11,000	12,108
5.15%, 08/15/44	12,000	13,566
		284,461
Pharmaceuticals–1.06%		
Actavis Funding SCS, Sr. Unsec. Gtd. Global Notes, 4.85%, 06/15/44	150,000	152,458
Bayer US Finance LLC (Germany), Sr. Unsec. Gtd. Notes, 3.00%, 10/08/21[(c)]	200,000	201,342
Jazz Investments I Ltd., Sr. Unsec. Gtd. Conv. Notes, 1.88%, 08/15/21[(c)]	76,000	86,355
Salix Pharmaceuticals Ltd., Sr. Unsec. Conv. Notes, 1.50%, 03/15/19	178,000	325,406
		765,561
Property & Casualty Insurance–0.23%		
Liberty Mutual Group Inc., Sr. Unsec. Gtd. Bonds, 4.85%, 08/01/44[(c)]	100,000	102,692
Old Republic International Corp., Sr. Unsec. Conv. Notes, 3.75%, 03/15/18	57,000	66,334
		169,026

	Principal Amount	Value
Railroads–0.05%		
Union Pacific Corp., Sr. Unsec. Notes, 3.25%, 01/15/25	$ 10,000	$ 10,307
4.15%, 01/15/45	25,000	26,187
		36,494
Regional Banks–0.46%		
Regions Financial Corp., Sr. Unsec. Notes, 5.75%, 06/15/15	325,000	331,613
Renewable Electricity–0.22%		
Oglethorpe Power Corp., Sr. Sec. First Mortgage Bonds, 4.55%, 06/01/44	150,000	158,761
Retail REIT's–0.21%		
Realty Income Corp., Sr. Unsec. Notes, 2.00%, 01/31/18	150,000	150,320
Semiconductor Equipment–0.39%		
Lam Research Corp., Series B, Sr. Unsec. Conv. Notes, 1.25%, 05/15/18	198,000	280,913
Semiconductors–0.87%		
Micron Technology, Inc., Series G, Sr. Unsec. Conv. Global Bonds, 3.00%, 11/15/28[(d)]	219,000	289,217
NVIDIA Corp., Sr. Unsec. Conv. Bonds, 1.00%, 12/01/18	297,000	342,849
		632,066
Specialized Finance–0.23%		
Moody's Corp., Sr. Unsec. Global Notes, 4.88%, 02/15/24	150,000	164,426
Specialized REIT's–0.28%		
American Tower Corp., Sr. Unsec. Global Notes, 4.63%, 04/01/15	200,000	201,821
Systems Software–0.30%		
NetSuite Inc., Sr. Unsec. Conv. Notes, 0.25%, 06/01/18	162,000	182,250
Oracle Corp., Sr. Unsec. Global Notes, 4.30%, 07/08/34	30,000	32,265
		214,515
Technology Hardware, Storage & Peripherals–0.72%		
SanDisk Corp., Sr. Unsec. Conv. Bonds, 0.50%, 10/15/20	348,000	419,775
Seagate HDD Cayman, Sr. Unsec. Gtd. Bonds, 4.75%, 01/01/25[(c)]	65,000	67,193
Sr. Unsec. Gtd. Notes, 5.75%, 12/01/34[(c)]	37,000	39,174
		526,142
Thrifts & Mortgage Finance–0.58%		
MGIC Investment Corp., Sr. Unsec. Conv. Notes, 5.00%, 05/01/17	170,000	191,781
2.00%, 04/01/20	46,000	67,534

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

	Principal Amount	Value
Thrifts & Mortgage Finance-(continued)		
Radian Group Inc., Sr. Unsec. Conv. Notes, 3.00%, 11/15/17	$ 72,000	$ 110,385
2.25%, 03/01/19	30,000	48,394
		418,094
Tobacco-0.07%		
Altria Group, Inc., Sr. Unsec. Gtd. Global Notes, 4.13%, 09/11/15	25,000	25,586
Philip Morris International Inc., Sr. Unsec. Global Notes, 3.25%, 11/10/24	28,000	28,128
		53,714
Trading Companies & Distributors-0.05%		
Air Lease Corp., Sr. Unsec. Global Notes, 4.25%, 09/15/24	35,000	35,481
Wireless Telecommunication Services-0.23%		
Crown Castle Towers LLC, Sr. Sec. Gtd. Notes, 4.88%, 08/15/20[c]	150,000	167,152
Total Bonds and Notes (Cost $14,367,838)		14,692,705
U.S. Treasury Securities-7.54%		
U.S. Treasury Notes-7.54%		
0.63%, 12/31/16	3,000,000	2,997,410
1.63%, 12/31/19	2,064,300	2,060,998
2.25%, 11/15/24	400,900	403,808
Total U.S. Treasury Securities (Cost $5,449,108)		5,462,216

	Shares	Value
Preferred Stocks-0.16%		
Asset Management & Custody Banks-0.16%		
AMG Capital Trust II, $2.58 Jr. Gtd. Sub. Conv. Pfd. (Cost $118,794)	1,900	$ 117,800
Money Market Funds-6.35%		
Liquid Assets Portfolio-Institutional Class[f]	2,301,864	2,301,864
Premier Portfolio-Institutional Class[f]	2,301,864	2,301,864
Total Money Market Funds (Cost $4,603,728)		4,603,728
TOTAL INVESTMENTS-99.73% (Cost $68,984,619)		72,313,600
OTHER ASSETS LESS LIABILITIES-0.27%		197,201
NET ASSETS-100.00%		$72,510,801

Investment Abbreviations:

ADR – American Depositary Receipt
Conv. – Convertible
Ctfs. – Certificates
Deb. – Debentures
Gtd. – Guaranteed
Jr. – Junior
Pfd. – Preferred
REIT – Real Estate Investment Trust
Sec. – Secured
Sr. – Senior
Sub. – Subordinate
Unsec. – Unsecured

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] Security purchased or received in a transaction exempt from registration under the Securities Act of 1933, as amended (the "1933 Act"). The security may be resold pursuant to an exemption from registration under the 1933 Act, typically to qualified institutional buyers. The aggregate value of these securities at December 31, 2014 was $3,281,580, which represented 4.53% of the Fund's Net Assets.
[d] Security has an irrevocable call by the issuer or mandatory put by the holder. Maturity date reflects such call or put.
[e] Perpetual bond with no specified maturity date.
[f] 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, 2014

Assets:	
Investments, at value (Cost $64,380,891)	$67,709,872
Investments in affiliated money market funds, at value and cost	4,603,728
Total investments, at value (Cost $68,984,619)	72,313,600
Foreign currencies, at value (Cost $23,444)	23,051
Receivable for:	
Investments sold	171,378
Fund shares sold	39,829
Dividends and interest	185,841
Fund expenses absorbed	15,794
Investment for trustee deferred compensation and retirement plans	71,701
Unrealized appreciation on forward foreign currency contracts outstanding	81,249
Other assets	2,800
Total assets	72,905,243
Liabilities:	
Payable for:	
Investments purchased	189,570
Fund shares reacquired	38,351
Accrued fees to affiliates	44,798
Accrued trustees' and officers' fees and benefits	305
Accrued other operating expenses	45,550
Trustee deferred compensation and retirement plans	75,868
Total liabilities	394,442
Net assets applicable to shares outstanding	$72,510,801
Net assets consist of:	
Shares of beneficial interest	$45,936,402
Undistributed net investment income	717,068
Undistributed net realized gain	22,450,056
Net unrealized appreciation	3,407,275
	$72,510,801
Net Assets:	
Series I	$70,716,776
Series II	$ 1,794,025
Shares outstanding, $0.001 par value per share, with an unlimited number of shares authorized:	
Series I	3,717,699
Series II	94,998
Series I:	
Net asset value per share	$ 19.02
Series II:	
Net asset value per share	$ 18.88

Statement of Operations

For the year ended December 31, 2014

Investment income:	
Dividends (net of foreign withholding taxes of $18,842)	$ 1,337,081
Dividends from affiliated money market funds	2,140
Interest	270,166
Total investment income	1,609,387
Expenses:	
Advisory fees	421,796
Administrative services fees	212,887
Custodian fees	26,000
Distribution fees — Series II	4,344
Transfer agent fees	21,450
Trustees' and officers' fees and benefits	23,588
Professional services fees	49,491
Other	18,284
Total expenses	777,840
Less: Fees waived	(51,026)
Net expenses	726,814
Net investment income	882,573
Realized and unrealized gain (loss) from:	
Net realized gain (loss) from:	
Investment securities	22,722,245
Foreign currencies	768
Forward foreign currency contracts	321,883
Futures contracts	(67,457)
	22,977,439
Change in net unrealized appreciation (depreciation) of:	
Investment securities	(11,086,445)
Foreign currencies	(2,847)
Forward foreign currency contracts	81,249
	(11,008,043)
Net realized and unrealized gain	11,969,396
Net increase in net assets resulting from operations	$ 12,851,969

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, 2014 and 2013

	2014	2013
Operations:		
Net investment income	$ 882,573	$ 1,836,834
Net realized gain	22,977,439	3,092,855
Change in net unrealized appreciation (depreciation)	(11,008,043)	2,119,618
Net increase in net assets resulting from operations	12,851,969	7,049,307
Distributions to shareholders from net investment income:		
Series I	(1,956,705)	(2,140,730)
Series II	(44,780)	(43,877)
Total distributions from net investment income	(2,001,485)	(2,184,607)
Distributions to shareholders from net realized gains:		
Series I	(3,200,299)	(1,490,858)
Series II	(80,119)	(33,701)
Total distributions from net realized gains	(3,280,418)	(1,524,559)
Share transactions–net:		
Series I	1,534,064	(5,600,398)
Series II	(63,252)	(64,627)
Net increase (decrease) in net assets resulting from share transactions	1,470,812	(5,665,025)
Net increase (decrease) in net assets	9,040,878	(2,324,884)
Net assets:		
Beginning of year	63,469,923	65,794,807
End of year (includes undistributed net investment income of $717,068 and $1,764,410, respectively)	$ 72,510,801	$63,469,923

Notes to Financial Statements

December 31, 2014

NOTE 1—Significant Accounting Policies

Invesco V.I. Managed Volatility Fund (the "Fund"), formerly Invesco V.I. Utilities 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-four 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 both capital appreciation and current income while managing portfolio volatility.

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 securities) 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 securities) 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 (for unlisted equities), yield (for debt obligations), quality, type of issue, coupon rate (for debt obligations), maturity (for debt obligations), individual trading characteristics and other market data. Debt obligations are subject to interest rate and credit risks. In addition, all debt obligations involve some risk of default with respect to interest and/or principal payments.

Foreign securities' (including foreign exchange contracts) prices 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 the Adviser determines 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 trades is not the current value as of the close of the NYSE. Foreign securities' prices 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 ask prices is used to value debt obligations, including corporate loans.

Securities for which market quotations are not readily available or became 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.

The Fund may invest in securities that are subject to interest rate risk, meaning the risk that the prices will generally fall as interest rates rise and, conversely, the prices will generally rise as interest rates fall. Specific securities differ in their sensitivity to changes in interest rates depending on their individual characteristics. Changes in interest rates may result in increased market volatility, which may affect the value and/or liquidity of certain of the Fund's investments.

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 (net of withholding tax, if any) is recorded on the accrual basis from settlement date. Dividend income (net of withholding tax, if any) is recorded on the ex-dividend date. Bond premiums and discounts are amortized and/or accreted for financial reporting purposes.

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 net investment income and net realized capital gain, if any, are generally declared and paid to separate accounts of participating insurance companies annually and recorded on the ex-dividend date.

E. Federal Income Taxes – The Fund intends to comply with the requirements of Subchapter M of the Internal Revenue Code of 1986, as amended (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 recognizes the tax benefits of uncertain tax positions only when the position is more likely than not to be sustained. Management has analyzed the Fund's uncertain tax positions and concluded that no liability for unrecognized tax benefits should be recorded related to uncertain tax positions. Management is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change materially in the next 12 months.

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 the 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. 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. Foreign taxes, if any, are recorded based on the tax regulations and rates that exist in the foreign markets in which the Fund invests and are shown in the Statement of Operations.

J. Forward Foreign Currency Contracts – The Fund may engage in foreign currency transactions either on a spot (i.e. for prompt delivery and settlement) basis or through forward foreign currency contracts to manage or minimize currency or exchange rate risk.

The Fund may also enter into forward 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, or the Fund may also enter into forward foreign currency contracts that do not provide for physical settlement of the two currencies, but instead are settled by a single cash payment calculated as the difference between the agreed upon exchange rate and the spot rate at settlement based upon an agreed upon notional amount (non-deliverable forwards). The Fund will set aside liquid assets in an amount equal to daily mark-to-market obligation for forward foreign currency contracts.

A forward foreign currency contract is an obligation between two parties ("Counterparties") to purchase or sell a specific currency for an agreed-upon price at a future date. The use of forward 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 forward 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.

K. Futures Contracts – The Fund may enter into futures contracts to manage exposure to interest rate, equity and market price movements and/or currency risks. A futures contract is an agreement between Counterparties to purchase or sell a specified underlying security, currency or commodity (or delivery of a cash settlement price, in the case of an index future) for a fixed price at a future date. The Fund currently invests only in exchange-traded futures and they are standardized as to maturity date and underlying financial instrument. Initial margin deposits required upon entering into futures contracts are satisfied by the segregation of specific securities or cash as collateral at the futures commission merchant (broker). During the period the futures contracts are open, changes in the value of the contracts are recognized as unrealized gains or losses by recalculating the value of the contracts on a daily basis. Subsequent or variation margin payments are received or made depending upon whether unrealized gains or losses are incurred. These amounts are reflected as receivables or payables on the Statement of Assets and Liabilities. When the contracts are closed or expire, the Fund recognizes a realized gain or loss equal to the difference between the proceeds from, or cost of, the closing transaction and the Fund's basis in the contract. The net realized gain (loss) and the change in unrealized gain (loss) on futures contracts held during the period is included on the Statement of Operations. The primary risks associated with futures contracts are market risk and the absence of a liquid secondary market. If the Fund were unable to liquidate a futures contract and/or enter into an offsetting closing transaction, the Fund would continue to be subject to market risk with respect to the value of the contracts and continue to be required to maintain the margin deposits on the futures contracts. Futures contracts have minimal Counterparty risk since the exchange's clearinghouse, as Counterparty to all exchange-traded futures, guarantees the futures against default. Risks may exceed amounts recognized in the Statement of Assets and Liabilities.

L. 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.

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(s) discretionary investment management services to the Fund based on the percentage of assets allocated to such Sub-Adviser(s).

Effective April 30, 2014, the Adviser has contractually agreed, through at least April 30, 2015, 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 1.03% and Series II shares to 1.28% of average daily net assets. Prior to April 30, 2014, the Adviser had contractually agreed 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 2.00% and Series II shares to 2.25% 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 Invesco continues the fee waiver agreement, it will terminate on April 30, 2015. The fee waiver agreement cannot be terminated during its term.

Further, the Adviser has contractually agreed, through at least June 30, 2016, 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, 2014, the Adviser waived advisory fees of $51,026.

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, 2014, Invesco was paid $50,000 for accounting and fund administrative services and reimbursed $162,887 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, 2014, 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, 2014, expenses incurred under the Plan are detailed in the Statement of Operations as *Distribution fees*.

For the year ended December 31, 2014, the Fund incurred $251 in brokerage commissions with Invesco Capital Markets, Inc., an affiliate of the Adviser and IDI, for portfolio transactions executed on behalf of the Fund.

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, 2014. 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.

	Level 1	Level 2	Level 3	Total
Equity Securities	$48,720,180	$ 3,438,499	$–	$52,158,679
U.S. Treasury Securities	–	5,462,216	–	5,462,216
Corporate Debt Securities	–	14,692,705	–	14,692,705
	48,720,180	23,593,420	–	72,313,600
Forward Foreign Currency Contracts*	–	81,249	–	81,249
Total Investments	$48,720,180	$23,674,669	$–	$72,394,849

* Unrealized appreciation.

NOTE 4—Derivative Investments

Value of Derivative Investments at Period-End

The table below summarizes the value of the Fund's derivative investments, detailed by primary risk exposure, held as of December 31, 2014:

	Value	
Risk Exposure/Derivative Type	**Assets**	**Liabilities**
Currency risk:		
Forward foreign currency contracts[a]	$84,226	$(2,977)

[a] Values are disclosed on the Statement of Assets and Liabilities under the caption *Unrealized appreciation on forward foreign currency contracts outstanding*.

Effect of Derivative Investments for the year ended December 31, 2014

The table below summarizes the gains (losses) on derivative investments, detailed by primary risk exposure, recognized in earnings during the period:

	Location of Gain (Loss) on Statement of Operations	
	Forward Foreign Currency Contracts	Futures Contracts
Realized Gain (Loss):		
Currency risk	$321,883	$ –
Market risk	–	(67,457)
Change in Unrealized Appreciation:		
Currency risk	81,249	–
Total	$403,132	$(67,457)

The table below summarizes the average notional value of forward foreign currency and futures contracts outstanding during the period.

	Forward Foreign Currency Contracts	Futures Contracts
Average notional value	$2,822,379	$274,373

Open Forward Foreign Currency Contracts

Settlement Date	Counterparty	Contract to Deliver	Contract to Receive	Notional Value	Unrealized Appreciation (Depreciation)
01/09/15	Bank of New York Mellon (The)	CAD 389,292	USD 341,751	$335,014	$ 6,737
01/09/15	State Street Bank and Trust Co.	CAD 390,385	USD 342,710	335,955	6,755
01/09/15	Bank of New York Mellon (The)	CHF 262,589	USD 272,604	264,187	8,417
01/09/15	State Street Bank and Trust Co.	CHF 263,138	USD 273,115	264,740	8,375
01/09/15	Bank of New York Mellon (The)	EUR 582,003	USD 726,200	704,342	21,858
01/09/15	State Street Bank and Trust Co.	EUR 582,808	USD 727,213	705,316	21,897
01/09/15	Bank of New York Mellon (The)	GBP 376,727	USD 592,181	587,168	5,013
01/09/15	State Street Bank and Trust Co.	GBP 376,922	USD 592,646	587,472	5,174
01/09/15	Bank of New York Mellon (The)	ILS 952,421	USD 242,890	244,289	(1,399)
01/09/15	State Street Bank and Trust Co.	ILS 955,775	USD 243,571	245,149	(1,578)
Total open forward foreign currency contracts — Currency Risk					$81,249

Currency Abbreviations:

CAD – Canadian Dollar
CHF – Swiss Franc
EUR – Euro
GBP – British Pound Sterling
ILS – Israeli Shekel
USD – U.S. Dollar

Offsetting Assets and Liabilities

Accounting Standards Update ("ASU") No. 2011-11, *Disclosures about Offsetting Assets and Liabilities,* which was subsequently clarified in Financial Accounting Standards Board ASU 2013-01 "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities" is intended to enhance disclosures about financial instruments and derivative instruments that are subject to offsetting arrangements on the Statement of Assets and Liabilities and to enable investors to better understand the effect of those arrangements on its financial position. In order for an arrangement to be eligible for netting, the Fund must have a basis to conclude that such netting arrangements are legally enforceable. The Fund enters into netting agreements and collateral agreements in an attempt to reduce the Fund's Counterparty credit risk by providing for a single net settlement with a Counterparty of all financial transactions covered by the agreement in an event of default as defined under such agreement.

There were no derivative instruments subject to a netting agreement for which the Fund is not currently netting. The following tables present derivative instruments that are either subject to an enforceable netting agreement or offset by collateral arrangements as of December 31, 2014.

Assets:

Counterparty	Gross amounts of Recognized Assets	Gross amounts offset in Statement of Assets & Liabilities	Net amounts of assets presented in the Statement of Assets & Liabilities	Collateral Received: Financial Instruments	Collateral Received: Cash	Net Amount
Bank of New York Mellon (The)	$42,025	$(1,399)	$40,626	$–	$–	$40,626
State Street Bank and Trust Co.	42,201	(1,578)	40,623	–	–	40,623
Total	$84,226	$(2,977)	$81,249	$–	$–	$81,249

Liabilities:

Counterparty	Gross amounts of Recognized Liabilities	Gross amounts offset in Statement of Assets & Liabilities	Net amounts of liabilities presented in the Statement of Assets & Liabilities	Collateral Pledged: Financial Instruments	Collateral Pledged: Cash	Net Amount
Bank of New York Mellon (The)	$ 1,399	$(1,399)	$ –	$–	$–	$ –
State Street Bank and Trust Co.	1,578	(1,578)	–	–	–	–
Total	$ 2,977	$(2,977)	$ –	$–	$–	$ –

NOTE 5—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 were eligible to participate in a retirement plan that provided 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.

NOTE 6—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. Such balances, if any at period end, are shown in the Statement of Assets and Liabilities under the payable caption *Amount due custodian*. 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 7—Distributions to Shareholders and Tax Components of Net Assets

Tax Character of Distributions to Shareholders Paid During the Fiscal Years Ended December 31, 2014 and 2013:

	2014	2013
Ordinary income	$2,001,485	$2,201,346
Long-term capital gain	3,280,418	1,507,820
Total distributions	$5,281,903	$3,709,166

Tax Components of Net Assets at Period-End:

	2014
Undistributed ordinary income	$ 1,997,110
Undistributed long-term gain	21,394,388
Net unrealized appreciation — investments	3,254,216
Net unrealized appreciation (depreciation) — other investments	(2,957)
Temporary book/tax differences	(68,358)
Shares of beneficial interest	45,936,402
Total net assets	$72,510,801

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 and adjustments to contingent payment debt instruments.

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. Capital losses generated in years beginning after December 22, 2010 can be carried forward for an unlimited period, whereas previous losses expire in eight tax years. 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. Capital loss carryforwards with no expiration date 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 carryforwards in the future may be limited under the Internal Revenue Code and related regulations based on the results of future transactions.

The Fund does not have a capital loss carryforward as of December 31, 2014.

NOTE 8—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, 2014 was $75,211,674 and $85,805,339, respectively. During the same period, purchases and sales of U.S. Treasury obligations were $55,876,444 and $50,495,805, 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	$ 5,130,287
Aggregate unrealized (depreciation) of investment securities	(1,876,071)
Net unrealized appreciation of investment securities	$ 3,254,216

Cost of investments for tax purposes is $69,059,384.

NOTE 9—Reclassification of Permanent Differences

Primarily as a result of differing book/tax treatment of foreign currency transactions and contingent payment debt instrumentals, on December 31, 2014, undistributed net investment income was increased by $71,570 and undistributed net realized gain was decreased by $71,570. This reclassification had no effect on the net assets of the Fund.

NOTE 10—Share Information

	Summary of Share Activity			
	Years ended December 31,			
	2014[a]		2013	
	Shares	Amount	Shares	Amount
Sold:				
Series I	717,540	$ 13,584,291	891,055	$ 15,490,334
Series II	16,173	299,184	5,955	102,148
Issued as reinvestment of dividends:				
Series I	276,664	5,157,004	219,299	3,631,588
Series II	6,744	124,899	4,713	77,578
Reacquired:				
Series I	(906,605)	(17,207,231)	(1,440,447)	(24,722,320)
Series II	(26,293)	(487,335)	(13,991)	(244,353)
Net increase (decrease) in share activity	84,223	$ 1,470,812	(333,416)	$ (5,665,025)

(a) There are entities that are record owners of more than 5% of the outstanding shares of the Fund and in the aggregate own 56% 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 11—Financial Highlights

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

	Net asset value, beginning of period	Net investment income[a]	Net gains on securities (both realized and unrealized)	Total from investment operations	Dividends from net investment income	Distributions from net realized gains	Total distributions	Net asset value, end of period	Total return[b]	Net assets, end of period (000's 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 12/31/14	$17.03	$0.24	$3.23	$3.47	$(0.56)	$(0.92)	$(1.48)	$19.02	20.57%	$70,717	1.03%[d]	1.10%[d]	1.26%[d]	201%
Year ended 12/31/13	16.20	0.47	1.25	1.72	(0.52)	(0.37)	(0.89)	17.03	10.76	61,806	1.07	1.08	2.73	15
Year ended 12/31/12	16.74	0.52	0.10	0.62	(0.54)	(0.62)	(1.16)	16.20	3.61	64,158	0.99	1.03	3.10	3
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	1.04	3.23	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
Series II														
Year ended 12/31/14	16.91	0.19	3.21	3.40	(0.51)	(0.92)	(1.43)	18.88	20.30	1,794	1.28[d]	1.35[d]	1.01[d]	201
Year ended 12/31/13	16.09	0.43	1.23	1.66	(0.47)	(0.37)	(0.84)	16.91	10.45	1,664	1.32	1.33	2.48	15
Year ended 12/31/12	16.63	0.47	0.10	0.57	(0.49)	(0.62)	(1.11)	16.09	3.34	1,637	1.24	1.28	2.85	3
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	1.29	2.98	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

(a) Calculated using average shares outstanding.
(b) Includes adjustments in accordance with accounting principles generally accepted in the United States of America and as such, the net asset value for financial reporting purposes and the returns based upon those net asset values may differ from the net asset value and returns for shareholder transactions. Total returns are not annualized for periods less than one year, if applicable, and do not reflect charges assessed in connection with a variable product, which if included would reduce total returns.
(c) Portfolio turnover is calculated at the fund level and is not annualized for periods less than one year, if applicable.
(d) Ratios are based on average daily net assets (000's omitted) of $68,562 and $1,738 for Series I and Series II shares, 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. Managed Volatility 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. Managed Volatility Fund (formerly known as 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, 2014, 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 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, 2014 by correspondence with the custodian and brokers, and the application of alternative auditing procedures where confirmations of security purchases have not been received, provide a reasonable basis for our opinion.

PRICEWATERHOUSECOOPERS LLP

Houston, Texas
February 13, 2015

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, 2014 through December 31, 2014.

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 (07/01/14)	Ending Account Value (12/31/14)[1]	Expenses Paid During Period[2]	Ending Account Value (12/31/14)	Expenses Paid During Period[2]	Annualized Expense Ratio
Series I	$1,000.00	$1,024.60	$5.18	$1,020.09	$5.17	1.02%
Series II	1,000.00	1,023.30	6.45	1,018.83	6.44	1.27

[1] The actual ending account value is based on the actual total return of the Fund for the period July 1, 2014 through December 31, 2014, 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, 2014:

Federal and State Income Tax	
Long-Term Capital Gain Distributions	$3,280,418
Corporate Dividends Received Deduction*	95.96%
U.S. Treasury Obligations*	3.4%

* The above percentages are 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 1000, 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 During Past 5 Years
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 and Chief Executive Officer, 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).	144	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 known as 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; 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), and Short-Term Investments Trust only); President, AIM Trimark Global Fund Inc. and AIM Trimark Canada Fund Inc.	144	None
Independent Trustees				
Bruce L. Crockett – 1944 Trustee and Chair	1993	Chairman, Crockett Technologies Associates (technology consulting company) Formerly: Director, Captaris (unified messaging provider); Director, President and Chief Executive Officer, COMSAT Corporation; Chairman, Board of Governors of INTELSAT (international communications company); ACE Limited (insurance company); and Investment Company Institute	144	ALPS (Attorneys Liability Protection Society) (insurance company)

1 Mr. Flanagan is considered an interested person (within the meaning of Section 2(a)(19) of the 1940 Act) 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.

2 Mr. Taylor is considered an interested person (within the meaning of Section 2(a)(19) of the 1940 Act) of the Trust because he is an officer and a director of the Adviser.

Trustees and Officers—(continued)

Name, Year of Birth and Position(s) Held with the Trust	Trustee and/ or Officer Since	Principal Occupation(s) During Past 5 Years	Number of Funds in Fund Complex Overseen by Trustee	Other Directorship(s) Held by Trustee During Past 5 Years
Independent Trustees—(continued)				
David C. Arch – 1945 Trustee	2010	Chairman of Blistex Inc., a consumer health care products manufacturer	144	Board member of the Illinois Manufacturers' Association; Member of the Board of Visitors, Institute for the Humanities, University of Michigan; Member of the Audit Committee of the Edward-Elmhurst Hospital
James T. Bunch – 1942 Trustee	2004	Managing Member, Grumman Hill Group LLC (family office private equity investments) 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	144	Chairman, Board of Governors, Western Golf Association; Chairman, Evans Scholars Foundation; and Director, Denver Film Society
Rodney F. Dammeyer – 1940 Trustee	2010	Chairman of CAC, LLC, (private company offering capital investment and management advisory services) Formerly: Prior to 2001, Managing Partner at Equity Group Corporate Investments; Prior to 1995, Chief Executive Officer of Itel Corporation (formerly 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.; From 1987 to 2010, Director/ Trustee of investment companies in the Van Kampen Funds complex	144	Director of Quidel Corporation and Stericycle, 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); Nature's Sunshine Products, Inc. and Reich & Tang Funds (5 portfolios) (registered investment company) Formerly: Director, Homeowners of America Holding Corporation/Homeowners of America Insurance Company (property casualty company); 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)	144	Director of: Nature's Sunshine Products, Inc., Reich & Tang Funds, Homeowners of America Holding Corporation/ Homeowners of America Insurance Company, the Boss Group
Jack M. Fields – 1952 Trustee	1997	Chief Executive Officer, Twenty First Century Group, Inc. (government affairs company); Owner and Chief Executive Officer, Dos Angeles Ranch, L.P. (cattle, hunting, corporate entertainment); and Discovery Global Education Fund (non-profit) Formerly: Chief Executive Officer, Texana Timber LP (sustainable forestry company); Director of Cross Timbers Quail Research Ranch (non-profit); and member of the U.S. House of Representatives	144	Insperity, Inc. (formerly known as Administaff)
Prema Mathai-Davis – 1950 Trustee	1998	Retired. Formerly: Chief Executive Officer, YWCA of the U.S.A.	144	None
Larry Soll – 1942 Trustee	2004	Retired. Formerly: Chairman, Chief Executive Officer and President, Synergen Corp. (a biotechnology company)	144	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 2000, President of the University of Chicago	144	Trustee of the University of Rochester and a member of its investment committee; Member of the National Academy of Sciences and the American Philosophical Society; 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	144	None

Trustees and Officers—(continued)

Name, Year of Birth and Position(s) Held with the Trust	Trustee and/ or Officer Since	Principal Occupation(s) During Past 5 Years	Number of Funds in Fund Complex Overseen by Trustee	Other Directorship(s) Held by Trustee During Past 5 Years
Independent Trustees—(continued)				
Suzanne H. Woolsey — 1941 Trustee	2014	Chief Executive Officer of Woolsey Partners LLC	144	Emeritus Chair of the Board of Trustees of the Institute for Defense Analyses; Trustee of Colorado College; Trustee of California Institute of Technology; Prior to 2014, Director of Fluor Corp.; Prior to 2010, Trustee of the German Marshall Fund of the United States; Prior to 2010 Trustee of the Rocky Mountain Institute
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, Invesco Capital Markets, Inc. (formerly known as 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 , PowerShares Actively Managed Exchange-Traded Fund Trust; and PowerShares Actively Managed Exchange-Traded Commodity Fund Trust Formerly: Director and Vice President, 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 Aim 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
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); and Vice President, PowerShares Exchange-Traded Fund Trust, PowerShares Exchange-Traded Fund Trust II, PowerShares India Exchange-Traded Fund Trust, PowerShares Actively Managed Exchange-Traded Fund Trust, and PowerShares Actively Managed Exchange-Traded Commodity Fund Trust Formerly: Vice President, Invesco Aim 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.; and 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	N/A	N/A

Trustees and Officers–(continued)

Name , Year of Birth and Position(s) Held with the Trust	Trustee and/ or Officer Since	Principal Occupation(s) During Past 5 Years	Number of Funds in Fund Complex Overseen by Trustee	Other Directorship(s) Held by Trustee During Past 5 Years
Other Officers—(continued)				
Karen Dunn Kelley – 1960 Vice President	1993	Senior Managing Director, Investments; Director, Co-President, Co-Chief Executive Officer, and Co-Chairman, Invesco Advisers, Inc. (formerly known as Invesco Institutional (N.A.), Inc.) (registered investment adviser); Chairman, Invesco Senior Secured Management, Inc.; Senior Vice President, Invesco Management Group, Inc. (formerly known as Invesco Aim Management Group, Inc.); Executive Vice President, Invesco Distributors, Inc. (formerly known as Invesco Aim Distributors, Inc.); Director, Invesco Mortgage Capital Inc. and Invesco Management Company Limited; Director and President, INVESCO Asset Management (Bermuda) Ltd., 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: Director, INVESCO Global Asset Management Limited and INVESCO Management S.A.; Senior Vice President, Van Kampen Investments Inc. and Invesco Advisers, Inc. (formerly known as Invesco Institutional (N.A.), Inc.) (registered investment adviser); 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.; 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), and Short-Term Investments Trust only)	N/A	N/A
Crissie M. Wisdom – 1969 Anti-Money Laundering Compliance Officer	2013	Anti-Money Laundering Compliance Officer, Invesco Advisers, Inc. (formerly known as Invesco Institutional (N.A.), Inc.) (registered investment adviser), Invesco Capital Markets, Inc. (formerly known as Van Kampen Funds Inc.), Invesco Distributors, Inc., Invesco Investment Services, Inc., Invesco Management Group, Inc., Van Kampen Exchange Corp., The Invesco Funds, and PowerShares Exchange-Traded Fund Trust, PowerShares Exchange-Traded Fund Trust II, PowerShares India Exchange-Traded Fund Trust, PowerShares Actively Managed Exchange-Traded Fund Trust and PowerShares Actively Managed Exchange-Traded Commodity Fund Trust; and Fraud Prevention Manager and Controls and Risk Analysis Manager for Invesco Investment Services, 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; 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 Funds (Chicago); Senior Vice President, Van Kampen Investments Inc.; Senior Vice President and Chief Compliance Officer, Invesco Aim Advisers, Inc. and Invesco Aim Capital Management, Inc.; Chief Compliance Officer, INVESCO Private Capital Investments, Inc. (holding company), Invesco Private Capital, Inc. (registered investment adviser), Invesco Global Asset Management (N.A.), Inc., Invesco Senior Secured Management, Inc. (registered investment adviser), Van Kampen Investor Services Inc., 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; and 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.

Office of the Fund
11 Greenway Plaza, Suite 1000
Houston, TX 77046-1173

Investment Adviser
Invesco Advisers, Inc.
1555 Peachtree Street, N.E.
Atlanta, GA 30309

Distributor
Invesco Distributors, Inc.
11 Greenway Plaza, Suite 1000
Houston, TX 77046-1173

Auditors
PricewaterhouseCoopers LLP
1000 Louisiana Street, Suite 5800
Houston, TX 77002-5678

Counsel to the Fund
Stradley Ronon Stevens & Young, LLP
2005 Market Street, Suite 2600
Philadelphia, PA 19103-7018

Counsel to the Independent Trustees
Goodwin Procter LLP
901 New York Avenue, N.W.
Washington, D.C. 20001

Transfer Agent
Invesco Investment Services, Inc.
11 Greenway Plaza, Suite 1000
Houston, TX 77046-1173

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

ANNUAL REPORT
December 31, 2014

Janus Aspen Forty Portfolio

Janus Aspen Series

HIGHLIGHTS

- Portfolio management perspective
- Investment strategy behind your portfolio
- Portfolio performance, characteristics and holdings

JANUS

Table of Contents

Janus Aspen Forty Portfolio

Janus Aspen Forty Portfolio (unaudited)

PORTFOLIO SNAPSHOT
We believe constructing a concentrated portfolio of quality growth companies will allow us to outperform our benchmark over time. We define quality as companies that enjoy sustainable "moats" around their businesses, potentially allowing companies to grow faster, with higher returns, than their competitors. We believe the market often underestimates these companies' sustainable competitive advantage periods.

Doug Rao
portfolio manager

PERFORMANCE OVERVIEW

For the 12-month period ended December 31, 2014, Janus Aspen Forty Portfolio's Institutional Shares and Service Shares returned 8.73% and 8.47%, respectively, versus a return of 13.05% for the Portfolio's primary benchmark, the Russell 1000 Growth Index. The Portfolio's secondary benchmark, the S&P 500 Index, returned 13.69% for the period.

INVESTMENT ENVIRONMENT

Equities enjoyed another year of strong gains. Generally positive corporate earnings reports, a declining unemployment rate and a pickup in GDP growth later in the year provided evidence the U.S. economy was strengthening. Low interest rates in most developed regions also provided a supportive backdrop for equities. While U.S. equity markets enjoyed strong gains, volatility picked up considerably in the final months of the year.

OVERVIEW

The Portfolio underperformed both its primary benchmark, the Russell 1000 Growth Index, and also its secondary benchmark, the S&P 500 Index, during the period. As part of our investment strategy, we seek companies that have clear, sustainable competitive "moats" around their businesses that should help them grow market share within their respective industries over time. Important competitive advantages could include a strong brand, network effects from a product or service that would be hard for a competitor to replicate, a lower cost structure than competitors in the industry, a distribution advantage or patent protection over valuable intellectual property. We think emphasizing such sustainable competitive advantages can be a meaningful driver of outperformance over time because the market often underestimates the duration of growth for these companies and the long-term potential return to shareholders. Over the course of the year, we were pleased to see a number of the companies we own continue to work hard to widen their competitive moats and find opportunities to grow in excess of the market. However, we also held stocks that fell during the period and negatively impacted performance.

Amazon was our largest detractor. Investments the company is making have weighed on profit growth, but we continue to like the long-term outlook for the company. We believe Amazon's size, scale and efficiency have allowed it to be a disruptive force. The company has completely rewritten the rules for retail shopping and we believe it will continue to gain consumers' wallet share as more shopping moves from physical stores to online and mobile purchases. Meanwhile, the company's cloud business, Amazon Web Services, has come to market with scale and a disruptive pricing model for businesses seeking cloud-based services. We believe the online retailer's competitive advantages of a low overhead cost structure, allowing an aggressive pricing structure, and faster shipping will cause consumers to shift an increasing amount of their general merchandise spending toward it. Given that over 90% of retail sales are still sold offline, we believe Amazon has significant opportunities ahead, particularly as they expand into new business lines and geographies.

Precision Castparts was another top detractor. Disappointing earnings results reported negatively impacted the stock. The parts that Precision Castparts manufactures for airplanes must be lightweight, yet strong and durable to withstand extremely harsh temperatures and conditions. This requires a difficult manufacturing process, and we believe there are very few companies that manufacture these parts to the standard that an airplane or engine manufacturer needs. The unique positioning and difficulty of the manufacturing process presents a significant barrier to entry for competitors, in our opinion, and should set Precision Castparts up for long-term growth as airplane and engine manufacturers meet a record-level backlog of orders from airline carriers. We also believe Precision Castparts' ability to make difficult-to-manufacture parts could translate into growth opportunities in other areas, such as the oil and gas industry.

L Brands, an international retailer, was another top detractor. We sold the position during the period due to concerns the company was not well positioned as more shopping moves from malls to mobile and online channels.

While the aforementioned companies were a drag on performance, we were pleased by the results of many other holdings in our portfolio. Lowe's Companies was our top contributor to performance this year. Lowe's embodies many of the characteristics we tend to emphasize for companies in our portfolio. With only one other large competitor, Lowe's operates in a much friendlier market structure than many other retail companies. Many of its products also don't lend themselves to e-commerce, which means the company is less impacted by the migration of online sales than most retail businesses. The size and scale of Lowe's gives it a favorable cost structure to smaller hardware stores. A housing rebound and an increase in consumer spending on home improvement projects, which was suppressed for the last half decade coming out of the financial crisis, are also a tailwind for Lowe's. Signs the consumer was spending more on home improvement were evident this year, as Lowe's reported strong same-store sales growth late in the year, which helped drive the stock's performance.

Celgene was another top contributor during the year. The stock was up after the company announced encouraging results about the effectiveness of a treatment it is developing for Crohn's disease. In addition to the new treatment for Crohn's disease, we continue to be encouraged about a number of other products being developed by Celgene. We believe there will be expanded use opportunities for the company's multiple myeloma treatment, Revlimid, and are also encouraged by the potential for several other drugs including Abraxane for pancreatic cancer, Pomalyst for refractory multiple myeloma, and Apremilast, an oral drug to treat psoriatic arthritis and psoriasis. Similar to other biotechnology holdings in our portfolio, we believe the innovative nature of Celgene's therapies, and the long patent protection around them, represent durable growth opportunities.

Finally, Canadian Pacific Railway was another top contributor to performance this year. We trimmed the position after substantial gains, but Canadian Pacific remains a holding in our portfolio due to the long-term growth potential inherent in the company. In short, we believe Canadian Pacific's railroad network across Canada and the U.S. is a valuable asset that would be nearly impossible for other transportation and logistics companies to replicate. The company also has a significant cost advantage over the trucking industry. Going forward, we believe the company can continue to grow revenues and railroad volumes as it improves execution around its railroad network. Canadian Pacific has made substantial investments to improve its service and reliability to customers. As service and reliability improves, it will likely drive more shippers to use Canadian Pacific instead of trucking services.

OUTLOOK

Heading into 2015, we have a positive outlook for both the U.S. economy and domestic equities. The U.S. is clearly showing economic strength relative to the rest of the world. While declining commodity prices may create some short-term uncertainty, lower oil prices ultimately represent a tax cut for most consumers around the world. In a country such as the U.S., where such a large portion of the economy is driven by consumer spending, the tailwind from a sharp drop in oil prices can be considerable.

Looking at equity markets, we believe valuations are reasonable. However, after considerable multiple expansions in 2013 and the first half of 2014, we expect further stock price appreciation will need to be accompanied by earnings growth. If earnings growth again becomes the primary driver of stock returns next year, we believe such an environment is favorable for our investment process. We continue to be encouraged by the competitive advantages of the companies we invest in, and remain confident they are poised to grow in excess of the market over longer time horizons.

Thank you for your investment in Janus Aspen Forty Portfolio.

(unaudited)

Janus Aspen Forty Portfolio At A Glance

5 Top Performers – Holdings

	Contribution
Lowe's Cos., Inc.	1.54%
Celgene Corp.	1.22%
Canadian Pacific Railway, Ltd. (U.S. Shares)	1.21%
Zoetis, Inc.	0.96%
Valeant Pharmaceuticals International, Inc. (U.S. Shares)	0.84%

5 Bottom Performers – Holdings

	Contribution
Amazon.com, Inc.	–0.74%
Precision Castparts Corp.	–0.42%
L Brands, Inc.	–0.35%
MGM Resorts International	–0.29%
T-Mobile U.S., Inc.	–0.27%

5 Top Performers – Sectors*

	Portfolio Contribution	Portfolio Weighting (Average % of Equity)	Russell 1000® Growth Index Weighting
Energy	1.28%	0.01%	5.15%
Health Care	0.58%	20.39%	13.13%
Utilities	–0.03%	0.00%	0.12%
Materials	–0.16%	3.12%	4.35%
Consumer Staples	–0.19%	0.09%	11.10%

5 Bottom Performers – Sectors*

	Portfolio Contribution	Portfolio Weighting (Average % of Equity)	Russell 1000® Growth Index Weighting
Information Technology	–2.27%	24.20%	27.60%
Consumer Discretionary	–1.40%	25.79%	18.77%
Financials	–0.68%	10.58%	5.34%
Industrials	–0.51%	12.61%	12.20%
Telecommunication Services	–0.22%	1.52%	2.24%

Security contribution to performance is measured by using an algorithm that multiplies the daily performance of each security with the previous day's ending weight in the portfolio and is gross of advisory fees. Fixed income securities and certain equity securities, such as private placements and some share classes of equity securities, are excluded.

* Based on sector classification according to the Global Industry Classification Standard codes, which are the exclusive property and a service mark of MSCI Inc. and Standard & Poor's.

Janus Aspen Forty Portfolio (unaudited)

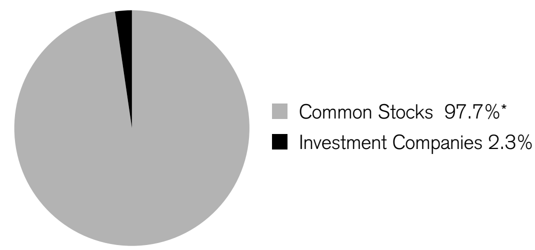
5 Largest Equity Holdings – (% of Net Assets)

As of December 31, 2014

Lowe's Cos., Inc. Specialty Retail	4.9%
Precision Castparts Corp. Aerospace & Defense	4.6%
Celgene Corp. Biotechnology	4.4%
Google, Inc. – Class C Internet Software & Services	4.0%
Endo International PLC Pharmaceuticals	4.0%
	21.9%

Asset Allocation – (% of Net Assets)

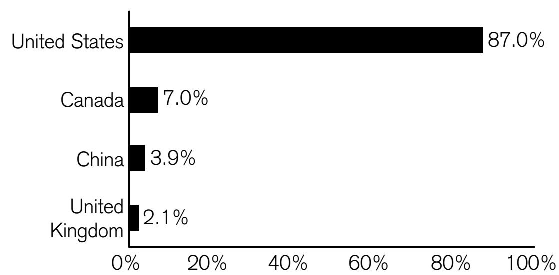
As of December 31, 2014



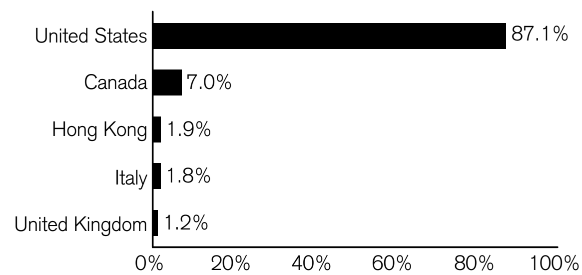
*Includes Other (0.0)%.

Top Country Allocations – Long Positions (% of Investment Securities)

As of December 31, 2014

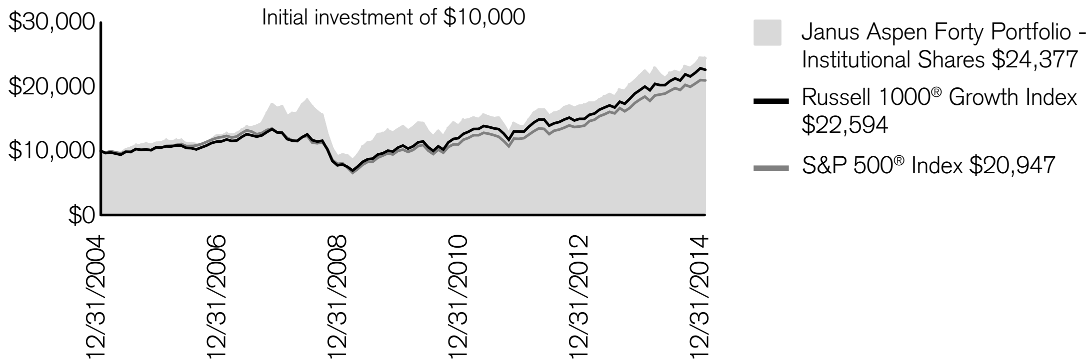


As of December 31, 2013



(unaudited)

Performance



Average Annual Total Return – for the periods ended December 31, 2014

	One Year	Five Year	Ten Year	Since Inception*
Janus Aspen Forty Portfolio – Institutional Shares	8.73%	12.03%	9.32%	10.95%
Janus Aspen Forty Portfolio – Service Shares	8.47%	11.74%	9.05%	10.64%
Russell 1000® Growth Index	13.05%	15.81%	8.49%	6.66%
S&P 500® Index	13.69%	15.45%	7.67%	7.47%
Morningstar Quartile – Institutional Shares	3rd	4th	1st	1st
Morningstar Ranking – based on total returns for Large Growth Funds	1,177/1,760	1,336/1,538	143/1,331	29/806

Expense Ratios – per the May 1, 2014 prospectuses

	Total Annual Fund Operating Expenses
Janus Aspen Forty Portfolio – Institutional Shares	0.55%
Janus Aspen Forty Portfolio – Service Shares	0.81%

Returns quoted are past performance and do not guarantee future results; current performance may be lower or higher. Investment returns and principal value will vary; there may be a gain or loss when shares are sold. For the most recent month-end performance call 877.33JANUS(52687) or visit janus.com/variable-insurance.

This Portfolio has a performance-based management fee that may adjust up or down based on the Portfolio's performance.

A Portfolio's performance may be affected by risks that include those associated with nondiversification, non-investment grade debt securities, high-yield/high-risk securities, undervalued or overlooked companies, investments in specific industries or countries and potential conflicts of interest. Additional risks to a Portfolio may also include, but are not limited to, those associated with investing in foreign securities, emerging markets, initial public offerings, real estate investment trusts (REITs), derivatives, short sales, commodity-linked investments and companies with relatively small market capitalizations. Each Portfolio has different risks. Please see a Janus prospectus for more information about risks, Portfolio holdings and other details.

Foreign securities are subject to additional risks including currency fluctuations, political and economic uncertainty, increased volatility and differing financial and information reporting standards, all of which are magnified in emerging markets.

These returns do not reflect the charges and expenses of any particular insurance product or qualified plan. Returns shown would have been lower had they included insurance charges.

Returns include reinvestment of all dividends and distributions and do not reflect the deduction of taxes that a shareholder would pay on Portfolio distributions or redemptions of Portfolio shares. The returns do not include adjustments in accordance with generally accepted accounting principles required at the period end for financial reporting purposes.

Returns shown for Service Shares for periods prior to December 31, 1999 are derived from the historical performance of Institutional Shares, adjusted to reflect the higher operating expenses of Service Shares.

Ranking is for the share class shown only; other classes may have different performance characteristics.

See important disclosures on the next page

Janus Aspen Forty Portfolio (unaudited)

There is no assurance that the investment process will consistently lead to successful investing.

See Notes to Schedule of Investments and Other Information for index definitions.

A Portfolio's holdings may differ significantly from the securities held in an index. An index is unmanaged and not available for direct investment; therefore, its performance does not reflect the expenses associated with the active management of an actual portfolio.

See "Useful Information About Your Portfolio Report."

* The Portfolio's inception date – May 1, 1997

Expense Examples

As a shareholder of the Portfolio, you incur two types of costs: (1) transaction costs and (2) ongoing costs, including management fees; 12b-1 distribution and shareholder servicing fees (applicable to Service Shares only); transfer agent fees and expenses payable pursuant to the Transfer Agency Agreement; and other Portfolio expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Portfolio and to compare these costs with the ongoing costs of investing in other mutual funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds. The example is based upon an investment of $1,000 invested at the beginning of the period and held for the six-months indicated, unless noted otherwise in the table and footnotes below.

Actual Expenses

The information in the table under the heading "Actual" provides information about actual account values and actual expenses. You may use the information in these columns, 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 appropriate column for your share class under the heading entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during the period.

Hypothetical Example for Comparison Purposes

The information in the table under the heading "Hypothetical (5% return before expenses)" provides information about hypothetical account values and hypothetical expenses based upon the Portfolio's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Portfolio's actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Portfolio and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds. Additionally, for an analysis of the fees associated with an investment in either share class or other similar funds, please visit www.finra.org/fundanalyzer.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transaction costs. These fees are fully described in the Portfolio's prospectuses. Therefore, the hypothetical examples are useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these transaction costs were included, your costs would have been higher.

	Actual			Hypothetical (5% return before expenses)			
	Beginning Account Value (7/1/14)	Ending Account Value (12/31/14)	Expenses Paid During Period (7/1/14 - 12/31/14)†	Beginning Account Value (7/1/14)	Ending Account Value (12/31/14)	Expenses Paid During Period (7/1/14 - 12/31/14)†	Net Annualized Expense Ratio (7/1/14 - 12/31/14)
Institutional Shares	$1,000.00	$1,089.60	$2.95	$1,000.00	$1,022.38	$2.85	0.56%
Service Shares	$1,000.00	$1,088.30	$4.26	$1,000.00	$1,021.12	$4.13	0.81%

† Expenses Paid During Period are equal to the Net Annualized Expense Ratio multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period). Expenses in the examples include the effect of applicable fee waivers and/or expense reimbursements, if any. Had such waivers and/or reimbursements not been in effect, your expenses would have been higher. Please refer to the Notes to Financial Statements or the Portfolio's prospectuses for more information regarding waivers and/or reimbursements.

Janus Aspen Forty Portfolio

Schedule of Investments

As of December 31, 2014

Shares		Value
Common Stocks – 97.7%		
Aerospace & Defense – 4.6%		
150,283	Precision Castparts Corp.	$ 36,200,169
Auto Components – 3.5%		
380,792	Delphi Automotive PLC	27,691,194
Biotechnology – 8.3%		
54,166	Biogen Idec, Inc.*	18,386,649
309,289	Celgene Corp.*	34,597,067
104,684	Pharmacyclics, Inc.*	12,798,666
		65,782,382
Capital Markets – 1.6%		
515,055	E*TRADE Financial Corp.*	12,492,659
Chemicals – 2.1%		
137,238	Monsanto Co.	16,395,824
Commercial Banks – 2.5%		
449,893	U.S. Bancorp	20,222,690
Diversified Financial Services – 2.0%		
72,233	Intercontinental Exchange, Inc.	15,839,975
Electronic Equipment, Instruments & Components – 1.5%		
215,434	Amphenol Corp. – Class A	11,592,504
Energy Equipment & Services – 0.5%		
70,649	Baker Hughes, Inc.	3,961,289
Health Care Equipment & Supplies – 1.0%		
610,514	Boston Scientific Corp.*	8,089,310
Health Care Technology – 0.8%		
44,687	athenahealth, Inc.*	6,510,896
Hotels, Restaurants & Leisure – 3.7%		
151,551	Las Vegas Sands Corp.	8,814,206
254,697	Starbucks Corp.	20,897,889
		29,712,095
Information Technology Services – 3.7%		
340,604	MasterCard, Inc. – Class A	29,346,441
Insurance – 2.7%		
224,048	Aon PLC	21,246,472
Internet & Catalog Retail – 5.5%		
72,945	Amazon.com, Inc.*	22,638,481
18,360	Priceline Group, Inc.*	20,934,255
		43,572,736
Internet Software & Services – 12.5%		
189,084	Alibaba Group Holding, Ltd. (ADR)*	19,653,391
85,464	CoStar Group, Inc.*	15,693,754
60,023	Google, Inc. – Class C*	31,596,107
49,871	LinkedIn Corp. – Class A*	11,455,868
793,100	Tencent Holdings, Ltd.	11,380,913
185,473	Yahoo!, Inc.*	9,368,241
		99,148,274
Media – 2.6%		
354,997	Comcast Corp. – Class A	20,593,376
Pharmaceuticals – 11.9%		
436,194	Endo International PLC*	31,458,311
49,028	Salix Pharmaceuticals, Ltd.*	5,635,279
207,311	Valeant Pharmaceuticals International, Inc. (U.S. Shares)	29,668,277
633,170	Zoetis, Inc.	27,245,305
		94,007,172
Professional Services – 2.9%		
507,940	Nielsen NV	$ 22,720,156
Real Estate Investment Trusts (REITs) – 2.8%		
286,002	Crown Castle International Corp.	22,508,357
Road & Rail – 4.7%		
135,286	Canadian Pacific Railway, Ltd. (U.S. Shares)	26,068,259
90,698	Kansas City Southern	11,067,877
		37,136,136
Semiconductor & Semiconductor Equipment – 2.1%		
354,396	ARM Holdings PLC (ADR)	16,408,535
Software – 6.1%		
180,134	Adobe Systems, Inc.*	13,095,742
67,405	NetSuite, Inc.*	7,358,604
472,030	Salesforce.com, Inc.*	27,996,099
		48,450,445
Specialty Retail – 7.2%		
561,420	Lowe's Cos., Inc.	38,625,696
264,334	TJX Cos., Inc.	18,128,026
		56,753,722
Wireless Telecommunication Services – 0.9%		
272,324	T-Mobile U.S., Inc.	7,336,409
Total Common Stocks (cost $592,506,707)		773,719,218
Investment Companies – 2.3%		
Money Markets – 2.3%		
18,546,315	Janus Cash Liquidity Fund LLC, 0.1008%°°,£ (cost $18,546,315)	18,546,315
Total Investments (total cost $611,053,022) – 100.0%		792,265,533
Liabilities, net of Cash, Receivables and Other Assets – (0.0)%		(466,288)
Net Assets – 100%		$791,799,245

Summary of Investments by Country – (Long Positions) (unaudited)

Country	Value	% of Investment Securities
United States	$689,086,158	87.0%
Canada	55,736,536	7.0
China	31,034,304	3.9
United Kingdom	16,408,535	2.1
Total	$792,265,533	100.0%

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

Notes to Schedule of Investments and Other Information

Russell 1000® Growth Index	Measures the performance of those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values.
S&P 500® Index	A commonly recognized, market-capitalization weighted index of 500 widely held equity securities, designed to measure broad U.S. equity performance.
ADR	American Depositary Receipt
LLC	Limited Liability Company
PLC	Public Limited Company
U.S. Shares	Securities of foreign companies trading on an American stock exchange.

* Non-income producing security.

°° Rate shown is the 7-day yield as of December 31, 2014.

£ The Portfolio may invest in certain securities that are considered affiliated companies. As defined by the Investment Company Act of 1940, as amended, an affiliated company is one in which the Portfolio owns 5% or more of the outstanding voting securities, or a company which is under common ownership or control. Based on the Portfolio's relative ownership, the following securities were considered affiliated companies for all or some portion of the year ended December 31, 2014. Unless otherwise indicated, all information in the table is for the year ended December 31, 2014.

	Share Balance at 12/31/13	*Purchases*	*Sales*	*Share Balance at 12/31/14*	*Realized Gain/(Loss)*	*Dividend Income*	*Value at 12/31/14*
Janus Aspen Forty Portfolio							
Janus Cash Liquidity Fund LLC	13,728,000	275,215,667	(270,397,352)	18,546,315	$–	$9,208	$18,546,315

The following is a summary of the inputs that were used to value the Portfolio's investments in securities and other financial instruments as of December 31, 2014. See Notes to Financial Statements for more information.

Valuation Inputs Summary (as of December 31, 2014)

	Level 1 – Quoted Prices	***Level 2 – Other Significant Observable Inputs***	***Level 3 – Significant Unobservable Inputs***
Janus Aspen Forty Portfolio			
Assets			
Investments in Securities:			
Common Stocks			
Internet Software & Services	$ 87,767,361	$11,380,913	$–
All Other	674,570,944	–	–
Investment Companies	–	18,546,315	–
Total Assets	$762,338,305	$29,927,228	$–

Statement of Assets and Liabilities

As of December 31, 2014	Janus Aspen Forty Portfolio
Assets:	
Investments at cost	$611,053,022
Unaffiliated investments at value	$773,719,218
Affiliated investments at value	18,546,315
Cash	209
Non-interested Trustees' deferred compensation	16,252
Receivables:	
Investments sold	870,108
Portfolio shares sold	7,357
Dividends	201,491
Dividends from affiliates	2,047
Foreign dividend tax reclaim	113,759
Other assets	11,323
Total Assets	793,488,079
Liabilities:	
Payables:	
Portfolio shares repurchased	853,467
Advisory fees	444,547
Portfolio administration fees	6,946
Transfer agent fees and expenses	363
12b-1 Distribution and shareholder servicing fees	108,009
Non-interested Trustees' fees and expenses	4,902
Non-interested Trustees' deferred compensation fees	16,252
Accrued expenses and other payables	254,348
Total Liabilities	1,688,834
Net Assets	$791,799,245
Net Assets Consist of:	
Capital (par value and paid-in surplus)*	$450,910,714
Undistributed net investment income/(loss)*	(16,251)
Undistributed net realized gain/(loss) from investment and foreign currency transactions*	159,696,277
Unrealized net appreciation/(depreciation) of investments, foreign currency translations and non-interested Trustees' deferred compensation	181,208,505
Total Net Assets	$791,799,245
Net Assets - Institutional Shares	$299,545,774
Shares Outstanding, $0.001 Par Value (unlimited shares authorized)	7,439,055
Net Asset Value Per Share	$ 40.27
Net Assets - Service Shares	$492,253,471
Shares Outstanding, $0.001 Par Value (unlimited shares authorized)	12,555,096
Net Asset Value Per Share	$ 39.21

* See "Federal Income Tax" in Notes to Financial Statements.

See Notes to Financial Statements.

Statement of Operations

For the year ended December 31, 2014	*Janus Aspen Forty Portfolio*
Investment Income:	
Interest	$ 6,278
Dividends	5,228,862
Dividends from affiliates	9,208
Foreign tax withheld	(105,406)
Total Investment Income	5,138,942
Expenses:	
Advisory fees	4,099,684
12b-1 Distribution and shareholder servicing fees:	
Service Shares	1,233,739
Other transfer agent fees and expenses:	
Institutional Shares	882
Service Shares	866
Shareholder reports expense	156,469
Registration fees	52,669
Custodian fees	18,252
Professional fees	63,928
Non-interested Trustees' fees and expenses	19,940
Portfolio administration fees	72,056
Other expenses	57,975
Total Expenses	5,776,460
Net Expenses	5,776,460
Net Investment Income/(Loss)	(637,518)
Net Realized Gain/(Loss) on Investments:	
Investments and foreign currency transactions	160,492,743
Total Net Realized Gain/(Loss) on Investments	160,492,743
Change in Unrealized Net Appreciation/Depreciation:	
Investments, foreign currency translations and non-interested Trustees' deferred compensation	(96,604,872)
Total Change in Unrealized Net Appreciation/Depreciation	(96,604,872)
Net Increase/(Decrease) in Net Assets Resulting from Operations	$ 63,250,353

See Notes to Financial Statements.

Statements of Changes in Net Assets

For each year ended December 31	*Janus Aspen Forty Portfolio* 2014	2013(1)
Operations:		
Net investment income/(loss)	$ (637,518)	$ 1,676,872
Net realized gain/(loss) on investments	160,492,743	311,909,801
Change in unrealized net appreciation/depreciation	(96,604,872)	(50,019,249)
Net Increase/(Decrease) in Net Assets Resulting from Operations	63,250,353	263,567,424
Dividends and Distributions to Shareholders:		
Net Investment Income*		
Institutional Shares	(503,982)	(3,544,826)
Service Shares	(154,665)	(2,838,756)
Net Realized Gain from Investment Transactions*		
Institutional Shares	(93,285,383)	–
Service Shares	(152,735,352)	–
Net Decrease from Dividends and Distributions to Shareholders	(246,679,382)	(6,383,582)
Capital Share Transactions:		
Shares Sold		
Institutional Shares	19,546,852	40,696,153
Service Shares	25,026,559	32,866,372
Reinvested Dividends and Distributions		
Institutional Shares	93,789,365	3,544,826
Service Shares	152,890,017	2,838,756
Shares Repurchased		
Institutional Shares	(99,632,827)	(305,138,229)
Service Shares	(98,791,422)	(108,967,925)
Net Increase/(Decrease) from Capital Share Transactions	92,828,544	(334,160,047)
Net Increase/(Decrease) in Net Assets	(90,600,485)	(76,976,205)
Net Assets:		
Beginning of period	882,399,730	959,375,935
End of period	$ 791,799,245	$ 882,399,730
Undistributed Net Investment Income/(Loss)*	$ (16,251)	$ 643,073

* See "Federal Income Tax" in Notes to Financial Statements.
(1) Amounts reflect current year presentation. Prior year amounts were disclosed in thousands.

See Notes to Financial Statements.

Financial Highlights

Institutional Shares

For a share outstanding during each year ended December 31	*2014*	*2013*	*2012*	*2011*	*2010*
	Janus Aspen Forty Portfolio				
Net Asset Value, Beginning of Period	$53.34	$40.95	$33.22	$35.74	$33.61
Income/(Loss) from Investment Operations:					
Net investment income/(loss)	0.03(1)	0.38	0.47	0.23	0.19
Net gain/(loss) on investments (both realized and unrealized)	3.08	12.34	7.54	(2.62)	2.06
Total from Investment Operations	3.11	12.72	8.01	(2.39)	2.25
Less Distributions:					
Dividends (from net investment income)*	(0.09)	(0.33)	(0.28)	(0.13)	(0.12)
Distributions (from capital gains)*	(16.09)	–	–	–	–
Total Distributions	(16.18)	(0.33)	(0.28)	(0.13)	(0.12)
Net Asset Value, End of Period	$40.27	$53.34	$40.95	$33.22	$35.74
Total Return	8.73%	31.23%	24.16%	(6.69)%	6.72%
Net Assets, End of Period (in thousands)	$299,546	$355,429	$488,374	$459,459	$567,322
Average Net Assets for the Period (in thousands)	$307,359	$491,231	$512,799	$518,818	$553,994
Ratio of Gross Expenses (Absent the Waiver of Certain Fees and Expense Offsets) to Average Net Assets	0.57%	0.55%	0.55%	0.70%	0.67%
Ratio of Net Expenses (After Waivers and Expense Offsets) to Average Net Assets	0.57%	0.55%	0.55%	0.70%	0.67%
Ratio of Net Investment Income/(Loss) to Average Net Assets	0.07%	0.31%	1.03%	0.56%	0.52%
Portfolio Turnover Rate	46%	61%	10%	46%	36%

Service Shares

For a share outstanding during each year ended December 31	*2014*	*2013*	*2012*	*2011*	*2010*
	Janus Aspen Forty Portfolio				
Net Asset Value, Beginning of Period	$52.40	$40.28	$32.72	$35.24	$33.17
Income/(Loss) from Investment Operations:					
Net investment income/(loss)	(0.07)(1)	–(2)	0.31	0.09	0.07
Net gain/(loss) on investments (both realized and unrealized)	2.99	12.38	7.47	(2.52)	2.08
Total from Investment Operations	2.92	12.38	7.78	(2.43)	2.15
Less Distributions:					
Dividends (from net investment income)*	(0.02)	(0.26)	(0.22)	(0.09)	(0.08)
Distributions (from capital gains)*	(16.09)	–	–	–	–
Total Distributions	(16.11)	(0.26)	(0.22)	(0.09)	(0.08)
Net Asset Value, End of Period	$39.21	$52.40	$40.28	$32.72	$35.24
Total Return	8.47%	30.89%	23.82%	(6.91)%	6.48%
Net Assets, End of Period (in thousands)	$492,253	$526,971	$471,002	$417,408	$532,645
Average Net Assets for the Period (in thousands)	$493,575	$486,845	$468,967	$475,743	$567,062
Ratio of Gross Expenses (Absent the Waiver of Certain Fees and Expense Offsets) to Average Net Assets	0.82%	0.81%	0.80%	0.95%	0.92%
Ratio of Net Expenses (After Waivers and Expense Offsets) to Average Net Assets	0.82%	0.81%	0.80%	0.95%	0.92%
Ratio of Net Investment Income/(Loss) to Average Net Assets	(0.17)%	0.04%	0.81%	0.31%	0.25%
Portfolio Turnover Rate	46%	61%	10%	46%	36%

* See "Federal Income Tax" in Notes to Financial Statements.
(1) Per share amounts are calculated based on average shares outstanding during the year.
(2) Less than $0.005 on a per share basis.

See Notes to Financial Statements.

Notes to Financial Statements

The following section describes the organization and significant accounting policies and provides more detailed information about the schedules and tables that appear throughout this report. In addition, the Notes to Financial Statements explain the methods used in preparing and presenting this report.

1. Organization and Significant Accounting Policies

Janus Aspen Forty Portfolio (the "Portfolio") is a series fund. The Portfolio is part of Janus Aspen Series (the "Trust"), which is organized as a Delaware statutory trust and is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end management investment company, and therefore has applied the specialized accounting and reporting guidance in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 946. The Trust offers twelve Portfolios which include multiple series of shares, with differing investment objectives and policies. The Portfolio invests primarily in common stocks. The Portfolio is classified as nondiversified, as defined in the 1940 Act. The Portfolio is a no-load investment.

The Portfolio currently offers two classes of shares: Institutional Shares and Service Shares. Institutional Shares are offered only in connection with investment in and payments under variable insurance contracts as well as certain qualified retirement plans. Service Shares are offered only in connection with investment in and payments under variable insurance contracts as well as certain qualified retirement plans that require a fee from Portfolio assets to procure distribution and administrative services to contract owners and plan participants.

Shareholders, including other portfolios, participating insurance companies, as well as accounts, may from time to time own (beneficially or of record) a significant percentage of the Portfolio's Shares and can be considered to "control" the Portfolio when that ownership exceeds 25% of the Portfolio's assets.

The following accounting policies have been followed by the Portfolio and are in conformity with accounting principles generally accepted in the United States of America.

Investment Valuation

Securities held by the Portfolio are valued in accordance with policies and procedures established by and under the supervision of the Trustees (the "Valuation Procedures"). Equity securities traded on a domestic securities exchange are generally valued at the closing prices on the primary market or exchange on which they trade. If such price is lacking for the trading period immediately preceding the time of determination, such securities are valued at their current bid price. Equity securities that are traded on a foreign exchange are generally valued at the closing prices on such markets. In the event that there is no current trading volume on a particular security in such foreign exchange, the bid price from the primary exchange is generally used to value the security. Securities that are traded on the over-the-counter ("OTC") markets are generally valued at their closing or latest bid prices as available. Foreign securities and currencies are converted to U.S. dollars using the applicable exchange rate in effect at the close of the New York Stock Exchange ("NYSE"). The Portfolio will determine the market value of individual securities held by it by using prices provided by one or more approved professional pricing services or, as needed, by obtaining market quotations from independent broker-dealers. Certain short-term securities maturing within 60 days or less may be valued on an amortized cost basis. Most debt securities are valued in accordance with the evaluated bid price supplied by the pricing service that is intended to reflect market value. The evaluated bid price supplied by the pricing service is an evaluation that may consider factors such as security prices, yields, maturities and ratings. Securities for which market quotations or evaluated prices are not readily available or deemed unreliable are valued at fair value determined in good faith under the Valuation Procedures. Circumstances in which fair value pricing may be utilized include, but are not limited to: (i) a significant event that may affect the securities of a single issuer, such as a merger, bankruptcy, or significant issuer-specific development; (ii) an event that may affect an entire market, such as a natural disaster or significant governmental action; (iii) a nonsignificant event such as a market closing early or not opening, or a security trading halt; and (iv) pricing of a nonvalued security and a restricted or nonpublic security. Special valuation considerations may apply with respect to "odd-lot" fixed-income transactions which, due to their small size, may receive evaluated prices by pricing services which reflect a large block trade and not what actually could be obtained for the odd-lot position. The Portfolio uses systematic fair valuation models provided by independent third parties to value international equity securities in order to adjust for stale pricing, which may occur between the close of certain foreign exchanges and the close of the NYSE.

Investment Transactions and Investment Income

Investment transactions are accounted for as of the date purchased or sold (trade date). Dividend income is recorded on the ex-dividend date. Certain dividends from foreign securities will be recorded as soon as the Trust is informed of the dividend, if such information is obtained subsequent to the ex-dividend date. Dividends from foreign securities may be subject to withholding taxes in foreign jurisdictions. Interest income is recorded on the accrual basis and includes amortization of premiums and accretion of discounts. Gains and losses are determined on the identified cost basis, which is the same basis used for federal income tax purposes. Income, as well as gains and losses, both realized and unrealized, are allocated daily to each class of shares based upon the ratio of net assets represented by each class as a percentage of total net assets.

Expenses
The Portfolio bears expenses incurred specifically on its behalf, as well as a portion of general expenses, which may be allocated pro rata to the Portfolio. Each class of shares bears a portion of general expenses, which are allocated daily to each class of shares based upon the ratio of net assets represented by each class as a percentage of total net assets. Expenses directly attributable to a specific class of shares are charged against the operations of such class.

Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Indemnifications
In the normal course of business, the Portfolio may enter into contracts that contain provisions for indemnification of other parties against certain potential liabilities. The Portfolio's maximum exposure under these arrangements is unknown, and would involve future claims that may be made against the Portfolio that have not yet occurred. Currently, the risk of material loss from such claims is considered remote.

Foreign Currency Translations
The Portfolio does not isolate that portion of the results of operations resulting from the effect of changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held at the date of the financial statements. Net unrealized appreciation or depreciation of investments and foreign currency translations arise from changes in the value of assets and liabilities, including investments in securities held at the date of the financial statements, resulting from changes in the exchange rates and changes in market prices of securities held.

Currency gains and losses are also calculated on payables and receivables that are denominated in foreign currencies. The payables and receivables are generally related to foreign security transactions and income translations.

Foreign currency-denominated assets and forward currency contracts may involve more risks than domestic transactions, including currency risk, political and economic risk, regulatory risk and equity risk. Risks may arise from the potential inability of a counterparty to meet the terms of a contract and from unanticipated movements in the value of foreign currencies relative to the U.S. dollar.

Dividend Distributions
The Portfolio may make semiannual distributions of substantially all of its investment income and an annual distribution of its net realized capital gains (if any).

The Portfolio may make certain investments in real estate investment trusts ("REITs") which pay dividends to their shareholders based upon funds available from operations. It is quite common for these dividends to exceed the REITs' taxable earnings and profits, resulting in the excess portion of such dividends being designated as a return of capital. If the Portfolio distributes such amounts, such distributions could constitute a return of capital to shareholders for federal income tax purposes.

Federal Income Taxes
The Portfolio intends to continue to qualify as a regulated investment company and distribute all of its taxable income in accordance with the requirements of Subchapter M of the Internal Revenue Code. Management has analyzed the Portfolio's tax positions taken for all open federal income tax years, generally a three-year period, and has concluded that no provision for federal income tax is required in the Portfolio's financial statements. The Portfolio is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months.

Valuation Inputs Summary
In accordance with FASB standard guidance, the Portfolio utilizes the "Fair Value Measurements" to define fair value, establish a framework for measuring fair value, and expand disclosure requirements regarding fair value measurements. The Fair Value Measurement Standard does not require new fair value measurements, but is applied to the extent that other accounting pronouncements require or permit fair value measurements. This standard emphasizes that fair value is a market-based measurement that should be determined

based on the assumptions that market participants would use in pricing an asset or liability. Various inputs are used in determining the value of the Portfolio's investments defined pursuant to this standard. These inputs are summarized into three broad levels:

Level 1 – Quoted prices in active markets for identical securities.

Level 2 – Prices determined using other significant observable inputs. Observable inputs are inputs that reflect the assumptions market participants would use in pricing a security and are developed based on market data obtained from sources independent of the reporting entity. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk, and others.

Debt securities may be valued in accordance with the evaluated bid price supplied by the pricing service and generally categorized as Level 2 in the hierarchy. Securities traded on OTC markets and listed securities for which no sales are reported are valued at the latest bid price (or yield equivalent thereof) obtained from one or more dealers transacting in a market for such securities or by a pricing service approved by the Portfolio's Trustees and are categorized as Level 2 in the hierarchy. Short-term securities with maturities of 60 days or less are valued at amortized cost, which approximates market value and are categorized as Level 2 in the hierarchy. Other securities that may be categorized as Level 2 in the hierarchy include, but are not limited to, preferred stocks, bank loans, swaps, investments in unregistered investment companies, options, and forward contracts. The Portfolio uses systematic fair valuation models provided by independent third parties to value international equity securities in order to adjust for stale pricing, which may occur between the close of certain foreign exchanges and the close of the NYSE. These are generally categorized as Level 2 in the hierarchy.

Level 3 – Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant (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 are inputs that reflect the reporting entity's own assumptions about the factors market participants would use in pricing the security and would be based on the best information available under the circumstances.

There have been no significant changes in valuation techniques used in valuing any such positions held by the Portfolio since the beginning of the fiscal year.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The summary of inputs used as of December 31, 2014 to value the Portfolio's investments in securities and other financial instruments is included in the "Valuation Inputs Summary" in the Notes to Schedule of Investments and Other Information.

There were no transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy during the year. The Portfolio recognizes transfers between the levels as of the beginning of the fiscal year.

2. Other Investments and Strategies

Additional Investment Risk

The financial crisis in both the U.S. and global economies over the past several years has resulted, and may continue to result, in a significant decline in the value and liquidity of many securities of issuers worldwide in the equity and fixed-income/credit markets. In response to the crisis, the United States and certain foreign governments, along with the U.S. Federal Reserve and certain foreign central banks took steps to support the financial markets. The withdrawal of this support, a failure of measures put in place to respond to the crisis, or investor perception that such efforts were not sufficient each could negatively affect financial markets generally, and the value and liquidity of specific securities. In addition, policy and legislative changes in the United States and in other countries continue to impact many aspects of financial regulation. The effect of these changes on the markets, and the practical implications for market participants, including the Portfolio, may not be fully known for some time. As a result, it may also be unusually difficult to identify both investment risks and opportunities, which could limit or preclude the Portfolio's ability to achieve its investment objective. Therefore, it is important to understand that the value of your investment may fall, sometimes sharply, and you could lose money.

The enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") in July 2010 provided for widespread regulation of financial institutions, consumer financial products and services, broker-dealers, OTC derivatives, investment advisers, credit rating agencies, and mortgage lending, which expands federal oversight in the financial sector, including the investment management industry. Many provisions of the Dodd-Frank Act remain pending and will be implemented through future rulemaking. Therefore, the ultimate impact of the Dodd-Frank Act and the regulations under the

Dodd-Frank Act on the Portfolio and the investment management industry as a whole, is not yet certain.

During the recent global financial crisis, a number of countries in the European Union ("EU") experienced severe economic and financial difficulties. As a result, financial markets in the EU have experienced extreme volatility and declines in asset values and liquidity. Responses to these financial problems by European governments, central banks, and others, including austerity measures and reforms, may not work, may result in social unrest, and may limit future growth and economic recovery or have other unintended consequences. Further defaults or restructurings by governments and others of their debt could have additional adverse effects on economies, financial markets, and asset valuations around the world.

Certain areas of the world have historically been prone to and economically sensitive to environmental events such as, but not limited to, hurricanes, earthquakes, typhoons, flooding, tidal waves, tsunamis, erupting volcanoes, wildfires or droughts, tornadoes, mudslides, or other weather-related phenomena. Such disasters, and the resulting physical or economic damage, could have a severe and negative impact on the Portfolio's investment portfolio and, in the longer term, could impair the ability of issuers in which the Portfolio invests to conduct their businesses as they would under normal conditions. Adverse weather conditions may also have a particularly significant negative effect on issuers in the agricultural sector and on insurance companies that insure against the impact of natural disasters.

Real Estate Investing

The Portfolio may invest in equity and debt securities of real estate-related companies. Such companies may include those in the real estate industry or real estate-related industries. These securities may include common stocks, corporate bonds, preferred stocks, and other equity securities, including, but not limited to, mortgage-backed securities, real estate-backed securities, securities of REITs and similar REIT-like entities. A REIT is a trust that invests in real estate-related projects, such as properties, mortgage loans, and construction loans. REITs are generally categorized as equity, mortgage, or hybrid REITs. A REIT may be listed on an exchange or traded OTC.

3. Investment Advisory Agreements and Other Transactions with Affiliates

The Portfolio pays Janus Capital an investment advisory fee which is calculated daily and paid monthly. The following table reflects the Portfolio's "base" fee rate prior to any performance adjustment (expressed as an annual rate).

Portfolio	*Base Fee Rate (%)*
Janus Aspen Forty Portfolio	0.64

For the Portfolio, the investment advisory fee rate is determined by calculating a base fee and applying a performance adjustment. The base fee rate is the same as the contractual investment advisory fee rate shown in the table above. The performance adjustment either increases or decreases the base fee depending on how well the Portfolio has performed relative to its benchmark index, as shown below:

Portfolio	*Benchmark Index*
Janus Aspen Forty Portfolio	Russell 1000® Growth Index

The calculation of the performance adjustment applies as follows:

Investment Advisory Fee = Base Fee Rate +/- Performance Adjustment

The investment advisory fee rate paid to Janus Capital by the Portfolio consists of two components: (1) a base fee calculated by applying the contractual fixed rate of the advisory fee to the Portfolio's average daily net assets during the previous month ("Base Fee Rate"), plus or minus (2) a performance-fee adjustment ("Performance Adjustment") calculated by applying a variable rate of up to 0.15% (positive or negative) to the Portfolio's average daily net assets during the applicable performance measurement period.

The Portfolio's prospectuses and statements of additional information contain additional information about performance-based fees. The amount shown as advisory fees on the Statement of Operations reflects the Base Fee Rate plus/minus any Performance Adjustment.

Portfolio	*Performance Adjusted Investment Advisory Fee Rate (%)*
Janus Aspen Forty Portfolio	0.51

Janus Services LLC ("Janus Services"), a wholly-owned subsidiary of Janus Capital, is the Portfolio's transfer agent. In addition, Janus Services provides or arranges for the provision of certain other administrative, recordkeeping, and shareholder relations services for the Portfolio. Janus Services is not compensated for its services related to the shares, except for out-of-pocket costs. These amounts are disclosed as "Other transfer agent fees and expenses" on the Statement of Operations.

Under a distribution and shareholder servicing plan (the "Plan") adopted in accordance with Rule 12b-1 under the

1940 Act, the Service Shares may pay the Trust's distributor, Janus Distributors LLC, a wholly-owned subsidiary of Janus Capital, a fee for the sale and distribution and/or shareholder servicing of the Service Shares at an annual rate of up to 0.25% of the average daily net assets of the Service Shares. Under the terms of the Plan, the Trust is authorized to make payments to Janus Distributors for remittance to insurance companies and qualified plan service providers as compensation for distribution and/or administrative services performed by such entities. These amounts are disclosed as "12b-1 Distribution and shareholder servicing fees" on the Statement of Operations. Payments under the Plan are not tied exclusively to actual 12b-1 distribution and shareholder service expenses, and the payments may exceed 12b-1 distribution and shareholder service expenses actually incurred. If any of the Portfolio's actual 12b-1 distribution and shareholder service expenses incurred during a calendar year are less than the payments made during a calendar year, the Portfolio will be refunded the difference. Refunds, if any, are included in "12b-1 Distribution fees and shareholder servicing fees" in the Statement of Operations.

Janus Capital furnishes certain administration, compliance, and accounting services for the Portfolio and is reimbursed by the Portfolio for certain of its costs in providing those services (to the extent Janus Capital seeks reimbursement and such costs are not otherwise waived). The Portfolio also pays for salaries, fees, and expenses of certain Janus Capital employees and Portfolio officers, with respect to certain specified administration functions they perform on behalf of the Portfolio. The Portfolio pays these costs based on out-of-pocket expenses incurred by Janus Capital, and these costs are separate and apart from advisory fees and other expenses paid in connection with the investment advisory services Janus Capital provides to the Portfolio. These amounts are disclosed as "Portfolio administration fees" on the Statement of Operations. In addition, employees of Janus Capital and/or its affiliates may serve as officers of the Trust. Some expenses related to compensation payable to the Portfolios' Chief Compliance Officer and compliance staff are shared with the Portfolio. Total compensation of $36,133 was paid to the Chief Compliance Officer and certain compliance staff by the Trust during the year ended December 31, 2014. The Portfolio's portion is reported as part of "Other expenses" on the Statement of Operations.

The Board of Trustees has adopted a deferred compensation plan (the "Deferred Plan") for independent Trustees to elect to defer receipt of all or a portion of the annual compensation they are entitled to receive from the Portfolio. All deferred fees are credited to an account established in the name of the Trustees. The amounts credited to the account then increase or decrease, as the case may be, in accordance with the performance of one or more of the Janus funds that are selected by the Trustees. The account balance continues to fluctuate in accordance with the performance of the selected fund or funds until final payment of all amounts are credited to the account. The fluctuation of the account balance is recorded by the Portfolio as unrealized appreciation/(depreciation) and is included as of December 31, 2014 on the Statement of Assets and Liabilities in the asset, "Non-interested Trustees' deferred compensation," and liability, "Non-interested Trustees' deferred compensation fees." Additionally, the recorded unrealized appreciation/(depreciation) is included in "Unrealized net appreciation/(depreciation) of investments, foreign currency translations and non-interested Trustees' deferred compensation" on the Statement of Assets and Liabilities. Deferred compensation expenses for the year ended December 31, 2014 are included in "Non-interested Trustees' fees and expenses" on the Statement of Operations. Trustees are allowed to change their designation of mutual funds from time to time. Amounts will be deferred until distributed in accordance with the Deferred Plan. Deferred fees of $277,500 were paid by the Trust to a Trustee under the Deferred Plan during the year ended December 31, 2014.

Pursuant to the provisions of the 1940 Act, the Portfolio may participate in an affiliated or nonaffiliated cash sweep program. In the cash sweep program, uninvested cash balances of the Portfolio may be used to purchase shares of affiliated or nonaffiliated money market funds or cash management pooled investment vehicles. The Portfolio is eligible to participate in the cash sweep program (the "Investing Fund"). As adviser, Janus Capital has an inherent conflict of interest because of its fiduciary duties to the affiliated money market funds or cash management pooled investment vehicles and the Investing Portfolios. Janus Cash Liquidity Fund LLC is an affiliated unregistered cash management pooled investment vehicle that invests primarily in highly-rated short-term fixed-income securities. Janus Cash Liquidity Fund LLC currently maintains a NAV of $1.00 per share and distributes income daily in a manner consistent with a registered 2a-7 product. There are no restrictions on the Portfolio's ability to withdraw investments from Janus Cash Liquidity Fund LLC at will, and there are no unfunded capital commitments due from the Portfolio to Janus Cash Liquidity Fund LLC. The units of Janus Cash Liquidity Fund LLC are not charged any management fee, sales charge or service fee.

Any purchases and sales, realized gains/losses and recorded dividends from affiliated investments during the year ended December 31, 2014 can be found in a table

Notes to Financial Statements (continued)

located in the Notes to Schedule of Investments and Other Information.

4. Federal Income Tax

The tax components of capital shown in the table below represent: (1) distribution requirements the Portfolio must satisfy under the income tax regulations; (2) losses or deductions the Portfolio may be able to offset against income and gains realized in future years; and (3) unrealized appreciation or depreciation of investments for federal income tax purposes.

Other book to tax differences primarily consist of deferred compensation and foreign currency contract adjustments. The Portfolio has elected to treat gains and losses on forward foreign currency contracts as capital gains and losses, if applicable. Other foreign currency gains and losses on debt instruments are treated as ordinary income for federal income tax purposes pursuant to Section 988 of the Internal Revenue Code.

Portfolio	Undistributed Ordinary Income	Undistributed Long-Term Gains	Accumulated Capital Losses	Loss Deferrals Late-Year Ordinary Loss	Loss Deferrals Post-October Capital Loss	Other Book to Tax Differences	Net Tax Appreciation/ (Depreciation)
Janus Aspen Forty Portfolio	$9,604,681	$150,393,076	$-	$-	$-	$(20,257)	$180,911,031

The aggregate cost of investments and the composition of unrealized appreciation and depreciation of investment securities for federal income tax purposes as of December 31, 2014 are noted below.

Unrealized appreciation and unrealized depreciation in the table below exclude appreciation/depreciation on foreign currency translations. The primary difference between book and tax appreciation or depreciation of investments is wash sale loss deferrals.

Portfolio	Federal Tax Cost	Unrealized Appreciation	Unrealized (Depreciation)
Janus Aspen Forty Portfolio	$611,354,502	$181,009,076	$(98,045)

Income and capital gains distributions are determined in accordance with income tax regulations that may differ from accounting principles generally accepted in the United States of America. These differences are due to differing treatments for items such as net short-term gains, deferral of wash sale losses, foreign currency transactions, net investment losses, and capital loss carryovers. Certain permanent differences such as tax returns of capital and net investment losses noted below have been reclassified to capital.

For the year ended December 31, 2014

Portfolio	Distributions From Ordinary Income	Distributions From Long-Term Capital Gains	Distributions Tax Return of Capital	Net Investment Loss
Janus Aspen Forty Portfolio	$658,647	$246,020,735	$–	$–

For the year ended December 31, 2013

Portfolio	Distributions From Ordinary Income	Distributions From Long-Term Capital Gains	Distributions Tax Return of Capital	Net Investment Loss
Janus Aspen Forty Portfolio	$6,383,582	$–	$–	$–

Permanent book to tax basis differences may result in reclassifications between the components of net assets. These differences have no impact on the results of operations or net assets. The following reclassifications have been made to the Portfolio:

Portfolio	Increase/(Decrease) to Capital	Increase/(Decrease) to Undistributed Net Investment Income/Loss	Increase/(Decrease) to Undistributed Net Realized Gain/Loss
Janus Aspen Forty Portfolio	$–	$636,841	$(636,841)

5. Capital Share Transactions

For each year ended December 31	*Janus Aspen Forty Portfolio* 2014	2013(1)
Transactions in Portfolio Shares – Institutional Shares		
Shares sold	438,521	909,273
Reinvested dividends and distributions	2,552,786	80,463
Shares repurchased	(2,216,104)	(6,252,548)
Net Increase/(Decrease) in Portfolio Shares	775,203	(5,262,812)
Shares Outstanding, Beginning of Period	6,663,852	11,926,664
Shares Outstanding, End of Period	7,439,055	6,663,852
Transactions in Portfolio Shares – Service Shares		
Shares sold	568,799	726,178
Reinvested dividends and distributions	4,268,286	65,591
Shares repurchased	(2,338,393)	(2,428,486)
Net Increase/(Decrease) in Portfolio Shares	2,498,692	(1,636,717)
Shares Outstanding, Beginning of Period	10,056,404	11,693,121
Shares Outstanding, End of Period	12,555,096	10,056,404

(1) Amounts reflect current year presentation. Prior year amounts were disclosed in thousands.

6. Purchases and Sales of Investment Securities

For the year ended December 31, 2014, the aggregate cost of purchases and proceeds from sales of investment securities (excluding any short-term securities, short-term options contracts, and in-kind transactions) was as follows:

Portfolio	*Purchases of Securities*	*Proceeds from Sales of Securities*	*Purchases of Long-Term U.S. Government Obligations*	*Proceeds from Sales of Long-Term U.S. Government Obligations*
Janus Aspen Forty Portfolio	$368,999,769	$535,143,933	$–	$–

7. Subsequent Event

Management has evaluated whether any other events or transactions occurred subsequent to December 31, 2014 and through the date of issuance of the Portfolio's financial statements and determined that there were no material events or transactions that would require recognition or disclosure in the Portfolio's financial statements.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees and Shareholders
of Janus Aspen Forty Portfolio:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Janus Aspen Forty Portfolio (one of the portfolios constituting Janus Aspen Series, hereafter referred to as the "Portfolio") at December 31, 2014, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Portfolio's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2014 by correspondence with the custodian, transfer agent and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Denver, Colorado
February 13, 2015

Additional Information (unaudited)

Proxy Voting Policies and Voting Record

A description of the policies and procedures that the Portfolio uses to determine how to vote proxies relating to its portfolio securities is available without charge: (i) upon request, by calling 1-800-525-0020 (toll free); (ii) on the Portfolio's website at janus.com/proxyvoting; and (iii) on the SEC's website at http://www.sec.gov. Additionally, information regarding the Portfolio's proxy voting record for the most recent twelve-month period ended June 30 is also available, free of charge, through janus.com/proxyvoting and from the SEC's website at http://www.sec.gov.

Quarterly Portfolio Holdings

The Portfolio files its complete portfolio holdings (schedule of investments) with the SEC for the first and third quarters of each fiscal year on Form N-Q within 60 days of the end of such fiscal quarter. The Portfolio's Form N-Q: (i) is available on the SEC's website at http://www.sec.gov; (ii) may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. (information on the Public Reference Room may be obtained by calling 1-800-SEC-0330); and (iii) is available without charge, upon request, by calling Janus at 1-800-525-0020 (toll free).

APPROVAL OF ADVISORY AGREEMENTS DURING THE PERIOD

The Trustees of Janus Investment Fund and Janus Aspen Series, each of whom serves as an "independent" Trustee (the "Trustees"), oversee the management of each Fund of Janus Investment Fund and each Portfolio of Janus Aspen Series (each, a "Fund" and collectively, the "Funds"), and as required by law, determine annually whether to continue the investment advisory agreement for each Fund and the subadvisory agreements for the 16 Funds that utilize subadvisers.

In connection with their most recent consideration of those agreements for each Fund, the Trustees received and reviewed information provided by Janus Capital and the respective subadvisers in response to requests of the Trustees and their independent legal counsel. They also received and reviewed information and analysis provided by, and in response to requests of, their independent fee consultant. Throughout their consideration of the agreements, the Trustees were advised by their independent legal counsel. The Trustees met with management to consider the agreements, and also met separately in executive session with their independent legal counsel and their independent fee consultant.

At a meeting held on December 10, 2014, based on the Trustees' evaluation of the information provided by Janus Capital, the subadvisers, and the independent fee consultant, as well as other information, the Trustees determined that the overall arrangements between each Fund and Janus Capital and each subadviser, as applicable, were fair and reasonable in light of the nature, extent and quality of the services provided by Janus Capital, its affiliates and the subadvisers, the fees charged for those services, and other matters that the Trustees considered relevant in the exercise of their business judgment. At that meeting, the Trustees unanimously approved the continuation of the investment advisory agreement for each Fund, and the subadvisory agreement for each subadvised Fund, for the period from either January 1 or February 1, 2015 through January 1 or February 1, 2016, respectively, subject to earlier termination as provided for in each agreement.

In considering the continuation of those agreements, the Trustees reviewed and analyzed various factors that they determined were relevant, including the factors described below, none of which by itself was considered dispositive. However, the material factors and conclusions that formed the basis for the Trustees' determination to approve the continuation of the agreements are discussed separately below. Also included is a summary of the independent fee consultant's conclusions and opinions that arose during, and were included as part of, the Trustees' consideration of the agreements. "Management fees," as used herein, reflect actual annual advisory fees and any administration fees (excluding out of pocket costs), net of any waivers.

Nature, Extent and Quality of Services

The Trustees reviewed the nature, extent and quality of the services provided by Janus Capital and the subadvisers to the Funds, taking into account the investment objective, strategies and policies of each Fund, and the knowledge the Trustees gained from their regular meetings with management on at least a quarterly basis and their ongoing review of information related to the Funds. In addition, the Trustees reviewed the resources and key personnel of Janus Capital and each subadviser, particularly noting those employees who provide investment and risk management services to the Funds. The Trustees also considered other services provided to the Funds by Janus Capital or the subadvisers, such as managing the execution of portfolio transactions and the selection of broker-dealers for those transactions. The Trustees considered Janus Capital's role as administrator to the Funds, noting that Janus Capital does not receive a fee for its services but is reimbursed for its out-of-pocket costs. The Trustees considered the role of Janus Capital in monitoring adherence to the Funds' investment restrictions, providing support services for the Trustees and Trustee committees, and overseeing communications with shareholders and the activities of other service providers, including monitoring compliance with various policies and procedures of the Funds and with applicable securities laws and regulations.

In this regard, the independent fee consultant noted that Janus Capital provides a number of different services for the Funds and Fund shareholders, ranging from investment management services to various other servicing functions, and that, in its opinion, Janus Capital is a capable provider of those services. The independent fee consultant also provided its belief that Janus Capital has developed institutional competitive advantages that should be able to provide superior investment management returns over the long term.

The Trustees concluded that the nature, extent and quality of the services provided by Janus Capital or the subadviser to each Fund were appropriate and consistent with the terms of the respective advisory and subadvisory agreements, and that, taking into account steps taken to address those Funds whose performance lagged that of their peers for certain periods, the Funds were likely to benefit from the continued provision of those services. They also concluded that Janus Capital and each subadviser had sufficient personnel, with the appropriate education and experience, to serve the Funds effectively and had demonstrated its ability to attract well-qualified personnel.

Performance of the Funds

The Trustees considered the performance results of each Fund over various time periods. They noted that they considered Fund performance data throughout the year, including periodic meetings with each Fund's portfolio manager(s), and also reviewed information comparing each Fund's performance with the performance of comparable funds and peer groups identified by an independent data provider, and with the Fund's benchmark index. In this regard, the independent fee consultant found that the overall Funds' performance has improved: for the 36 months ended September 30, 2014, approximately 64% of the Funds were in the top two Lipper quartiles of performance, and for the 12 months ended September 30, 2014, approximately 57% of the Funds were in the top two Lipper quartiles of performance.

The Trustees considered the performance of each Fund, noting that performance may vary by share class, and noted the following:

Fixed-Income Funds and Money Market Funds

- For Janus Flexible Bond Fund, the Trustees noted that the Fund's performance was in the first Lipper quartile for the 36 months ended May 31, 2014 and the first Lipper quartile for the 12 months ended May 31, 2014.
- For Janus Global Bond Fund, the Trustees noted that the Fund's performance was in the second Lipper quartile for the 36 months ended May 31, 2014 and the first Lipper quartile for the 12 months ended May 31, 2014.
- For Janus High-Yield Fund, the Trustees noted that the Fund's performance was in the second Lipper quartile for the 36 months ended May 31, 2014 and the first Lipper quartile for the 12 months ended May 31, 2014.
- For Janus Real Return Fund, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 36 months ended May 31, 2014 and the first Lipper quartile for the 12 months ended May 31, 2014. The Trustees noted the reasons for the Fund's underperformance, the steps Janus Capital had taken or was taking to improve performance, and that the performance trend was improving.
- For Janus Short-Term Bond Fund, the Trustees noted that the Fund's performance was in the second Lipper quartile for the 36 months ended May 31, 2014 and the first Lipper quartile for the 12 months ended May 31, 2014.
- For Janus Government Money Market Fund, the Trustees noted that the Fund's performance was in the third Lipper quartile for the 36 months ended May 31, 2014 and the third Lipper quartile for the 12 months ended May 31, 2014. The Trustees noted the reasons for the Fund's underperformance.
- For Janus Money Market Fund, the Trustees noted that the Fund's performance was in the third Lipper quartile for the 36 months ended May 31, 2014 and the third Lipper quartile for the 12 months ended May 31, 2014. The Trustees noted the reasons for the Fund's underperformance.

Asset Allocation Funds

- For Janus Global Allocation Fund – Conservative, the Trustees noted that the Fund's performance was in the first Lipper quartile for the 36 months ended May 31, 2014 and the first Lipper quartile for the 12 months ended May 31, 2014.
- For Janus Global Allocation Fund – Growth, the Trustees noted that the Fund's performance was in the third Lipper quartile for the 36 months ended May 31, 2014 and the second Lipper quartile for the 12 months ended May 31, 2014. The Trustees noted the reasons for the Fund's underperformance, the steps Janus Capital had taken or was taking to improve performance, and that the performance trend was improving.
- For Janus Global Allocation Fund – Moderate, the Trustees noted that the Fund's performance was in the

second Lipper quartile for the 36 months ended May 31, 2014 and the second Lipper quartile for the 12 months ended May 31, 2014.

Alternative Funds

- For Janus Diversified Alternatives Fund, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 12 months ended May 31, 2014. The Trustees noted the reasons for the Fund's underperformance, the steps Janus Capital had taken or was taking to improve performance, and its limited performance history.

Value Funds

- For Perkins International Value Fund, the Trustees noted that the Fund's performance was in the third Lipper quartile for the 12 months ended May 31, 2014. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and its limited performance history.
- For Perkins Global Value Fund, the Trustees noted that the Fund's performance was in the second Lipper quartile for the 36 months ended May 31, 2014 and the bottom Lipper quartile for the 12 months ended May 31, 2014.
- For Perkins Large Cap Value Fund, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 36 months ended May 31, 2014 and the bottom Lipper quartile for the 12 months ended May 31, 2014. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital and Perkins had taken or were taking to improve performance.
- For Perkins Mid Cap Value Fund, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 36 months ended May 31, 2014 and the bottom Lipper quartile for the 12 months ended May 31, 2014. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance and the steps Janus Capital and Perkins had taken or were taking to improve performance.
- For Perkins Select Value Fund, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 12 months ended May 31, 2014. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and its limited performance history.
- For Perkins Small Cap Value Fund, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 36 months ended May 31, 2014 and the third Lipper quartile for the 12 months ended May 31, 2014. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital and Perkins had taken or were taking to improve performance.
- For Perkins Value Plus Income Fund, the Trustees noted that the Fund's performance was in the first Lipper quartile for the 36 months ended May 31, 2014 and the third Lipper quartile for the 12 months ended May 31, 2014.

Mathematical Funds

- For INTECH Global Income Managed Volatility Fund (formerly named INTECH Global Dividend Fund), the Trustees noted that the Fund's performance was in the second Lipper quartile for the 12 months ended May 31, 2014.
- For INTECH International Managed Volatility Fund (formerly named INTECH International Fund), the Trustees noted that the Fund's performance was in the second Lipper quartile for the 36 months ended May 31, 2014 and the first Lipper quartile for the 12 months ended May 31, 2014.
- For INTECH U.S. Core Fund, the Trustees noted that the Fund's performance was in the first Lipper quartile for the 36 months ended May 31, 2014 and the second Lipper quartile for the 12 months ended May 31, 2014.
- For INTECH U.S. Managed Volatility Fund (formerly named INTECH U.S. Value Fund), the Trustees noted that the Fund's performance was in the first Lipper quartile for the 36 months ended May 31, 2014 and the second Lipper quartile for the 12 months ended May 31, 2014.
- For INTECH U.S. Managed Volatility Fund II (formerly named INTECH U.S. Growth Fund), the Trustees noted that the Fund's performance was in the second Lipper quartile for the 36 months ended May 31, 2014 and the second Lipper quartile for the 12 months ended May 31, 2014.

Growth and Core Funds

- For Janus Balanced Fund, the Trustees noted that the Fund's performance was in the first Lipper quartile for the 36 months ended May 31, 2014 and the first Lipper quartile for the 12 months ended May 31, 2014.

- For Janus Contrarian Fund, the Trustees noted that the Fund's performance was in the first Lipper quartile for the 36 months ended May 31, 2014 and the first Lipper quartile for the 12 months ended May 31, 2014.
- For Janus Enterprise Fund, the Trustees noted that the Fund's performance was in the third Lipper quartile for the 36 months ended May 31, 2014 and the third Lipper quartile for the 12 months ended May 31, 2014. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Forty Fund, the Trustees noted that the Fund's performance was in the third Lipper quartile for the 36 months ended May 31, 2014 and the bottom Lipper quartile for the 12 months ended May 31, 2014. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Fund, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 36 months ended May 31, 2014 and the third Lipper quartile for the 12 months ended May 31, 2014. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of under-performance, and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Growth and Income Fund, the Trustees noted that the Fund's performance was in the third Lipper quartile for the 36 months ended May 31, 2014 and in the second Lipper quartile for the 12 months ended May 31, 2014. The Trustees noted the reasons for the Fund's underperformance, the steps Janus Capital had taken or was taking to improve performance, and that the performance trend was improving.
- For Janus Research Fund, the Trustees noted that the Fund's performance was in the second Lipper quartile for the 36 months ended May 31, 2014 and the first Lipper quartile for the 12 months ended May 31, 2014.
- For Janus Triton Fund, the Trustees noted that the Fund's performance was in the first Lipper quartile for the 36 months ended May 31, 2014 and the second Lipper quartile for the 12 months ended May 31, 2014.
- For Janus Twenty Fund, the Trustees noted that the Fund's performance was in the second Lipper quartile for the 36 months ended May 31, 2014 and the second Lipper quartile for the 12 months ended May 31, 2014.
- For Janus Venture Fund, the Trustees noted that the Fund's performance was in the first Lipper quartile for the 36 months ended May 31, 2014 and the second Lipper quartile for the 12 months ended May 31, 2014.

Global and International Funds

- For Janus Asia Equity Fund, the Trustees noted that the Fund's performance was in the third Lipper quartile for the 12 months ended May 31, 2014. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and its limited performance history.
- For Janus Emerging Markets Fund, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 36 months ended May 31, 2014 and the second Lipper quartile for the 12 months ended May 31, 2014. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and that the performance trend was improving.
- For Janus Global Life Sciences Fund, the Trustees noted that the Fund's performance was in the first Lipper quartile for the 36 months ended May 31, 2014 and the first Lipper quartile for the 12 months ended May 31, 2014.
- For Janus Global Real Estate Fund, the Trustees noted that the Fund's performance was in the second Lipper quartile for the 36 months ended May 31, 2014 and the first Lipper quartile for the 12 months ended May 31, 2014.
- For Janus Global Research Fund, the Trustees noted that the Fund's performance was in the second Lipper quartile for the 36 months ended May 31, 2014 and the first Lipper quartile for the 12 months ended May 31, 2014.
- For Janus Global Select Fund, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 36 months ended May 31, 2014 and the second Lipper quartile for the 12 months ended May 31, 2014. The Trustees noted the reasons for the Fund's underperformance, the steps Janus Capital had taken or was taking to improve performance, and that the performance trend was improving.
- For Janus Global Technology Fund, the Trustees noted that the Fund's performance was in the first Lipper

quartile for the 36 months ended May 31, 2014 and the third Lipper quartile for the 12 months ended May 31, 2014.

- For Janus International Equity Fund, the Trustees noted that the Fund's performance was in the second Lipper quartile for the 36 months ended May 31, 2014 and the third Lipper quartile for the 12 months ended May 31, 2014.
- For Janus Overseas Fund, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 36 months ended May 31, 2014 and the third Lipper quartile for the 12 months ended May 31, 2014. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital had taken or was taking to improve performance.

Preservation Series

- For Janus Preservation Series – Global, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 12 months ended May 31, 2014. The Trustees noted the reasons for the Fund's underperformance, the steps Janus Capital had taken or was taking to improve performance, and its limited performance history.
- For Janus Preservation Series – Growth, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 36 months ended May 31, 2014 and the bottom Lipper quartile for the 12 months ended May 31, 2014. The Trustees noted the reasons for the Fund's underperformance, and the steps Janus Capital had taken or was taking to improve performance.

Janus Aspen Series

- For Janus Aspen Balanced Portfolio, the Trustees noted that the Fund's performance was in the first Lipper quartile for the 36 months ended May 31, 2014 and the first Lipper quartile for the 12 months ended May 31, 2014.
- For Janus Aspen Enterprise Portfolio, the Trustees noted that the Fund's performance was in the third Lipper quartile for the 36 months ended May 31, 2014 and the third Lipper quartile for the 12 months ended May 31, 2014. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Aspen Flexible Bond Portfolio, the Trustees noted that the Fund's performance was in the first Lipper quartile for the 36 months ended May 31, 2014 and the first Lipper quartile for the 12 months ended May 31, 2014.
- For Janus Aspen Forty Portfolio, the Trustees noted that the Fund's performance was in the third Lipper quartile for the 36 months ended May 31, 2014 and the bottom Lipper quartile for the 12 months ended May 31, 2014. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Aspen Global Allocation Portfolio – Moderate, the Trustees noted that the Fund's performance was in the first Lipper quartile for the 12 months ended May 31, 2014.
- For Janus Aspen Global Research Portfolio, the Trustees noted that the Fund's performance was in the third Lipper quartile for the 36 months ended May 31, 2014 and the first Lipper quartile for the 12 months ended May 31, 2014. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, the steps Janus Capital had taken or was taking to improve performance, and that the performance trend was improving.
- For Janus Aspen Global Technology Portfolio, the Trustees noted that the Fund's performance was in the second Lipper quartile for the 36 months ended May 31, 2014 and the third Lipper quartile for the 12 months ended May 31, 2014.
- For Janus Aspen INTECH U.S. Low Volatility Portfolio, the Trustees noted that the Fund's performance was in the first Lipper quartile for the 12 months ended May 31, 2014.
- For Janus Aspen Janus Portfolio, the Trustees noted that the Fund's performance was in the third Lipper quartile for the 36 months ended May 31, 2014 and the third Lipper quartile for the 12 months ended May 31, 2014. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Aspen Overseas Portfolio, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 36 months ended May 31, 2014 and the third Lipper quartile for the 12 months ended May 31, 2014. The Trustees noted the reasons for the Fund's

underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital had taken or was taking to improve performance.

- For Janus Aspen Perkins Mid Cap Value Portfolio, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 36 months ended May 31, 2014 and the bottom Lipper quartile for the 12 months ended May 31, 2014. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital and Perkins had taken or were taking to improve performance.
- For Janus Aspen Preservation Series – Growth, the Trustees noted that the Fund's performance was in the bottom Lipper quartile for the 12 months ended May 31, 2014. The Trustees noted the reasons for the Fund's underperformance and its limited performance history.

In consideration of each Fund's performance, the Trustees concluded that, taking into account the factors relevant to performance, as well as other considerations, including steps taken to improve performance, the Fund's performance warranted continuation of the Fund's investment advisory agreement(s).

Costs of Services Provided

The Trustees examined information regarding the fees and expenses of each Fund in comparison to similar information for other comparable funds as provided by an independent data provider. They also reviewed an analysis of that information provided by their independent fee consultant and noted that the rate of management (investment advisory and any administration, but excluding out-of-pocket costs) fees for many of the Funds, after applicable waivers, was below the mean management fee rate of the respective peer group of funds selected by an independent data provider. The Trustees also examined information regarding the subadvisory fees charged for subadvisory services, as applicable, noting that all such fees were paid by Janus Capital out of its management fees collected from such Fund.

In this regard, the independent fee consultant provided its belief that the management fees charged by Janus Capital to each of the Funds under the current investment advisory and administration agreements are reasonable in relation to the services provided by Janus Capital. The independent fee consultant found: (1) the total expenses and management fees of the Funds to be reasonable relative to other mutual funds; (2) total expenses, on average, were 19% below the mean total expenses of their respective Lipper Expense Group peers and 29% below the mean total expenses for their Lipper Expense Universes; (3) management fees for the Funds, on average, were 15% below the mean management fees for their Expense Groups and 20% below the mean for their Expense Universes; and (4) Janus fund expenses at the functional level for each asset and share class category were reasonable. The Trustees also considered how the total expenses for each share class of each Fund compared to the mean total expenses for its Lipper Expense Group peers and to mean total expenses for its Lipper Expense Universe.

The independent fee consultant concluded that, based on its strategic review of expenses at the complex, category and individual fund level, Fund expenses were found to be reasonable relative to both Expense Group and Expense Universe benchmarks. Further, for certain Funds, the independent fee consultant also performed a systematic "focus list" analysis of expenses in the context of the performance or service delivered to each set of investors in each share class in each selected Fund. Based on this analysis, the independent fee consultant found that the combination of service quality/performance and expenses on these individual Funds and share classes were reasonable in light of performance trends, performance histories, and existence of performance fees on such Funds.

The Trustees considered the methodology used by Janus Capital and each subadviser in determining compensation payable to portfolio managers, the competitive environment for investment management talent, and the competitive market for mutual funds in different distribution channels.

The Trustees also reviewed management fees charged by Janus Capital and each subadviser to comparable separate account clients and to comparable non-affiliated funds subadvised by Janus Capital or by a subadviser (for which Janus Capital or the subadviser provides only or primarily portfolio management services). Although in most instances subadvisory and separate account fee rates for various investment strategies were lower than management fee rates for Funds having a similar strategy, the Trustees considered that Janus Capital noted that, under the terms of the management agreements with the Funds, Janus Capital performs significant additional services for the Funds that it does not provide to those other clients, including administration services, oversight of the Funds' other service providers, trustee support, regulatory compliance and numerous other services, and that, in serving the Funds, Janus Capital assumes many legal risks that it does not assume in servicing its other clients. Moreover, they noted that the independent fee consultant found that: (1) the management fees Janus

Capital charges to the Funds are reasonable in relation to the management fees Janus Capital charges to its institutional and subadvised accounts; (2) these institutional and subadvised accounts have different service and infrastructure needs; (3) the average spread between management fees charged to the Funds and those charged to Janus Capital's institutional accounts is reasonable relative to the average spreads seen in the industry; and (4) the retained fee margins implied by Janus Capital's subadvised fees when compared to its mutual fund fees are reasonable relative to retained fee margins in the industry.

The Trustees considered the fees for each Fund for its fiscal year ended in 2013, and noted the following with regard to each Fund's total expenses, net of applicable fee waivers (the Fund's "total expenses"):

Fixed-Income Funds and Money Market Funds

- For Janus Flexible Bond Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Global Bond Fund, the Trustees noted that although the Fund's total expenses were equal to or below the peer group mean for all share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus High-Yield Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Real Return Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for all share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Short-Term Bond Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Government Money Market Fund, the Trustees noted that the Fund's total expenses exceeded the peer group mean for both share classes. The Trustees considered that management fees for this Fund are higher than the peer group mean due to the Fund's management fee including other costs, such as custody and transfer agent services, while many funds in the peer group pay these expenses separately from their management fee. In addition, the Trustees considered that Janus Capital voluntarily waives one-half of its advisory fee and other expenses in order to maintain a positive yield.
- For Janus Money Market Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes. In addition, the Trustees considered that Janus Capital voluntarily waives one-half of its advisory fee and other expenses in order to maintain a positive yield.

Asset Allocation Funds

- For Janus Global Allocation Fund – Conservative, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Global Allocation Fund – Growth, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Global Allocation Fund – Moderate, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.

Alternative Funds

- For Janus Diversified Alternatives Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.

Value Funds

- For Perkins International Value Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Perkins Global Value Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Perkins Large Cap Value Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also

noted that Janus Capital has contractually agreed to limit the Fund's expenses.

- For Perkins Mid Cap Value Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Perkins Select Value Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Perkins Small Cap Value Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Perkins Value Plus Income Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.

Mathematical Funds

- For INTECH Global Income Managed Volatility Fund (formerly named INTECH Global Dividend Fund), the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For INTECH International Managed Volatility Fund (formerly named INTECH International Fund), the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For INTECH U.S. Core Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For INTECH U.S. Managed Volatility Fund (formerly named INTECH U.S. Value Fund), the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For INTECH U.S. Managed Volatility Fund II (formerly named INTECH U.S. Growth Fund), the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.

Growth and Core Funds

- For Janus Balanced Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Contrarian Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Enterprise Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Forty Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Growth and Income Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Research Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Triton Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that

Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.

- For Janus Twenty Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Venture Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.

Global and International Funds

- For Janus Asia Equity Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Emerging Markets Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Global Life Sciences Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Global Real Estate Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Global Research Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Global Select Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Global Technology Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus International Equity Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Overseas Fund, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.

Preservation Series

- For Janus Preservation Series – Global, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.
- For Janus Preservation Series – Growth, the Trustees noted that the Fund's total expenses were below the peer group mean for all share classes.

Janus Aspen Series

- For Janus Aspen Balanced Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen Enterprise Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen Flexible Bond Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen Forty Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen Global Allocation Portfolio – Moderate, the Trustees noted that, although the Fund's total expenses exceeded the peer group mean for both share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Aspen Global Research Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen Global Technology Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen INTECH U.S. Low Volatility Portfolio, the Trustees noted that, although the Fund's total expenses were above the peer group mean for its sole share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable limit.
- For Janus Aspen Janus Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.

- For Janus Aspen Overseas Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen Perkins Mid Cap Value Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Aspen Preservation Series – Growth, the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.

The Trustees reviewed information on the profitability to Janus Capital and its affiliates of their relationships with each Fund, as well as an explanation of the methodology utilized by Janus Capital when allocating various expenses of Janus Capital and its affiliates with respect to contractual relationships with the Funds and other clients. The Trustees also reviewed the financial statements and corporate structure of Janus Capital's parent company. In their review, the Trustees considered whether Janus Capital and each subadviser receive adequate incentives to manage the Funds effectively. The Trustees recognized that profitability comparisons among fund managers are difficult because very little comparative information is publicly available, and the profitability of any fund manager is affected by numerous factors, including the organizational structure of the particular fund manager, the types of funds and other accounts it manages, possible other lines of business, the methodology for allocating expenses, and the fund manager's capital structure and cost of capital. However, taking into account those factors and the analysis provided by the Trustees' independent fee consultant, and based on the information available, the Trustees concluded that Janus Capital's profitability with respect to each Fund in relation to the services rendered was not unreasonable.

In this regard, the independent fee consultant found that, while assessing the reasonableness of expenses in light of Janus Capital's profits is dependent on comparisons with other publicly-traded mutual fund advisers, and that these comparisons are limited in accuracy by differences in complex size, business mix, institutional account orientation, and other factors, after accepting these limitations, the level of profit earned by Janus Capital from managing the Funds is reasonable.

The Trustees concluded that the management fees and other compensation payable by each Fund to Janus Capital and its affiliates, as well as the fees paid by Janus Capital to the subadvisers of subadvised Funds, were reasonable in relation to the nature, extent, and quality of the services provided, taking into account the fees charged by other advisers for managing comparable mutual funds with similar strategies, the fees Janus Capital and the subadvisers charge to other clients, and, as applicable, the impact of fund performance on management fees payable by the Funds. The Trustees also concluded that each Fund's total expenses were reasonable, taking into account the size of the Fund, the quality of services provided by Janus Capital and any subadviser, the investment performance of the Fund, and any expense limitations agreed to or provided by Janus Capital.

Economies of Scale

The Trustees considered information about the potential for Janus Capital to realize economies of scale as the assets of the Funds increase. They noted that their independent fee consultant had provided analysis of economies of scale during prior years. They also noted that, although many Funds pay advisory fees at a base fixed rate as a percentage of net assets, without any breakpoints, the base contractual management fee rate paid by most of the Funds, before any adjustment for performance, if applicable, was below the mean contractual management fee rate of the Fund's peer group identified by an independent data provider. They also noted that for those Funds whose expenses are being reduced by the contractual expense limitations of Janus Capital, Janus Capital is subsidizing the Funds because they have not reached adequate scale. Moreover, as the assets of many of the Funds have declined in the past few years, certain Funds have benefited from having advisory fee rates that have remained constant rather than increasing as assets declined. In addition, performance fee structures have been implemented for various Funds that have caused the effective rate of advisory fees payable by such a Fund to vary depending on the investment performance of the Fund relative to its benchmark index over the measurement period; and a few Funds have fee schedules with breakpoints and reduced fee rates above certain asset levels. The Trustees also noted that the Funds share directly in economies of scale through the lower charges of third-party service providers that are based in part on the combined scale of all of the Funds. Based on all of the information they reviewed, including research and analysis conducted by the Trustees' independent fee consultant, the Trustees concluded that the current fee structure of each Fund was reasonable and that the current rates of fees do reflect a sharing between Janus Capital and the Fund of any economies of scale that may be present at the current asset level of the Fund.

In this regard, the independent fee consultant concluded that, given the limitations of various analytical approaches to economies of scale considered in prior years, and their conflicting results, it could not confirm or deny the existence of economies of scale in the Janus complex. Further, the independent fee consultant provided its belief that Fund investors are well-served by the fee levels and performance fee structures in place on the Funds in light of any economies of scale that may be present at Janus Capital.

Other Benefits to Janus Capital

The Trustees also considered benefits that accrue to Janus Capital and its affiliates and subadvisers to the Funds from their relationships with the Funds. They recognized that two affiliates of Janus Capital separately serve the Funds as transfer agent and distributor, respectively, and the transfer agent receives compensation directly from the non-money market funds for services provided. The Trustees also considered Janus Capital's past and proposed use of commissions paid by the Funds on their portfolio brokerage transactions to obtain proprietary and third-party research products and services benefiting the Fund and/or other clients of Janus Capital and/or a subadviser to a Fund. The Trustees concluded that Janus Capital's and the subadvisers' use of these types of client commission arrangements to obtain proprietary and third-party research products and services was consistent with regulatory requirements and guidelines and was likely to benefit each Fund. The Trustees also concluded that, other than the services provided by Janus Capital and its affiliates and subadvisers pursuant to the agreements and the fees to be paid by each Fund therefor, the Funds and Janus Capital and the subadvisers may potentially benefit from their relationship with each other in other ways. They concluded that Janus Capital and/or the subadvisers benefits from the receipt of research products and services acquired through commissions paid on portfolio transactions of the Funds and that the Funds benefit from Janus Capital's and/or the subadvisers' receipt of those products and services as well as research products and services acquired through commissions paid by other clients of Janus Capital and/or other clients of the subadvisers. They further concluded that the success of any Fund could attract other business to Janus Capital, the subadvisers or other Janus funds, and that the success of Janus Capital and the subadvisers could enhance Janus Capital's and the subadvisers' ability to serve the Funds.

Useful Information About Your Portfolio Report (unaudited)

1. Management Commentary

The Management Commentary in this report includes valuable insight from the Portfolio's manager as well as statistical information to help you understand how your Portfolio's performance and characteristics stack up against those of comparable indices.

If the Portfolio invests in foreign securities, this report may include information about country exposure. Country exposure is based primarily on the country of risk. The Portfolio's manager may allocate a company to a country based on other factors such as location of the company's principal office, the location of the principal trading market for the company's securities, or the country where a majority of the company's revenues are derived.

Please keep in mind that the opinions expressed in the Management Commentary are just that: opinions. They are a reflection based on best judgment at the time this report was compiled, which was December 31, 2014. As the investing environment changes, so could opinions. These views are unique and are not necessarily shared by fellow employees or by Janus in general.

2. Performance Overviews

Performance overview graphs compare the performance of a hypothetical $10,000 investment in the Portfolio with one or more widely used market indices.

When comparing the performance of the Portfolio with an index, keep in mind that market indices do not include brokerage commissions that would be incurred if you purchased the individual securities in the index. They also do not include taxes payable on dividends and interest or operating expenses incurred if you maintained the Portfolio invested in the index.

Average annual total returns are quoted for a Portfolio with more than one year of performance history. Average annual total return is calculated by taking the growth or decline in value of an investment over a period of time, including reinvestment of dividends and distributions, then calculating the annual compounded percentage rate that would have produced the same result had the rate of growth been constant throughout the period. Average annual total return does not reflect the deduction of taxes that a shareholder would pay on Portfolio distributions or redemptions of Portfolio shares.

Cumulative total returns are quoted for a Portfolio with less than one year of performance history. Cumulative total return is the growth or decline in value of an investment over time, independent of the period of time involved. Cumulative total return does not reflect the deduction of taxes that a shareholder would pay on Portfolio distributions or redemptions of Portfolio shares.

Pursuant to federal securities rules, expense ratios shown in the performance chart reflect subsidized (if applicable) and unsubsidized ratios. The total annual fund operating expenses ratio is gross of any fee waivers, reflecting the Portfolio's unsubsidized expense ratio. The net annual fund operating expenses ratio (if applicable) includes contractual waivers of Janus Capital and reflects the Portfolio's subsidized expense ratio. Ratios may be higher or lower than those shown in the "Financial Highlights" in this report.

3. Schedule of Investments

Following the performance overview section is the Portfolio's Schedule of Investments. This schedule reports the types of securities held in the Portfolio on the last day of the reporting period. Securities are usually listed by type (common stock, corporate bonds, U.S. Government obligations, etc.) and by industry classification (banking, communications, insurance, etc.). Holdings are subject to change without notice.

The value of each security is quoted as of the last day of the reporting period. The value of securities denominated in foreign currencies is converted into U.S. dollars.

If the Portfolio invests in foreign securities, it will also provide a summary of investments by country. This summary reports the Portfolio exposure to different countries by providing the percentage of securities invested in each country. The country of each security represents the country of risk. The Portfolio's Schedule of Investments relies upon the industry group and country classifications published by Barclays and/or MSCI Inc.

Tables listing details of individual forward currency contracts, futures, written options, and swaps follow the Portfolio's Schedule of Investments (if applicable).

4. Statement of Assets and Liabilities

This statement is often referred to as the "balance sheet." It lists the assets and liabilities of the Portfolio on the last day of the reporting period.

The Portfolio's assets are calculated by adding the value of the securities owned, the receivable for securities sold but not yet settled, the receivable for dividends declared but not yet received on securities owned, and the receivable for Portfolio shares sold to investors but not yet settled. The Portfolio's liabilities include payables for securities purchased but not yet settled, Portfolio shares redeemed but not yet paid, and expenses owed but not yet paid. Additionally, there may be other assets and liabilities such as unrealized gain or loss on forward currency contracts.

The section entitled "Net Assets Consist of" breaks down the components of the Portfolio's net assets. Because the Portfolio must distribute substantially all earnings, you will notice that a significant portion of net assets is shareholder capital.

The last section of this statement reports the net asset value ("NAV") per share on the last day of the reporting period. The NAV is calculated by dividing the Portfolio's net assets for each share class (assets minus liabilities) by the number of shares outstanding.

5. Statement of Operations

This statement details the Portfolio's income, expenses, realized gains and losses on securities and currency transactions, and changes in unrealized appreciation or depreciation of Portfolio holdings.

The first section in this statement, entitled "Investment Income," reports the dividends earned from securities and interest earned from interest-bearing securities in the Portfolio.

The next section reports the expenses incurred by the Portfolio, including the advisory fee paid to the investment adviser, transfer agent fees and expenses, and printing and postage for mailing statements, financial reports and prospectuses. Expense offsets and expense reimbursements, if any, are also shown.

The last section lists the amounts of realized gains or losses from investment and foreign currency transactions, and changes in unrealized appreciation or depreciation of investments and foreign currency-denominated assets and liabilities. The Portfolio will realize a gain (or loss) when it sells its position in a particular security. A change in unrealized gain (or loss) refers to the change in net appreciation or depreciation of the Portfolio during the reporting period. "Net Realized and Unrealized Gain/(Loss) on Investments" is affected both by changes in the market value of Portfolio holdings and by gains (or losses) realized during the reporting period.

6. Statements of Changes in Net Assets

These statements report the increase or decrease in the Portfolio's net assets during the reporting period. Changes in the Portfolio's net assets are attributable to investment operations, dividends and distributions to investors, and capital share transactions. This is important to investors because it shows exactly what caused the Portfolio's net asset size to change during the period.

The first section summarizes the information from the Statement of Operations regarding changes in net assets due to the Portfolio's investment operations. The Portfolio's net assets may also change as a result of dividend and capital gains distributions to investors. If investors receive their dividends and/or distributions in cash, money is taken out of the Portfolio to pay the dividend and/or distribution. If investors reinvest their dividends and/or distributions, the Portfolio's net assets will not be affected. If you compare the Portfolio's "Net Decrease from Dividends and Distributions" to "Reinvested Dividends and Distributions," you will notice that dividends and distributions have little effect on the Portfolio's net assets. This is because the majority of the Portfolio's investors reinvest their dividends and/or distributions.

The reinvestment of dividends and distributions is included under "Capital Share Transactions." "Capital Shares" refers to the money investors contribute to the Portfolio through purchases or withdrawals via redemptions. The Portfolio's net assets will increase and decrease in value as investors purchase and redeem shares from the Portfolio.

7. Financial Highlights

This schedule provides a per-share breakdown of the components that affect the Portfolio's NAV for current and past reporting periods as well as total return, asset size, ratios, and portfolio turnover rate.

The first line in the table reflects the NAV per share at the beginning of the reporting period. The next line reports the net investment income/(loss) per share. Following is the per share total of net gains/(losses), realized and unrealized. Per share dividends and distributions to investors are then subtracted to arrive at the NAV per share at the end of the period. The next line reflects the total return for the period. The total return may include adjustments in accordance with generally accepted accounting principles required at the period end for financial reporting purposes. As a result, the total return may differ from the total return reflected for individual shareholder transactions. Also included are ratios of expenses and net investment income to average net assets.

The Portfolio's expenses may be reduced through expense offsets and expense reimbursements. The ratios shown reflect expenses before and after any such offsets and reimbursements.

The ratio of net investment income/(loss) summarizes the income earned less expenses, divided by the average net assets of the Portfolio during the reporting period. Do not confuse this ratio with the Portfolio's yield. The net investment income ratio is not a true measure of the Portfolio's yield because it does not take into account the dividends distributed to the Portfolio's investors.

The next figure is the portfolio turnover rate, which measures the buying and selling activity in the Portfolio.

Useful Information About Your Portfolio Report (unaudited) (continued)

Portfolio turnover is affected by market conditions, changes in the asset size of the Portfolio, fluctuating volume of shareholder purchase and redemption orders, the nature of the Portfolio's investments, and the investment style and/or outlook of the portfolio manager. A 100% rate implies that an amount equal to the value of the entire portfolio was replaced once during the fiscal year; a 50% rate means that an amount equal to the value of half the portfolio is traded in a year; and a 200% rate means that an amount equal to the value of the entire portfolio is traded every six months.

Designation Requirements (unaudited)

For federal income tax purposes, the Portfolio designated the following for the year ended December 31, 2014:

Capital Gain Distributions

Portfolio	
Janus Aspen Forty Portfolio	$246,020,735

Dividends Received Deduction Percentage

Portfolio	
Janus Aspen Forty Portfolio	100%

Trustees and Officers (unaudited)

The Portfolio's Statement of Additional Information includes additional information about the Trustees and officers and is available, without charge, by calling 1-877-335-2687.

The following are the Trustees and officers of the Trust, together with a brief description of their principal occupations during the last five years (principal occupations for certain Trustees may include periods over five years).

Each Trustee has served in that capacity since he or she was originally elected or appointed. The Trustees do not serve a specified term of office. Each Trustee will hold office until the termination of the Trust or his or her earlier death, resignation, retirement, incapacity, or removal. Under the Portfolio's Governance Procedures and Guidelines, the policy is for Trustees to retire no later than the end of the calendar year in which the Trustee turns 75. The Trustees review the Portfolio's Governance Procedures and Guidelines from time to time and may make changes they deem appropriate. The Portfolio's Nominating and Governance Committee will consider nominees for the position of Trustee recommended by shareholders. Shareholders may submit the name of a candidate for consideration by the Committee by submitting their recommendations to the Trust's Secretary. Each Trustee is currently a Trustee of one other registered investment company advised by Janus Capital: Janus Investment Fund. Collectively, these two registered investment companies consist of 59 series or funds.

The Trust's officers are elected annually by the Trustees for a one-year term. Certain officers also serve as officers of Janus Investment Fund. Certain officers of the Portfolio may also be officers and/or directors of Janus Capital. Portfolio officers receive no compensation from the Portfolio, except for the Portfolio's Chief Compliance Officer, as authorized by the Trustees.

TRUSTEES

Name, Address, and Age	Positions Held with the Trust	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios/Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past Five Years
Independent Trustees					
William F. McCalpin 151 Detroit Street Denver, CO 80206 DOB: 1957	Chairman Trustee	1/08-Present 6/02-Present	Chief Executive Officer, Imprint Capital (impact investment firm) (since 2013), and Managing Director, Holos Consulting LLC (provides consulting services to foundations and other nonprofit organizations). Formerly, Executive Vice President and Chief Operating Officer of The Rockefeller Brothers Fund (a private family foundation) (1998-2006).	59	Chairman of the Board and Director of The Investment Fund for Foundations Investment Program (TIP) (consisting of 2 funds), and Director of the F.B. Heron Foundation (a private grantmaking foundation).
Alan A. Brown 151 Detroit Street Denver, CO 80206 DOB: 1962	Trustee	1/13-Present	Managing Director, Institutional Markets, of Dividend Capital Group (private equity real estate investment management firm) (since 2012). Formerly, Executive Vice President and Co-Head, Global Private Client Group (2007-2010), Executive Vice President, Mutual Funds (2005-2007), and Chief Marketing Officer (2001-2005) of Nuveen Investments, Inc. (asset management).	59	Director of MotiveQuest LLC (strategic social market research company) (since 2003), and Director of WTTW (PBS affiliate) (since 2003). Formerly, Director of Nuveen Global Investors LLC (2007-2011); Director of Communities in Schools (2004-2010); and Director of Mutual Fund Education Alliance (until 2010).

TRUSTEES (continued)

Name, Address, and Age	Positions Held with the Trust	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios/Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past Five Years
William D. Cvengros 151 Detroit Street Denver, CO 80206 DOB: 1948	Trustee	1/11-Present	Managing Member and Chief Executive Officer of SJC Capital, LLC (a personal investment company and consulting firm) (since 2002). Formerly, Venture Partner for The Edgewater Funds (a middle market private equity firm) (2002-2004); Chief Executive Officer and President of PIMCO Advisors Holdings L.P. (a publicly traded investment management firm) (1994-2000); and Chief Investment Officer of Pacific Life Insurance Company (a mutual life insurance and annuity company) (1987-1994).	59	Advisory Board Member, Innovate Partners Emerging Growth and Equity Fund I (early stage venture capital fund) (since 2014) and Managing Trustee of National Retirement Partners Liquidating Trust (since 2013). Formerly, Chairman, National Retirement Partners, Inc. (formerly a network of advisors to 401(k) plans) (2005-2013); Director of Prospect Acquisition Corp. (a special purpose acquisition corporation) (2007-2009); Director of RemedyTemp, Inc. (temporary help services company) (1996-2006); and Trustee of PIMCO Funds Multi-Manager Series (1990-2000) and Pacific Life Variable Life & Annuity Trusts (1987-1994).
James T. Rothe 151 Detroit Street Denver, CO 80206 DOB: 1943	Trustee	1/97-Present	Co-founder and Managing Director of Roaring Fork Capital SBIC, L.P. (SBA SBIC fund focusing on private investment in public equity firms), and Professor Emeritus of Business of the University of Colorado, Colorado Springs, CO (since 2004). Formerly, Professor of Business of the University of Colorado (2002-2004), and Distinguished Visiting Professor of Business (2001-2002) of Thunderbird (American Graduate School of International Management), Glendale, AZ.	59	Formerly, Director of Red Robin Gourmet Burgers, Inc. (RRGB) (2004-2014).
William D. Stewart 151 Detroit Street Denver, CO 80206 DOB: 1944	Trustee	9/93-Present	Retired. Formerly, Corporate Vice President and General Manager of MKS Instruments – HPS Products, Boulder, CO (a manufacturer of vacuum fittings and valves) and PMFC Division, Andover, MA (manufacturing pressure measurement and flow products) (1976-2012).	59	None

Trustees and Officers (unaudited) (continued)

TRUSTEES (continued)

Name, Address, and Age	Positions Held with the Trust	Length of Time Served	Principal Occupations During the Past Five Years	Number of Portfolios/Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Past Five Years
Linda S. Wolf 151 Detroit Street Denver, CO 80206 DOB: 1947	Trustee	12/05-Present	Retired. Formerly, Chairman and Chief Executive Officer of Leo Burnett (Worldwide) (advertising agency) (2001-2005).	59	Director of Chicago Community Trust (Regional Community Foundation), Chicago Council on Global Affairs, InnerWorkings (U.S. provider of print procurement solutions to corporate clients), Lurie Children's Hospital (Chicago, IL), Rehabilitation Institute of Chicago, Walmart, and Wrapports, LLC (digital communications company). Formerly, Director of Chicago Convention & Tourism Bureau (until 2014) and The Field Museum of Natural History (Chicago, IL) (until 2014).
Trustee Consultant					
Raudline Etienne* 151 Detroit Street Denver, CO 80206 DOB: 1965	Consultant	6/14-Present	Senior Vice President, Albright Stonebridge Group LLC (global strategy firm) (since 2011). Formerly, Deputy Comptroller and Chief Investment Officer, New York State Common Retirement Fund (public pension fund) (2008-2011).	N/A	None

*Raudline Etienne was appointed consultant to the Trustees effective June 2, 2014. Shareholders of the Janus Funds are expected to be asked to elect Ms. Etienne as a Trustee at a future shareholder meeting.

OFFICERS

Name, Address, and Age	Positions Held with the Trust	Term of Office* and Length of Time Served	Principal Occupations During the Past Five Years
A. Douglas Rao 151 Detroit Street Denver, CO 80206 DOB: 1974	Executive Vice President and Portfolio Manager Janus Aspen Forty Portfolio	6/13-Present	Portfolio Manager for other Janus accounts. Formerly, Partner and Portfolio Manager for Chautauqua Capital Management (2012-2013) and Portfolio Manager for Marsico Capital Management, LLC (2007-2012).
Stephanie Grauerholz 151 Detroit Street Denver, CO 80206 DOB: 1970	Chief Legal Counsel and Secretary Vice President	1/06-Present 3/06-Present	Vice President and Assistant General Counsel of Janus Capital and Vice President and Assistant Secretary of Janus Distributors LLC.
Bruce L. Koepfgen 151 Detroit Street Denver, CO 80206 DOB: 1952	President and Chief Executive Officer	7/14-Present	President of Janus Capital Group Inc. and Janus Capital Management LLC (since August 2013); Executive Vice President and Director of Janus International Holding LLC (since August 2011); Executive Vice President of Janus Distributors LLC and Janus Services LLC (since July 2011); Executive Vice President and Working Director of INTECH Investment Management LLC (since July 2011); Executive Vice President and Director of Perkins Investment Management LLC (since July 2011); and Executive Vice President and Director of Janus Management Holdings Corporation (since May 2011). Formerly, Executive Vice President of Janus Capital Group Inc. and Janus Capital Management LLC (May 2011-July 2013); Chief Financial Officer of Janus Capital Group Inc., Janus Capital Management LLC, Janus Distributors LLC, Janus Management Holdings Corporation, and Janus Services LLC (July 2011-July 2013).
David R. Kowalski 151 Detroit Street Denver, CO 80206 DOB: 1957	Vice President, Chief Compliance Officer, and Anti-Money Laundering Officer	6/02-Present	Senior Vice President and Chief Compliance Officer of Janus Capital, Janus Distributors LLC, and Janus Services LLC; Vice President of INTECH Investment Management LLC and Perkins Investment Management LLC; and Director of The Janus Foundation.
Jesper Nergaard 151 Detroit Street Denver, CO 80206 DOB: 1962	Chief Financial Officer Vice President, Treasurer, and Principal Accounting Officer	3/05-Present 2/05-Present	Vice President of Janus Capital and Janus Services LLC.

*Officers are elected at least annually by the Trustees for a one-year term and may also be elected from time to time by the Trustees for an interim period.

Notes

Notes

Janus provides access to a wide range of investment disciplines.

Alternative
Janus alternative funds seek to deliver strong risk-adjusted returns over a full market cycle with lower correlation to equity markets than traditional investments.

Asset Allocation
Janus' asset allocation funds utilize our fundamental, bottom-up research to balance risk over the long term. From fund options that meet investors' risk tolerance and objectives to a method that incorporates non-traditional investment choices to seek non-correlated sources of risk and return, Janus' asset allocation funds aim to allocate risk more effectively.

Fixed Income
Janus fixed income funds attempt to provide less risk relative to equities while seeking to deliver a competitive total return through high current income and appreciation. Janus money market funds seek capital preservation and liquidity with current income as a secondary objective.

Global & International
Janus global and international funds seek to leverage Janus' research capabilities by taking advantage of inefficiencies in foreign markets, where accurate information and analytical insight are often at a premium.

Growth & Core
Janus growth funds focus on companies believed to be the leaders in their respective industries, with solid management teams, expanding market share, margins and efficiencies. Janus core funds seek investments in more stable and predictable companies. Our core funds look for a strategic combination of steady growth and, for certain funds, some degree of income.

Mathematical
Our mathematical funds seek to outperform their respective indices while maintaining a risk profile equal to or lower than the index itself. Managed by INTECH (a Janus subsidiary), these funds use a mathematical process in an attempt to build a more "efficient" portfolio than the index.

Value
Our value funds, managed by Perkins (a Janus subsidiary), seek to identify companies with favorable reward to risk characteristics by conducting rigorous downside analysis before determining upside potential.

For more information about our funds, contact your investment professional or go to janus.com/variable-insurance.

JANUS

Please consider the charges, risks, expenses and investment objectives carefully before investing. For a prospectus or, if available, a summary prospectus containing this and other information, please call Janus at 877.33JANUS (52687) or download the file from janus.com/variable-insurance. Read it carefully before you invest or send money.

Funds distributed by Janus Distributors LLC

Investment products offered are: | NOT FDIC-INSURED | MAY LOSE VALUE | NO BANK GUARANTEE |

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PIMCO

Your Global Investment Authority

PIMCO Variable Insurance Trust

PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

This brochure contains the following documents:

- Supplement dated September 29, 2014 to the Prospectus for each share class regarding Portfolio Manager changes.
- The Annual Report dated December 31, 2014.

PIMCO Variable Insurance Trust

Supplement Dated September 29, 2014 to the PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) Administrative Class Prospectus, PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) Institutional Class Prospectus and PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) Advisor Class Prospectus, each dated April 30, 2014, as supplemented from time to time (the "Prospectuses")

Disclosure Related to the PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) (the "Portfolio")

Effective September 26, 2014, the Portfolio's portfolio is jointly managed by Andrew Balls, Sachin Gupta and Lorenzo Pagani. Accordingly, effective immediately, the paragraph in the "Investment Adviser/Portfolio Manager" section in the Portfolio's Portfolio Summary in the Prospectuses is deleted and replaced with the following:

PIMCO serves as the investment adviser for the Portfolio. The Portfolio's portfolio is jointly managed by Andrew Balls, Sachin Gupta and Lorenzo Pagani. Mr. Balls is CIO Global and a Managing Director of PIMCO. Mr. Gupta is an Executive Vice President of PIMCO. Dr. Pagani is a Managing Director of PIMCO. Messrs. Balls and Gupta and Dr. Pagani have jointly managed the Portfolio since September 2014.

In addition, effective immediately, the table in the "Management of the Portfolio—Individual Portfolio Managers" section of the Prospectuses is deleted and replaced with the following:

Portfolio Manager(s)	Since	Recent Professional Experience
Andrew Balls	9/14	CIO Global and Managing Director, PIMCO. He joined PIMCO in 2006 and is a member of the Investment Committee and head of European portfolio management. Prior to joining PIMCO, he spent eight years at the Financial Times, most recently as editor of the U.S. Lex column and as chief economics correspondent in Washington, D.C.
Sachin Gupta	9/14	Executive Vice President, PIMCO. Mr. Gupta joined PIMCO in 2003. He has previously managed European LDI portfolios and served on the global portfolio management team in PIMCO's Singapore office. Mr. Gupta has focused on investments in government bonds, sovereign credit derivatives and interest rate derivatives across developed markets. Prior to joining PIMCO, Mr. Gupta was in the fixed income and currency derivatives group at ABN AMRO Bank. He has 17 years of investment experience and holds an MBA from XLRI, India.
Lorenzo Pagani	9/14	Managing Director, PIMCO. Dr. Pagani joined PIMCO in 2004 and is a portfolio manager in PIMCO's Munich office and head of the European government bond and European rates desk. Prior to joining PIMCO, he was with the nuclear engineering department at the Massachusetts Institute of Technology and with Procter & Gamble in Italy.

Investors Should Retain This Supplement for Future Reference

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This supplement is not part of the Annual Report and is not authorized for distribution to prospective investors unless preceded or accompanied by a current prospectus.

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PIMCO

Your Global Investment Authority

PIMCO Variable Insurance Trust

Annual Report
December 31, 2014

PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

Share Class
- Administrative

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Table of Contents

Dear PIMCO Variable Insurance Trust Shareholder,

We are pleased to provide you with the Annual Report for the PIMCO Variable Insurance Trust covering the twelve-month reporting period ended December 31, 2014. On the following pages please find specific details as to the Portfolio’s investment performance and a discussion of the factors that affected performance.

As previously announced on September 26, 2014, William “Bill” Gross, PIMCO’s Chief Investment Officer and co-founder, resigned from the firm. PIMCO subsequently elected Daniel Ivascyn to serve as Group Chief Investment Officer (“Group CIO”). In addition, PIMCO appointed Andrew Balls, CIO Global Fixed Income; Mark Kiesel, CIO Global Credit; Virginie Maisonneuve, CIO Global Equities; Scott Mather, CIO U.S. Core Strategies; and Mihir Worah, CIO Real Return and Asset Allocation. On November 3, 2014, PIMCO also announced that Marc Seidner would return to the firm effective November 12, 2014 in a new role as CIO Non-traditional Strategies and Head of Portfolio Management in the New York office.

Under this leadership structure, Mr. Balls and Mr. Worah have additional managerial responsibility for PIMCO’s Portfolio Management group and trade floor activities globally. Mr. Balls will oversee Portfolio Management in Europe and Asia-Pacific, and Mr. Worah will oversee Portfolio Management in the U.S. Douglas Hodge, PIMCO’s Chief Executive Officer, and Jay Jacobs, PIMCO’s President, continue to serve as the firm’s senior executive leadership team, spearheading PIMCO’s business strategy, client service and the firm’s operations.

These appointments are a further evolution of the structure that PIMCO established early in 2014, reflecting our belief that the best approach for PIMCO’s clients and our firm is an investment leadership team of seasoned, highly skilled investors overseeing all areas of PIMCO’s investment activities.

During his 43 years at PIMCO, Mr. Gross made great contributions to building the firm and delivering value to PIMCO’s clients. Over this period PIMCO developed into a global asset manager, expanding beyond core fixed income, and now encompasses nearly 2,500 employees across 13 offices, including over 250 portfolio managers. Mr. Gross was also responsible for starting PIMCO’s robust investment process, with a focus on long-term macroeconomic views and bottom-up security selection – a process that is well institutionalized and will continue into PIMCO’s future.

Highlights of the financial markets during our twelve-month fiscal reporting period include:

- The U.S. economy showed continuing signs of strong growth and a steady decline in unemployment and renewed business investment activity, as the U.S. continued to be a key driving force behind global growth. The Federal Reserve (“Fed”) provided an optimistic view of the U.S. economy and completed its bond purchase program at the end of October. On December 17, the Fed removed language indicating its intent to keep the Federal Funds Rate near zero for “a considerable time”, and instead said it would remain patient on the timing of its first interest rate increase since 2006. The Fed also noted that future increases in the Federal Funds Rate would be dependent on economic conditions, including signs of continuing U.S. economic growth and a decline in the U.S. unemployment rate.
- In Europe, developed bond markets rallied on raised expectations that the European Central Bank (“ECB”) will expand asset purchases to include sovereign bonds. Slower economic growth and fears of deflation prompted a series of unprecedented actions by the ECB. Beginning in June, ECB President Mario Draghi lowered the ECB’s benchmark rate, reduced its deposit rate into negative territory to help mitigate potential deflationary forces (making the ECB the first major central bank to do so), opened a liquidity channel to help encourage bank lending, and initiated dedicated asset purchases of covered bonds and asset-backed securities. These measures reflect the ECB’s determination to tackle the threat of deflation in the Eurozone amid slower-than-expected economic growth. As such, outside of the reporting period on January 22, 2015, the ECB announced an expansion to its quantitative easing asset purchase program to also include purchases of investment grade sovereign and Agency bonds at 60 billion Euros per month until September 2016, implying a total of just over 1 trillion euros.
- U.S. Treasuries, as represented by the Barclays U.S. Treasury Index, returned 5.05% for the reporting period as intermediate and longer maturity yields declined and the front-end of the U.S. Treasury yield curve was modestly weaker in anticipation of monetary tightening sometime in 2015. The benchmark ten-year U.S. Treasury note yielded 2.17% at the end of the reporting period, down from 3.03% on December 31, 2013. The Barclays U.S. Aggregate Index, a widely used index of U.S. investment-grade bonds, returned 5.97% for the reporting period.

- U.S. Treasury Inflation-Protected Securities ("TIPS"), as represented by the Barclays U.S. TIPS Index, returned 3.64% over the reporting period. The collapse in oil prices in the second half of the year pushed inflation expectations to multi-year lows and caused U.S. TIPS to underperform nominal U.S. Treasuries by a large margin. Outside of the U.S., returns of global inflation-linked bonds ("ILBs") varied across countries depending on their respective inflation expectations. However, few ILB markets were able to keep pace with their nominal counterparts as global inflation expectations were similarly impacted by lower energy prices. Diversified commodities, as represented by the Bloomberg Commodity Index Total Return, declined 17.01% over the period.
- Agency mortgage-backed securities ("MBS"), as represented by the Barclays Agency Fixed-Rate MBS Index, returned 6.15% over the reporting period. The sector also outperformed like-duration U.S. Treasuries during the period, driven by continued Fed support. The Fed stopped net purchases of Agency MBS in late October but has continued to reinvest paydowns from existing holdings. New issuance was materially lower than the previous year and prepayments were also relatively benign, despite falling interest rates. Non-Agency MBS prices rallied during the period and the sector benefited from strong investor demand and limited supply. Fundamentals have also continued to improve, although the U.S. housing recovery has moderated.
- U.S. investment grade credit, as represented by the Barclays U.S. Credit Index, returned 7.53% over the reporting period. Performance deteriorated towards the end of the reporting period amid the significant sell-off in oil and subsequent emerging markets selloff, combined with heightened volatility in the Eurozone. The U.S. high yield sector, as measured by the BofA Merrill Lynch U.S. High Yield Index, returned 2.53% over the reporting period. However, declining oil prices were the primary reason for lackluster returns in the high yield sector over the second half of the reporting period. The dramatic decline in oil also elevated general risk aversion and most specifically to high yield, where oil makes up a meaningful component of the broader high yield market, which turned flows negative.
- Emerging markets ("EM") external debt, as represented by the JPMorgan Emerging Markets Bond Index (EMBI) Global, returned 5.53% over the reporting period. EM local bonds, as represented by the JPMorgan Government Bond Index-Emerging Markets Global Diversified Index (Unhedged), declined 5.72% over the period. The steep decline in global oil prices weighed on the assets of exporting EM countries (though benefited importers). Across asset classes, Russian securities were among the worst performing over the period as the Russian currency plunged before stabilizing towards the end of the reporting period. Local assets were again affected by weaker domestic currencies, which struggled against U.S. dollar strength.
- Developed market equities posted mixed returns as global growth divergence was evidenced in the last part of the reporting period. Additionally, the sharp decline in oil prices led to heightened market volatility. Growth in the U.S., for example, exceeded investor expectations and outpaced its peers in the developed world, especially Japan and Europe, which both continued to struggle. U.S. equities, as represented by the S&P 500 Index, returned 13.69%. Global equities, as represented by the MSCI All Country World Index Net USD, returned 4.16% and EM equities, as represented by the MSCI Emerging Markets Index (Net Dividends in USD), declined 2.19%.

Thank you once again for the trust you have placed in us. We value your commitment and will continue to work diligently to meet your investment needs.

Sincerely,

Brent R. Harris

Brent R. Harris
Chairman of the Board,
PIMCO Variable Insurance Trust

January 23, 2015

Important Information About the Portfolio

PIMCO Variable Insurance Trust (the "Trust") is an open-end management investment company currently consisting of nineteen separate investment portfolios, including the PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) (the "Portfolio"). The Portfolio is only available as a funding vehicle under variable life insurance policies or variable annuity contracts issued by insurance companies ("Variable Contracts"). Individuals may not purchase shares of the Portfolio directly. Shares of the Portfolio also may be sold to qualified pension and retirement plans outside of the separate account context.

We believe that bond funds have an important role to play in a well diversified investment portfolio. It is important to note, however, that in an environment where interest rates may trend upward, rising rates would negatively impact the performance of most bond funds, and fixed-income securities held by a fund are likely to decrease in value. A number of factors can cause interest rates to rise (e.g., central bank monetary policies, inflation rates, general economic conditions). Accordingly, changes in interest rates can be sudden, and there is no guarantee that Fund management will anticipate such movement.

As of the date of this report, interest rates in the U.S. are at or near historically low levels. As such, bond funds may currently face an increased exposure to the risks associated with a rising interest rate environment. This is especially true as the Fed ended its quantitative easing program in October 2014. Further, while the U.S. bond market has steadily grown over the past three decades, dealer inventories of corporate bonds have remained relatively stagnant. As a result, there has been a significant reduction in the ability of dealers to "make markets." All of the factors mentioned above, individually or collectively, could lead to increased volatility and/or lower liquidity in the fixed income markets, which could result in losses to the Portfolio.

Bond funds and individual bonds with a longer duration (a measure used to determine the sensitivity of a security's price to changes in interest rates) tend to be more sensitive to changes in interest rates, usually making them more volatile than securities or funds with shorter durations. If the performance of the Portfolio were to be negatively impacted by rising interest rates, the Portfolio could face increased redemptions by its shareholders, which could further reduce the value of the Portfolio.

The Portfolio may be subject to various risks in addition to those described above. Some of these risks may include, but are not limited to, the following: interest rate risk, call risk, credit risk, high yield risk, market risk, issuer risk, liquidity risk, derivatives risk, equity risk, mortgage-related and other asset-backed securities risk, foreign (non-U.S.) investment risk, emerging markets risk, currency risk, issuer non-diversification risk, leveraging risk, management risk and short sale risk. A complete description of these risks is contained in the Portfolio's prospectus.

The Portfolio may use derivative instruments for hedging purposes or as part of an investment strategy. Use of these instruments may involve certain costs and risks such as liquidity risk, interest rate risk, market risk, credit risk, management risk and the risk that the Portfolio may not be able to close out a position when it would be most advantageous to do so. Certain derivative transactions may have a leveraging effect on the Portfolio. For example, a small investment in a derivative instrument may have a significant impact on the Portfolio's exposure to interest rates, currency exchange rates or other investments. As a result, a relatively small price movement in a derivative instrument may cause an immediate and substantial loss or gain, which translates into heightened volatility in the Fund. The Portfolio may engage in such transactions regardless of whether the Portfolio owns the asset, instrument or components of the index underlying the derivative instrument. The Portfolio may invest a significant portion of its assets in these types of instruments. If it does, the Portfolio's investment exposure could far exceed the value of its portfolio securities and its investment performance could be primarily dependent upon securities it does not own. Investing in foreign (non-U.S.) securities may entail risk due to foreign (non-U.S.) economic and political developments; this risk may be increased when investing in emerging markets. For example, if the Portfolio invests in emerging market debt, it may face increased exposure to interest rate, liquidity, volatility, and redemption risk due to the specific economic, political, geographical, or legal background of the foreign issuer.

High-yield bonds typically have a lower credit rating than other bonds. Lower-rated bonds generally involve a greater risk to principal than higher-rated bonds. Further, markets for lower-rated bonds are typically less liquid than for higher-rated bonds, and public information is usually less abundant in such markets. Thus, high yield investments increase the chance that the Portfolio will lose money. The credit quality of a particular security or group of securities does not ensure the stability or safety of the overall portfolio. Mortgage- and Asset-Backed Securities represent ownership interests in "pools" of mortgages or other assets such as consumer loans or receivables. As a general matter, Mortgage- and Asset-Backed Securities are subject to interest rate risk, extension risk, prepayment risk, and credit risk. These risks largely stem from the fact that returns on Mortgage- and Asset-Backed Securities depend on the ability of the underlying assets to generate cash flow.

The Portfolio may invest in securities and instruments that are economically tied to Russia. Investments in Russia are subject to political, economic, legal, market and currency risks, as well as the risk that economic sanctions may be imposed by the United States and/or other countries. Such sanctions—which may impact companies in many sectors, including energy, financial services and defense, among others—may negatively impact the Portfolio's performance and/or ability to achieve its investment objective. For example, certain transactions may be prohibited and/or existing investments may become illiquid (e.g., in the event that transacting in certain existing investments is prohibited), which could cause the Portfolio to sell other portfolio holdings at a disadvantageous time or price in order to meet shareholder redemptions.

The geographical classification of foreign (non-U.S.) securities in this report are classified by the country of incorporation of a holding. In certain instances, a security's country of incorporation may be different from its country of economic exposure.

On the Portfolio Summary page in this Shareholder Report, the Average Annual Total Return table and Cumulative Returns chart measure performance assuming that all dividend and capital gain distributions were reinvested.

An investment in the Portfolio is not a deposit of a bank and is not guaranteed or insured by the Federal Deposit Insurance Corporation or any other government agency. It is possible to lose money on investments in the Portfolio.

PIMCO has adopted written proxy voting policies and procedures ("Proxy Policy") as required by Rule 206(4)-6 under the Investment Advisers Act of 1940, as amended. The Proxy Policy has been adopted by the Trust as the policies and procedures that PIMCO will use when voting proxies on behalf of the Portfolio. A description of the policies and procedures that PIMCO uses to vote proxies relating to portfolio securities of the Portfolio, and information about how the Portfolio voted proxies relating to portfolio securities held during the most recent twelve-month period ended June 30, are available without charge, upon request, by calling the Trust at (888) 87-PIMCO, on the Portfolio's website at http://pvit.pimco-funds.com, and on the Securities and Exchange Commission's ("SEC") website at http://www.sec.gov.

The Portfolio files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. A copy of the Trust's Form N-Q is 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 D.C. and is available without charge, upon request, by calling the Trust at (888) 87-PIMCO and on the Portfolio's website at http://pvit.pimco-funds.com. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

PIMCO Variable Insurance Trust is distributed by PIMCO Investments LLC, 1633 Broadway, New York, New York 10019.

The following disclosure provides important information regarding the Portfolio's Expense Example ("Example" or "Expense Example"), which appears in this Shareholder Report. Please refer to this information when reviewing the Expense Example for the Portfolio.

Expense Example

As a shareholder of the Portfolio, you incur two types of costs: (1) transaction costs and (2) ongoing costs, including management fees; distribution and/or service (12b-1) fees (Administrative Class and Advisor Class only); and other Portfolio expenses. The Example is intended to help you understand your ongoing costs (in dollars) of investing in the Portfolio and to compare these costs with the ongoing costs of investing in other mutual funds. The Expense Example does not reflect any fees or other expenses imposed by the Variable Contracts. If it did, the expenses reflected in the Expense Example would be higher. The Example is based on an investment of $1,000 invested at the beginning of the period and held for the entire period indicated, which is from July 1, 2014 to December 31, 2014.

Actual Expenses

The information in the table under the heading "Actual" provides information about actual account values and actual expenses. You may use the information in these columns, 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 = $8.60), then multiply the result by the number in the row titled "Expenses Paid During Period" to estimate the expenses you paid on your account during this period.

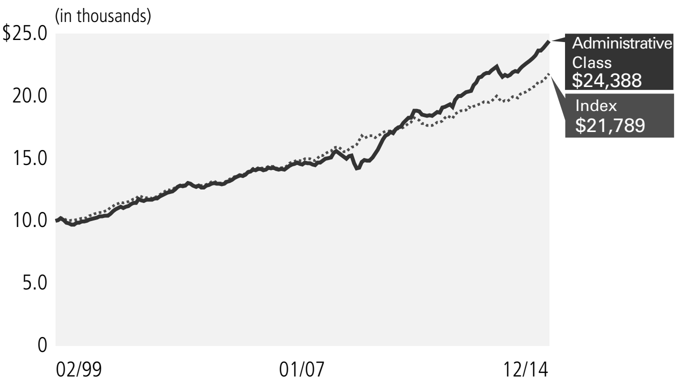
Hypothetical Example for Comparison Purposes

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

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs. Therefore, the information under the heading "Hypothetical (5% return before expenses)" is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different portfolios. In addition, if these transactional costs were included, your costs would have been higher.

The expense ratio may vary period to period because of various factors, such as an increase in expenses not covered by the management fees (such as expenses of the independent trustees and their counsel, extraordinary expenses and interest expense).

Cumulative Returns Through December 31, 2014



$10,000 invested at the end of the month when the Portfolio's Administrative Class commenced operations.

Allocation Breakdown†

Short-Term Instruments‡	31.7%
Italy	14.0%
United States	11.8%
Spain	11.3%
United Kingdom	9.2%
France	8.0%
Other	14.0%

† % of Investments, at value as of 12/31/14

‡ Includes Central Funds used for Cash Management Purposes

Average Annual Total Return for the period ended December 31, 2014

		1 Year	5 Years	10 Years	Class Inception (02/16/1999)
—	PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) Administrative Class	11.16%	7.48%	6.06%	5.76%
·····	JPMorgan GBI Global ex-US Index Hedged in USD±	9.90%	4.85%	4.82%	5.04%

All Portfolio returns are net of fees and expenses.

Performance quoted represents past performance. Past performance is not a guarantee or a reliable indicator of future results. Current performance may be lower or higher than performance shown. Investment return and the principal value of an investment will fluctuate. Shares may be worth more or less than original cost when redeemed. The Portfolio's performance does not reflect the deduction of additional charges and expenses imposed in connection with investing in Variable Contracts, which will reduce returns. For performance current to the most recent month-end, visit http://pvit.pimco-funds.com. The Portfolio's total annual operating expense ratio as stated in the Portfolio's current prospectus, as supplemented to date, is 0.92% for Administrative Class shares.

± JPMorgan GBI Global ex-US Index Hedged in USD is an unmanaged market index representative of the total return performance in U.S. dollars of major non-U.S. bond markets. It is not possible to invest directly in an unmanaged index.

Expense Example

	Actual	Hypothetical (5% return before expenses)
Beginning Account Value (07/01/14)	$1,000.00	$1,000.00
Ending Account Value (12/31/14)	$1,056.90	$1,020.73
Expenses Paid During Period†	$ 4.74	$ 4.66
Net Annualized Expense Ratio	0.91%	0.91%

† *Expenses Paid During Period are equal to the net annualized expense ratio for the class, multiplied by the average account value over the period, multiplied by the number of days in the period/365 (to reflect the one-half year period). Overall fees and expenses of investing in the Portfolio will be higher because the example does not reflect variable contract fees and expenses.*

Please refer to the Important Information Section for an explanation of the information presented in the above Expense Example.

Portfolio Insights

» The PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) seeks maximum total return, consistent with preservation of capital and prudent investment management, by investing under normal circumstances at least 80% of its assets in Fixed Income Instruments that are economically tied to foreign (non-U.S.) countries, representing at least three foreign countries, which may be represented by forwards or derivatives such as options, futures contracts or swap agreements. "Fixed Income Instruments" include bonds, debt securities and other similar instruments issued by various U.S. and non-U.S. public- or private-sector entities. The Portfolio will normally limit its foreign currency exposure (from non-U.S. dollar-denominated securities or currencies) to 20% of its assets.

» Portfolios managed to U.S. dollar-hedged benchmarks are hedged to the U.S. dollar. On a total return basis, portfolios that were hedged to the U.S. dollar generally outperformed unhedged portfolios over the reporting period, as the U.S. dollar appreciated versus most major currencies.

» Positions in non-Agency mortgage-backed securities and European residential mortgage-backed securities contributed to performance as spreads on these securities tightened over the reporting period.

» Exposure to European covered bonds contributed to performance as spreads on these securities tightened over the reporting period.

» An overweight to the long-end of the Japanese yield curve contributed to performance as Japanese sovereign yields declined over the reporting period.

» An overweight to duration (or sensitivity to changes in market interest rates) in Italy and Spain contributed to relative performance as European sovereign peripheral spreads tightened over the reporting period.

» Exposure to Brazilian local bonds and an overweight to Mexican local duration, on the intermediate portion of the yield curve, contributed to performance as yields declined over the reporting period.

» Short exposure to the Japanese yen and the euro contributed to performance as these currencies depreciated versus the U.S. dollar over the reporting period.

» An underweight to core European duration detracted from performance as German bund yields declined over the reporting period.

» An underweight to duration in the U.S. detracted from performance as U.S. Treasury yields declined over the reporting period.

Financial Highlights PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

Selected Per Share Data for the Year Ended:	12/31/2014	12/31/2013	12/31/2012	12/31/2011	12/31/2010
Administrative Class					
Net asset value beginning of year	$ 10.05	$ 10.80	$ 10.33	$ 9.98	$ 9.64
Net investment income [(a)]	0.18	0.22	0.26	0.23	0.21
Net realized/unrealized gain (loss)	0.93	(0.17)	0.84	0.43	0.60
Net increase from investment operations	1.11	0.05	1.10	0.66	0.81
Dividends from net investment income	(0.19)	(0.20)	(0.24)	(0.21)	(0.19)
Distributions from net realized capital gains	(0.07)	(0.60)	(0.39)	(0.10)	(0.28)
Total distributions	(0.26)	(0.80)	(0.63)	(0.31)	(0.47)
Net asset value end of year	$ 10.90	$ 10.05	$ 10.80	$ 10.33	$ 9.98
Total return	11.16%	0.50%	10.85%	6.76%	8.49%
Net assets end of year (000s)	$ 89,343	$ 66,176	$ 78,497	$ 78,493	$ 79,591
Ratio of expenses to average net assets	0.91%	0.92%	0.94%	0.91%	0.90%
Ratio of expenses to average net assets excluding interest expense	0.90%	0.90%	0.90%	0.90%	0.90%
Ratio of net investment income to average net assets	1.73%	2.03%	2.40%	2.30%	2.06%
Portfolio turnover rate	176%	127%	356%	218%	130%

[(a)] Per share amounts based on average number of shares outstanding during the year.

Statement of Assets and Liabilities PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

(Amounts in thousands, except per share amounts)	December 31, 2014
Assets:	
Investments, at value	
Investments in securities*	$ 114,563
Investments in Affiliates	40,651
Financial Derivative Instruments	
Exchange-traded or centrally cleared	193
Over the counter	6,340
Cash	1
Deposits with counterparty	1,256
Foreign currency, at value	906
Receivable for investments sold	29,052
Receivable for Portfolio shares sold	742
Interest and dividends receivable	1,060
Dividends receivable from Affiliates	234
	194,998
Liabilities:	
Borrowings & Other Financing Transactions	
Payable for short sales	$ 13,025
Financial Derivative Instruments	
Exchange-traded or centrally cleared	52
Over the counter	4,225
Payable for investments purchased	15,333
Payable for investments in Affiliates purchased	234
Deposits from counterparty	2,050
Payable for Portfolio shares redeemed	19
Accrued investment advisory fees	32
Accrued supervisory and administrative fees	64
Accrued distribution fees	13
Accrued servicing fees	11
Other liabilities	2
	35,060
Net Assets	$ 159,938
Net Assets Consist of:	
Paid in capital	$ 152,363
Undistributed net investment income	3,900
Accumulated undistributed net realized gain	927
Net unrealized appreciation	2,748
	$ 159,938
Net Assets:	
Institutional Class	$ 879
Administrative Class	89,343
Advisor Class	69,716
Shares Issued and Outstanding:	
Institutional Class	81
Administrative Class	8,196
Advisor Class	6,395
Net Asset Value and Redemption Price Per Share Outstanding:	
Institutional Class	$ 10.90
Administrative Class	10.90
Advisor Class	10.90
Cost of Investments in securities	$ 115,974
Cost of Investments in Affiliates	$ 40,862
Cost of Foreign Currency Held	$ 904
Proceeds Received on Short Sales	$ 12,998
Cost or Premiums of Financial Derivative Instruments, net	$ (541)
* Includes repurchase agreements of:	$ 1,003

See Accompanying Notes

Statement of Operations PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

(Amounts in thousands)	Year Ended December 31, 2014
Investment Income:	
Interest	$ 2,266
Dividends	9
Dividends from Investments in Affiliates	265
Total Income	2,540
Expenses:	
Investment advisory fees	238
Supervisory and administrative fees	476
Servicing fees - Administrative Class	118
Distribution and/or servicing fees - Advisor Class	41
Trustee fees	1
Interest expense	7
Total Expenses	881
Net Investment Income	1,659
Net Realized Gain (Loss):	
Investments in securities	21
Investments in Affiliates	(17)
Exchange-traded or centrally cleared financial derivative instruments	59
Over the counter financial derivative instruments	4,931
Foreign currency	772
Net Realized Gain	5,766
Net Change in Unrealized Appreciation (Depreciation):	
Investments in securities	(1,974)
Investments in Affiliates	(211)
Exchange-traded or centrally cleared financial derivative instruments	1,517
Over the counter financial derivative instruments	3,053
Foreign currency assets and liabilities	399
Net Change in Unrealized Appreciation	2,784
Net Gain	8,550
Net Increase in Net Assets Resulting from Operations	$ 10,209

Statements of Changes in Net Assets PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

(Amounts in thousands†)	Year Ended December 31, 2014	Year Ended December 31, 2013
Increase (Decrease) in Net Assets from:		
Operations:		
Net investment income	$ 1,659	$ 1,445
Net realized gain	5,766	938
Net change in unrealized appreciation (depreciation)	2,784	(2,045)
Net increase in net assets resulting from operations	10,209	338
Distributions to Shareholders:		
From net investment income		
Institutional Class	(5)	(0)
Administrative Class	(1,426)	(1,328)
Advisor Class	(294)	0
From net realized capital gains		
Institutional Class	(5)	(1)
Administrative Class	(540)	(3,817)
Advisor Class	(371)	0
Total Distributions	(2,641)	(5,146)
Portfolio Share Transactions:		
Net increase (decrease) resulting from Portfolio share transactions	86,172	(7,512)
Total Increase (Decrease) in Net Assets	93,740	(12,320)
Net Assets:		
Beginning of year	66,198	78,518
End of year*	$ 159,938	$ 66,198
* Including undistributed (overdistributed) net investment income of:	$ 3,900	$ (491)

† A zero balance may reflect actual amounts rounding to less than one thousand.
**See Note 12 in the Notes to Financial Statements.

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
INVESTMENTS IN SECURITIES 71.6%		
AUSTRALIA 0.9%		
CORPORATE BONDS & NOTES 0.4%		
Australia & New Zealand Banking Group Ltd.		
1.000% due 10/06/2016	$ 700	$ 702
MORTGAGE-BACKED SECURITIES 0.1%		
Puma Finance Pty. Ltd.		
3.055% due 08/22/2037	AUD 44	36
Torrens Trust		
3.062% due 10/19/2038	53	44
		80
SOVEREIGN ISSUES 0.4%		
New South Wales Treasury Corp.		
2.750% due 11/20/2025	122	119
Queensland Treasury Corp.		
4.250% due 07/21/2023	600	535
		654
Total Australia (Cost $1,493)		**1,436**
BRAZIL 0.3%		
CORPORATE BONDS & NOTES 0.3%		
Petrobras Global Finance BV		
3.123% due 03/17/2020	$ 200	181
3.250% due 03/17/2017	300	284
Total Brazil (Cost $500)		**465**
CANADA 1.1%		
CORPORATE BONDS & NOTES 0.3%		
Toronto-Dominion Bank		
0.695% due 07/02/2019	$ 500	500
SOVEREIGN ISSUES 0.8%		
Province of British Columbia		
4.300% due 06/18/2042	CAD 100	104
Province of Ontario		
1.900% due 09/08/2017	500	436
3.450% due 06/02/2045	100	89
3.500% due 06/02/2024	600	555
6.200% due 06/02/2031	100	121
		1,305
Total Canada (Cost $1,877)		**1,805**
CAYMAN ISLANDS 0.6%		
ASSET-BACKED SECURITIES 0.6%		
Atrium CDO Corp.		
1.332% due 11/16/2022	$ 300	300
Gallatin CLO Ltd.		
1.501% due 07/15/2023	200	200
Symphony CLO LP		
1.335% due 01/09/2023	500	498
Total Cayman Islands (Cost $1,000)		**998**
CHINA 0.1%		
CORPORATE BONDS & NOTES 0.1%		
CNOOC Curtis Funding Pty. Ltd.		
4.500% due 10/03/2023	$ 200	211
Total China (Cost $203)		**211**

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
DENMARK 0.0%		
CORPORATE BONDS & NOTES 0.0%		
Nykredit Realkredit A/S		
6.000% due 10/01/2029	DKK 1	$ 0
Total Denmark (Cost $0)		**0**
FRANCE 7.8%		
CORPORATE BONDS & NOTES 1.7%		
Banque PSA Finance S.A.		
4.250% due 02/25/2016	EUR 1,200	1,506
BPCE S.A.		
0.873% due 06/17/2017	$ 300	301
4.500% due 03/15/2025	500	489
Credit Agricole S.A.		
0.785% due 06/12/2017	400	401
		2,697
SOVEREIGN ISSUES 6.1%		
Caisse d'Amortissement de la Dette Sociale		
1.125% due 01/30/2017	200	201
3.375% due 03/20/2024	400	428
France Government Bond		
1.000% due 11/25/2018	EUR 900	1,129
1.750% due 11/25/2024	3,100	4,081
2.500% due 05/25/2030	600	838
3.250% due 05/25/2045	1,000	1,587
4.000% due 10/25/2038	200	347
4.500% due 04/25/2041	600	1,139
		9,750
Total France (Cost $12,279)		**12,447**
GERMANY 1.2%		
CORPORATE BONDS & NOTES 1.0%		
FMS Wertmanagement AoeR		
0.750% due 12/15/2017	GBP 200	309
Landwirtschaftliche Rentenbank		
4.250% due 01/24/2023	AUD 400	347
4.750% due 03/12/2019	NZD 1,200	960
		1,616
SOVEREIGN ISSUES 0.2%		
Republic of Germany		
0.100% due 04/15/2023 (c)	EUR 104	131
4.000% due 01/04/2037	100	185
		316
Total Germany (Cost $2,048)		**1,932**
GREECE 0.4%		
CORPORATE BONDS & NOTES 0.4%		
National Bank of Greece S.A.		
3.875% due 10/07/2016	EUR 500	620
Total Greece (Cost $669)		**620**
HONG KONG 0.1%		
CORPORATE BONDS & NOTES 0.1%		
CNOOC Finance Ltd.		
3.875% due 05/02/2022	$ 200	204
Total Hong Kong (Cost $196)		**204**

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
IRELAND 1.7%		
ASSET-BACKED SECURITIES 0.1%		
Race Point CLO Ltd.		
0.491% due 04/15/2020	$ 94	$ 94
CORPORATE BONDS & NOTES 1.4%		
Depfa ACS Bank		
3.875% due 11/14/2016	EUR 1,000	1,292
4.875% due 10/28/2015	$ 600	621
5.125% due 03/16/2037	200	252
		2,165
MORTGAGE-BACKED SECURITIES 0.2%		
German Residential Funding Ltd.		
1.231% due 08/27/2024	EUR 194	240
Total Ireland (Cost $2,640)		**2,499**
ITALY 13.5%		
ASSET-BACKED SECURITIES 0.1%		
Alba SPV SRL		
1.581% due 04/20/2040	EUR 132	160
CORPORATE BONDS & NOTES 1.5%		
Banca Carige SpA		
3.875% due 10/24/2018	600	799
Banca Monte dei Paschi di Siena SpA		
5.000% due 02/09/2019	100	136
Banco Popolare SC		
3.250% due 09/30/2016	300	371
3.500% due 03/14/2019	300	379
Telecom Italia SpA		
5.125% due 01/25/2016	600	759
		2,444
MORTGAGE-BACKED SECURITIES 0.5%		
Berica Residential MBS SRL		
0.383% due 03/31/2048	134	159
Claris ABS		
0.538% due 10/31/2060	462	554
Giovecca Mortgages SRL		
0.682% due 04/23/2048	137	166
		879
SOVEREIGN ISSUES 11.4%		
Italy Buoni Poliennali Del Tesoro		
3.750% due 09/01/2024	1,200	1,695
4.500% due 05/01/2023	800	1,181
4.500% due 03/01/2024	200	298
4.750% due 08/01/2023	4,800	7,220
4.750% due 09/01/2028	500	765
4.750% due 09/01/2044	1,300	2,040
5.500% due 09/01/2022	700	1,088
5.500% due 11/01/2022	2,300	3,580
Italy Government International Bond		
6.000% due 08/04/2028	GBP 200	383
		18,250
Total Italy (Cost $21,947)		**21,733**

		PRINCIPAL AMOUNT (000S)		MARKET VALUE (000S)
MEXICO 1.0%				
SOVEREIGN ISSUES 1.0%				
Mexico Government International Bond				
4.750% due 06/14/2018	MXN	12,100	$	819
7.500% due 06/03/2027		8,500		645
10.000% due 12/05/2024		890		79
Total Mexico (Cost $1,751)				**1,543**
NETHERLANDS 0.3%				
ASSET-BACKED SECURITIES 0.3%				
Cadogan Square CLO BV				
0.536% due 01/17/2023	EUR	175		209
Jubilee CDO BV				
0.487% due 09/20/2022		200		240
Total Netherlands (Cost $490)				**449**
NORWAY 0.3%				
SOVEREIGN ISSUES 0.3%				
Kommunalbanken A/S				
0.635% due 03/27/2017	$	400		403
Total Norway (Cost $400)				**403**
POLAND 2.3%				
SOVEREIGN ISSUES 2.3%				
Poland Government International Bond				
3.250% due 07/25/2025	PLN	9,300		2,809
4.000% due 10/25/2023		2,600		827
Total Poland (Cost $3,781)				**3,636**
PORTUGAL 0.3%				
CORPORATE BONDS & NOTES 0.3%				
Novo Banco S.A.				
3.375% due 02/17/2016	EUR	200		243
3.875% due 01/21/2015		100		121
5.000% due 05/14/2019		100		119
Total Portugal (Cost $524)				**483**
SLOVENIA 2.5%				
SOVEREIGN ISSUES 2.5%				
Slovenia Government International Bond				
1.750% due 10/09/2017	EUR	200		250
4.125% due 02/18/2019	$	500		525
4.700% due 11/01/2016	EUR	600		779
4.750% due 05/10/2018	$	1,400		1,501
5.250% due 02/18/2024		600		662
5.850% due 05/10/2023		300		341
Total Slovenia (Cost $4,046)				**4,058**
SPAIN 11.0%				
CORPORATE BONDS & NOTES 0.5%				
Ayt Cedulas Cajas Global				
0.186% due 02/22/2018	EUR	200		237
Banco Popular Espanol S.A.				
3.500% due 09/11/2017		100		130
11.500% due 10/10/2018 (d)		200		276
BPE Financiaciones S.A.				
2.875% due 05/19/2016		100		124
				767

		PRINCIPAL AMOUNT (000S)		MARKET VALUE (000S)
SOVEREIGN ISSUES 10.5%				
Spain Government International Bond				
2.750% due 10/31/2024	EUR	7,200	$	9,613
3.300% due 07/30/2016		900		1,138
3.800% due 04/30/2024		700		1,014
5.150% due 10/31/2028		200		325
5.400% due 01/31/2023		2,800		4,434
Xunta de Galicia				
6.131% due 04/03/2018		150		213
				16,737
Total Spain (Cost $17,713)				**17,504**
SUPRANATIONAL 0.3%				
CORPORATE BONDS & NOTES 0.3%				
European Investment Bank				
0.500% due 06/21/2023	AUD	500		309
0.500% due 08/10/2023		400		246
Total Supranational (Cost $581)				**555**
SWEDEN 0.3%				
CORPORATE BONDS & NOTES 0.2%				
Skandinaviska Enskilda Banken AB				
3.000% due 06/20/2018	SEK	1,500		209
Swedbank Hypotek AB				
3.750% due 12/20/2017		1,100		155
				364
SOVEREIGN ISSUES 0.1%				
Sweden Government International Bond				
4.250% due 03/12/2019		1,200		180
Total Sweden (Cost $612)				**544**
UNITED KINGDOM 8.9%				
ASSET-BACKED SECURITIES 0.2%				
Motor PLC				
0.650% due 08/25/2021	$	325		325
CORPORATE BONDS & NOTES 1.7%				
Barclays Bank PLC				
7.625% due 11/21/2022		600		657
Barclays PLC				
6.500% due 09/15/2019 (d)	EUR	200		238
HBOS PLC				
0.957% due 09/30/2016	$	1,200		1,197
LBG Capital PLC				
15.000% due 12/21/2019	GBP	300		644
				2,736
MORTGAGE-BACKED SECURITIES 1.8%				
Business Mortgage Finance PLC				
2.555% due 02/15/2041		185		283
Eurohome UK Mortgages PLC				
0.710% due 06/15/2044		167		247
Eurosail PLC				
0.717% due 06/10/2044		53		81
Fosse Master Issuer PLC				
2.658% due 10/18/2054		200		315
Granite Master Issuer PLC				
0.505% due 12/20/2054	$	100		98
Mansard Mortgages PLC				
1.210% due 12/15/2049	GBP	287		436

		PRINCIPAL AMOUNT (000S)		MARKET VALUE (000S)
Newgate Funding PLC				
0.712% due 12/01/2050	GBP	300	$	426
1.560% due 12/15/2050		385		579
RMAC Securities PLC				
0.710% due 06/12/2044		290		421
				2,886
SOVEREIGN ISSUES 5.2%				
United Kingdom Gilt				
2.250% due 09/07/2023		500		817
2.750% due 09/07/2024		700		1,187
3.250% due 01/22/2044		1,700		3,055
3.500% due 01/22/2045		200		377
4.250% due 06/07/2032		400		805
4.250% due 03/07/2036		100		204
4.250% due 12/07/2040		600		1,255
4.500% due 09/07/2034		300		628
				8,328
Total United Kingdom (Cost $13,531)				**14,275**
UNITED STATES 11.4%				
ASSET-BACKED SECURITIES 0.5%				
Amortizing Residential Collateral Trust				
0.750% due 07/25/2032	$	1		1
0.870% due 10/25/2031		2		1
Amresco Residential Securities Corp. Mortgage Loan Trust				
1.110% due 06/25/2029		1		1
Bear Stearns Asset-Backed Securities Trust				
0.225% due 12/25/2036 ^		3		3
Credit Suisse First Boston Mortgage Securities Corp.				
0.775% due 01/25/2032		1		1
First Alliance Mortgage Loan Trust				
0.155% due 12/20/2027		1		1
IndyMac Home Equity Mortgage Loan Asset-Backed Trust				
0.620% due 08/25/2035		158		156
Long Beach Mortgage Loan Trust				
0.730% due 10/25/2034		12		12
Morgan Stanley Mortgage Loan Trust				
5.919% due 09/25/2046 ^		213		123
Residential Asset Securities Corp. Trust				
0.655% due 07/25/2032 ^		2		2
SLM Student Loan Trust				
0.734% due 10/25/2017		103		103
1.734% due 04/25/2023		454		466
				870
CORPORATE BONDS & NOTES 2.0%				
Ally Financial, Inc.				
2.750% due 01/30/2017		200		200
2.911% due 07/18/2016		100		99
4.625% due 06/26/2015		300		303
BA Covered Bond Issuer				
4.250% due 08/03/2017	EUR	200		264
International Lease Finance Corp.				
6.750% due 09/01/2016	$	200		213
Lehman Brothers Holdings, Inc.				
1.000% due 05/02/2018 ^		200		30
Navient Corp.				
5.000% due 04/15/2015		600		606
Sprint Communications, Inc.				
8.375% due 08/15/2017		400		433
Universal Health Services, Inc.				
7.125% due 06/30/2016		1,000		1,074
				3,222

See Accompanying Notes

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
MORTGAGE-BACKED SECURITIES 2.7%		
American Home Mortgage Investment Trust		
1.832% due 09/25/2045	$ 73	$ 71
Banc of America Mortgage Trust		
2.730% due 02/25/2036 ^	63	55
Bear Stearns Adjustable Rate Mortgage Trust		
2.475% due 08/25/2033	4	4
2.515% due 03/25/2035	6	6
2.580% due 03/25/2035	63	63
Bear Stearns ALT-A Trust		
0.330% due 02/25/2034	80	72
2.612% due 09/25/2035	59	50
2.655% due 03/25/2036 ^	107	79
2.667% due 11/25/2035 ^	52	41
2.677% due 08/25/2036 ^	65	48
Bear Stearns Structured Products, Inc.		
2.337% due 12/26/2046	48	38
Citigroup Commercial Mortgage Trust		
0.911% due 06/15/2033	400	401
Citigroup Mortgage Loan Trust, Inc.		
2.230% due 09/25/2035	11	11
2.280% due 09/25/2035	20	20
Countrywide Alternative Loan Trust		
0.375% due 03/20/2046	108	86
0.450% due 02/25/2037	94	74
1.113% due 12/25/2035	126	106
1.613% due 11/25/2035	23	19
5.250% due 06/25/2035 ^	17	16
Countrywide Home Loan Mortgage Pass-Through Trust		
0.400% due 05/25/2035	44	37
0.490% due 03/25/2035	94	75
0.500% due 02/25/2035	11	10
2.418% due 11/25/2034	14	13
2.589% due 08/25/2034	43	38
Credit Suisse First Boston Mortgage Securities Corp.		
6.500% due 04/25/2033	1	1
Credit Suisse Mortgage Capital Mortgage-Backed Trust		
5.863% due 02/25/2037 ^	229	127
DBUBS Mortgage Trust		
0.247% due 11/10/2046 (a)	400	7
1.374% due 11/10/2046 (a)	932	22
GSR Mortgage Loan Trust		
2.629% due 01/25/2036 ^	120	112
HarborView Mortgage Loan Trust		
2.483% due 05/19/2033	6	6
IndyMac Mortgage Loan Trust		
0.410% due 07/25/2035	38	35
JPMorgan Mortgage Trust		
2.140% due 07/27/2037	167	145
2.585% due 02/25/2036 ^	71	63
Mellon Residential Funding Corp. Mortgage Pass-Through Trust		
0.601% due 12/15/2030	10	10
Merrill Lynch Mortgage Investors Trust		
1.582% due 10/25/2035	18	17
Morgan Stanley Bank of America Merrill Lynch Trust		
1.480% due 12/15/2048 (a)	1,266	79
Morgan Stanley Capital Trust		
0.308% due 07/12/2044	165	165
Morgan Stanley Mortgage Loan Trust		
2.180% due 06/25/2036	79	76
Residential Accredit Loans, Inc. Trust		
0.320% due 02/25/2047	46	27
0.350% due 06/25/2046	383	174
0.380% due 04/25/2046	105	53

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Structured Adjustable Rate Mortgage Loan Trust		
2.467% due 04/25/2034	$ 12	$ 12
Structured Asset Mortgage Investments Trust		
0.380% due 05/25/2046	18	13
0.390% due 05/25/2036	138	104
0.390% due 09/25/2047	198	159
0.400% due 05/25/2045	33	30
0.744% due 07/19/2034	5	5
0.824% due 09/19/2032	4	3
0.864% due 03/19/2034	9	9
1.613% due 08/25/2047	56	50
TBW Mortgage-Backed Trust		
5.970% due 09/25/2036	189	38
Thornburg Mortgage Securities Trust		
1.420% due 06/25/2047	27	24
1.794% due 06/25/2047	44	40
5.750% due 06/25/2047	23	22
Wachovia Mortgage Loan Trust LLC		
2.476% due 10/20/2035 ^	251	236
WaMu Mortgage Pass-Through Certificates Trust		
0.480% due 01/25/2045	180	168
1.093% due 06/25/2046	64	59
1.113% due 02/25/2046	145	138
1.921% due 02/27/2034	8	8
2.143% due 03/25/2033	18	18
2.396% due 03/25/2035	108	108
Washington Mutual Mortgage Pass-Through Certificates Trust		
1.053% due 07/25/2046 ^	39	23
Wells Fargo Mortgage-Backed Securities Trust		
2.577% due 03/25/2036	133	129
2.607% due 04/25/2036	13	13
2.607% due 07/25/2036 ^	98	95
2.615% due 06/25/2035	43	43
2.616% due 03/25/2035	145	148
		4,247
MUNICIPAL BONDS & NOTES 0.3%		
Los Angeles County, California Public Works Financing Authority Revenue Bonds, (BABs), Series 2010		
7.488% due 08/01/2033	200	266
Pasadena Public Financing Authority, California Revenue Bonds, (BABs), Series 2010		
7.148% due 03/01/2043	100	134
		400
	SHARES	
PREFERRED SECURITIES 0.0%		
Navient Corp. CPI Linked Security		
3.708% due 01/16/2018	900	22
	PRINCIPAL AMOUNT (000S)	
U.S. GOVERNMENT AGENCIES 2.3%		
Fannie Mae		
0.290% due 03/25/2034	$ 10	10
0.320% due 08/25/2034	7	7
0.520% due 09/25/2042	25	25
0.600% due 11/25/2040	150	150
0.620% due 11/25/2040	203	205
0.750% due 06/25/2041	403	408
1.315% due 10/01/2044	24	25
2.002% due 12/01/2034	8	9
2.192% due 05/25/2035	23	23
2.485% due 11/01/2034	61	66

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
3.500% due 11/01/2021	$ 95	$ 101
5.480% due 07/01/2018	200	216
6.000% due 07/25/2044	16	18
Freddie Mac		
0.661% due 12/15/2032	14	14
0.761% due 12/15/2037	44	45
1.315% due 10/25/2044	71	71
2.250% due 03/01/2035	14	14
2.310% due 04/01/2035	122	130
2.366% due 02/01/2029	6	6
Ginnie Mae		
1.625% due 04/20/2028 - 06/20/2030	3	3
2.000% due 04/20/2030 - 05/20/2030	2	2
NCUA Guaranteed Notes		
0.627% due 11/05/2020	1,385	1,394
0.717% due 12/08/2020	342	345
Tennessee Valley Authority		
6.250% due 12/15/2017	400	459
		3,746
U.S. TREASURY OBLIGATIONS 3.6%		
U.S. Treasury Bonds		
5.250% due 02/15/2029 (i)	100	135
U.S. Treasury Inflation Protected Securities (c)		
0.125% due 01/15/2022 (i)	420	409
0.125% due 07/15/2022	1,962	1,915
0.125% due 01/15/2023 (g)	2,366	2,293
0.125% due 07/15/2024	700	676
2.375% due 01/15/2025 (g)	126	148
U.S. Treasury Notes		
1.750% due 05/15/2023 (i)	100	97
2.500% due 05/15/2024 (g)(i)	100	103
		5,776
Total United States (Cost $18,379)		**18,283**
SHORT-TERM INSTRUMENTS 5.3%		
CERTIFICATES OF DEPOSIT 0.7%		
Credit Suisse		
0.440% due 01/12/2015	$ 100	100
0.608% due 01/28/2016	400	400
Intesa Sanpaolo SpA		
1.610% due 04/11/2016	300	301
1.650% due 04/07/2015	300	301
		1,102
REPURCHASE AGREEMENTS (e) 0.6%		
		1,003
MEXICO TREASURY BILLS 4.0%		
3.258% due 02/05/2015 - 04/01/2015 (b)	MXN 94,400	6,375
Total Short-Term Instruments (Cost $9,313)		**8,480**
Total Investments in Securities (Cost $115,974)		**114,563**

	SHARES	MARKET VALUE (000S)
INVESTMENTS IN AFFILIATES 25.4%		
SHORT-TERM INSTRUMENTS 25.4%		
CENTRAL FUNDS USED FOR CASH MANAGEMENT PURPOSES 25.4%		
PIMCO Short-Term Floating NAV Portfolio	1,683	$ 17
PIMCO Short-Term Floating NAV Portfolio III	4,099,483	40,634
Total Short-Term Instruments (Cost $40,862)		**40,651**
Total Investments in Affiliates (Cost $40,862)		**40,651**
Total Investments 97.0% (Cost $156,836)		$ **155,214**
Financial Derivative Instruments (f)(h) 1.4% (Cost or Premiums, net $(541))		**2,256**
Other Assets and Liabilities, net 1.6%		**2,468**
Net Assets 100.0%		$ **159,938**

NOTES TO SCHEDULE OF INVESTMENTS (AMOUNTS IN THOUSANDS*, EXCEPT NUMBER OF CONTRACTS):

* A zero balance may reflect actual amounts rounding to less than one thousand.

^ Security is in default.

(a) Interest only security.

(b) Coupon represents a weighted average yield to maturity.

(c) Principal amount of security is adjusted for inflation.

(d) Perpetual maturity; date shown, if applicable, represents next contractual call date.

BORROWINGS AND OTHER FINANCING TRANSACTIONS

(e) REPURCHASE AGREEMENTS:

Counterparty	Lending Rate	Settlement Date	Maturity Date	Principal Amount	Collateralized By	Collateral Received, at Value	Repurchase Agreements, at Value	Repurchase Agreement Proceeds to be Received [1]
SSB	0.000%	12/31/2014	01/02/2015	$ 1,003	Fannie Mae 2.260% due 10/17/2022	$ (1,028)	$ 1,003	$ 1,003
Total Repurchase Agreements						**$ (1,028)**	**$ 1,003**	**$ 1,003**

[1] Includes accrued interest.

As of December 31, 2014, there were no open reverse repurchase agreements or sale-buyback transactions. The average amount of borrowings outstanding during the period ended December 31, 2014 was $1,230 at a weighted average interest rate of 0.476%.

SHORT SALES:

Description	Coupon	Maturity Date	Principal Amount	Proceeds	Payable for Short Sales
Fannie Mae	4.500%	01/01/2045	$ 12,000	$ (12,998)	$ (13,025)
Total Short Sales				**$ (12,998)**	**$ (13,025)**

BORROWINGS AND OTHER FINANCING TRANSACTIONS SUMMARY

The following is a summary by counterparty of the market value of Borrowings and Other Financing Transactions and collateral (received) as of December 31, 2014:

Counterparty	Repurchase Agreement Proceeds to be Received	Payable for Reverse Repurchase Agreements	Payable for Sale-Buyback Transactions	Payable for Short Sales	Total Borrowings and Other Financing Transactions	Collateral (Received)	Net Exposure [(2)]
Global/Master Repurchase Agreement							
SSB	$ 1,003	$ 0	$ 0	$ 0	$ 1,003	$ (1,028)	$ (25)
Total Borrowings and Other Financing Transactions	**$ 1,003**	**$ 0**	**$ 0**	**$ 0**			

(2) Net Exposure represents the net receivable/(payable) that would be due from/to the counterparty in the event of default. Exposure from borrowings and other financing transactions can only be netted across transactions governed under the same master agreement with the same legal entity. See Note 7, Principal Risks, in the Notes to Financial Statements for more information regarding master netting arrangements.

(f) FINANCIAL DERIVATIVE INSTRUMENTS: EXCHANGE-TRADED OR CENTRALLY CLEARED

FUTURES CONTRACTS:

Description	Type	Expiration Month	# of Contracts	Unrealized Appreciation/ (Depreciation)	Variation Margin Asset	Variation Margin Liability
10-Year Deliverable Interest Rate Swap March Futures	Short	03/2015	55	$ (40)	$ 0	$ (7)
Australia Government 3-Year Bond March Futures	Long	03/2015	20	5	5	0
Australia Government 10-Year Bond March Futures	Long	03/2015	16	5	15	0
Call Options Strike @ EUR 152.500 on Euro-Bund 10-Year Bond March Futures	Long	02/2015	18	48	1	0
Call Options Strike @ EUR 153.500 on Euro-Bund 10-Year Bond March Futures	Short	02/2015	18	(39)	0	0
Call Options Strike @ EUR 155.000 on Euro-Bund 10-Year Bond March Futures	Short	02/2015	18	(24)	0	0
Canada Government 10-Year Bond March Futures	Short	03/2015	25	(4)	0	(13)
Euro-Bobl March Futures	Long	03/2015	13	12	0	0
Euro-Bund 10-Year Bond March Futures	Long	03/2015	65	134	4	0
Euro-Buxl 30-Year Bond March Futures	Short	03/2015	2	(14)	0	(1)
Euro-OAT France Government 10-Year Bond March Futures	Long	03/2015	20	40	2	0
Japan Government 10-Year Bond March Futures	Long	03/2015	4	24	3	0
U.S. Treasury 10-Year Note March Futures	Long	03/2015	11	4	2	0
U.S. Treasury 30-Year Bond March Futures	Long	03/2015	3	(4)	1	0
United Kingdom Long Gilt March Futures	Long	03/2015	27	110	25	0
Total Futures Contracts				**$ 256**	**$ 58**	**$ (21)**

SWAP AGREEMENTS:

INTEREST RATE SWAPS

Pay/Receive Floating Rate	Floating Rate Index	Fixed Rate	Maturity Date	Notional Amount	Market Value	Unrealized Appreciation/ (Depreciation)	Variation Margin Asset	Variation Margin Liability
Pay	3-Month PLN-WIBOR	2.250%	03/18/2025	PLN 500	$ 0	$ 2	$ 0	$ 0
Pay	3-Month PLN-WIBOR	2.250%	06/17/2025	500	0	1	0	0
Receive	3-Month USD-LIBOR	1.250%	03/18/2017	$ 1,600	(6)	(4)	0	0
Receive	3-Month USD-LIBOR	0.800%	09/25/2017	57,000	803	9	1	0
Pay	3-Month USD-LIBOR	3.000%	06/20/2023	2,800	32	188	2	0
Pay	3-Month USD-LIBOR	4.500%	06/19/2024	400	29	31	0	0
Pay	3-Month USD-LIBOR	2.750%	06/17/2025	3,100	93	6	3	0
Pay	6-Month AUD-BBR-BBSW	3.250%	12/17/2019	AUD 3,400	74	62	15	0
Pay	6-Month AUD-BBR-BBSW	3.000%	06/17/2020	2,300	24	14	11	0
Pay	6-Month EUR-EURIBOR	1.250%	03/18/2025	EUR 1,200	58	15	2	0
Receive	6-Month EUR-EURIBOR	2.000%	03/18/2045	3,000	(484)	(404)	0	(12)
Receive	6-Month GBP-LIBOR	1.750%	12/17/2016	GBP 7,100	(125)	(148)	0	(3)
Receive	6-Month GBP-LIBOR	1.500%	12/17/2016	2,900	(52)	(37)	0	(1)
Receive	6-Month GBP-LIBOR	1.500%	03/18/2017	500	(8)	(9)	0	0
Receive	6-Month GBP-LIBOR	2.250%	12/17/2019	1,400	(86)	(83)	0	(4)
Pay	6-Month GBP-LIBOR	2.750%	03/18/2025	3,300	417	158	25	0
Receive	6-Month JPY-LIBOR	0.500%	09/17/2021	JPY 850,000	(95)	(43)	0	(2)
Pay	6-Month JPY-LIBOR	1.500%	06/19/2033	2,180,000	1,387	1,184	47	(9)
Pay	6-Month JPY-LIBOR	1.500%	12/20/2044	700,000	245	229	19	0
Pay	28-Day MXN-TIIE	4.300%	09/01/2016	MXN 206,000	(19)	(12)	2	0
Pay	28-Day MXN-TIIE	4.310%	09/06/2016	55,100	(5)	4	1	0
Pay	28-Day MXN-TIIE	5.010%	10/10/2019	18,200	(16)	(5)	3	0
Pay	28-Day MXN-TIIE	5.630%	10/11/2021	5,800	(2)	(1)	2	0

Pay/Receive Floating Rate	Floating Rate Index	Fixed Rate	Maturity Date	Notional Amount	Market Value	Unrealized Appreciation/ (Depreciation)	Variation Margin Asset	Variation Margin Liability
Pay	28-Day MXN-TIIE	5.620%	11/09/2021	MXN 4,000	$ (2)	$ (2)	$ 1	$ 0
Pay	28-Day MXN-TIIE	5.560%	11/11/2021	1,600	(1)	(1)	0	0
Pay	28-Day MXN-TIIE	6.600%	05/21/2029	2,800	1	1	1	0
					$ 2,262	$ 1,155	$ 135	$ (31)
Total Swap Agreements					**$ 2,262**	**$ 1,155**	**$ 135**	**$ (31)**

FINANCIAL DERIVATIVE INSTRUMENTS: EXCHANGE-TRADED OR CENTRALLY CLEARED SUMMARY

The following is a summary of the market value and variation margin of Exchange-Traded or Centrally Cleared Financial Derivative Instruments as of December 31, 2014:

(g) Securities with an aggregate market value of $672 and cash of $1,256 have been pledged as collateral for exchange-traded and centrally cleared financial derivative instruments as of December 31, 2014. See Note 7, Principal Risks, in the Notes to Financial Statements for more information regarding master netting arrangements.

	Financial Derivative Assets				Financial Derivative Liabilities			
	Market Value	Variation Margin Asset			Market Value	Variation Margin Liability		
	Purchased Options	Futures	Swap Agreements	Total	Written Options	Futures	Swap Agreements	Total
Total Exchange-Traded or Centrally Cleared	**$ 0**	**$ 58**	**$ 135**	**$ 193**	**$ 0**	**$ (21)**	**$ (31)**	**$ (52)**

(h) FINANCIAL DERIVATIVE INSTRUMENTS: OVER THE COUNTER

FORWARD FOREIGN CURRENCY CONTRACTS:

Counterparty	Settlement Month	Currency to be Delivered	Currency to be Received	Unrealized Appreciation/ (Depreciation) Asset	Unrealized Appreciation/ (Depreciation) Liability
AZD	01/2015	AUD 3,433	$ 2,936	$ 134	$ 0
BOA	01/2015	BRL 4,469	1,682	1	0
	01/2015	EUR 5,904	7,277	133	0
	01/2015	ILS 929	248	10	0
	01/2015	JPY 366,838	3,110	47	0
	01/2015	PLN 1,687	498	22	0
	01/2015	SEK 4,230	569	27	0
	01/2015	$ 1,691	BRL 4,469	3	(13)
	01/2015	3,136	EUR 2,525	0	(81)
	01/2015	11,534	GBP 7,383	0	(28)
	02/2015	EUR 2,323	$ 2,825	13	0
	02/2015	GBP 7,383	11,531	27	0
	02/2015	MYR 2,489	760	52	0
	02/2015	$ 220	INR 13,770	0	(4)
	02/2015	2,963	MYR 9,802	0	(177)
	07/2015	BRL 2,334	$ 844	9	0
	09/2015	$ 70	CNY 430	0	(2)
BPS	01/2015	BRL 6,586	$ 2,523	46	0
	01/2015	CAD 1,446	1,267	22	0
	01/2015	EUR 308	381	8	0
	01/2015	GBP 273	427	1	0
	01/2015	$ 2,479	BRL 6,586	0	(2)
	01/2015	40,549	EUR 33,270	0	(291)
	01/2015	143	GBP 91	0	(1)
	01/2015	796	ILS 3,086	0	(5)
	02/2015	EUR 33,270	$ 40,562	291	0
	02/2015	MXN 13,147	970	81	0
	02/2015	MYR 494	150	10	0
	02/2015	$ 200	INR 12,490	0	(4)
BRC	01/2015	PLN 3,085	$ 909	39	0
	01/2015	$ 90	ILS 342	0	(2)
	02/2015	MXN 3,783	$ 279	23	0
	02/2015	MYR 494	150	10	0
	02/2015	$ 334	BRL 863	0	(11)
	02/2015	100	INR 6,260	0	(2)
	02/2015	915	MXN 12,409	0	(75)
	09/2015	154	CNY 941	0	(5)

Counterparty	Settlement Month	Currency to be Delivered		Currency to be Received		Unrealized Appreciation/ (Depreciation) Asset	Liability
CBK	01/2015	EUR	15,023	$	18,748	$ 569	$ 0
	01/2015	PLN	1,094		321	12	0
	01/2015	SGD	2,413		1,863	42	0
	01/2015	$	14,747	EUR	12,083	0	(126)
	02/2015	EUR	11,657	$	14,226	117	0
	02/2015	MYR	187		57	4	0
	02/2015	$	220	INR	13,774	0	(4)
	02/2015		238	MXN	3,475	0	(3)
	09/2015		577	CNY	3,492	0	(22)
DUB	01/2015	BRL	3,591	$	1,360	9	0
	01/2015	$	1,396	BRL	3,591	0	(45)
	01/2015		460	ILS	1,743	0	(13)
	02/2015	BRL	2,343	$	882	8	0
	02/2015	INR	20,512		326	4	0
	07/2015	BRL	3,591		1,324	39	0
FBF	01/2015	GBP	3,399		5,331	33	0
	02/2015	INR	17,992		286	4	0
GLM	01/2015	EUR	29,104		36,331	1,113	0
	01/2015	GBP	3,399		5,331	32	0
	01/2015	ILS	923		246	10	0
	01/2015	NZD	1,175		919	3	0
	01/2015	PLN	1,999		595	31	0
	01/2015	$	244	EUR	198	0	(4)
	01/2015		309	JPY	37,200	2	0
	02/2015	MXN	37,949	$	2,859	292	0
	02/2015	MYR	1,583		480	30	0
HUS	01/2015	AUD	1,113		930	21	0
	01/2015	ILS	3,605		957	32	0
	01/2015	$	455	AUD	551	0	(5)
	01/2015		588	JPY	69,600	0	(7)
	01/2015		1,387	SGD	1,820	0	(14)
	01/2015	ZAR	744	$	66	2	0
	02/2015	BRL	199		74	0	0
	02/2015	MXN	53,206		4,027	430	0
	02/2015	$	70	INR	4,383	0	(1)
	04/2015	MXN	1,387	$	96	2	0
JPM	01/2015	BRL	3,375		1,275	5	0
	01/2015	JPY	189,400		1,564	0	(17)
	01/2015	SGD	317		241	2	0
	01/2015	$	1,294	BRL	3,375	2	(26)
	01/2015		2,807	EUR	2,264	0	(68)
	01/2015		70	ILS	266	0	(2)
	01/2015		162	JPY	19,000	0	(3)
	02/2015	HKD	251	$	32	0	0
	02/2015	JPY	402,638		3,345	0	(17)
	02/2015	MYR	494		150	10	0
	02/2015	$	1,792	INR	113,373	0	(15)
	02/2015		465	MXN	6,839	0	(2)
	07/2015	BRL	2,212	$	792	4	(4)
	09/2015	$	106	CNY	640	0	(4)
MSB	01/2015	BRL	5,842	$	2,182	4	(20)
	01/2015	$	2,190	BRL	5,842	9	(1)
	01/2015		1,245	CAD	1,446	0	0
	01/2015		239	JPY	27,800	0	(7)
	02/2015	CAD	1,446	$	1,244	0	0
	02/2015	MXN	9,328		660	29	0
	04/2015	$	2,037	BRL	5,612	23	0
	09/2015		70	CNY	431	0	(2)
RBC	02/2015	MXN	22,717	$	1,622	85	0
SOG	01/2015	PLN	4,944		1,472	78	0
UAG	01/2015	BRL	344		130	1	0
	01/2015	GBP	402		628	1	0
	01/2015	$	3,268	AUD	3,995	0	(6)
	01/2015		130	BRL	344	0	0
	01/2015		685	SGD	900	0	(6)
	02/2015	AUD	3,821	$	3,119	5	0
	02/2015	CNY	5,587		904	0	(2)
	02/2015	GBP	527		818	0	(3)
	02/2015	MYR	3,947		1,173	51	0
	03/2015	CHF	1,900		1,971	58	0
Total Forward Foreign Currency Contracts						**$ 4,217**	**$ (1,152)**

PURCHASED OPTIONS:

FOREIGN CURRENCY OPTIONS

Counterparty	Description	Strike Price	Expiration Date	Notional Amount	Cost	Market Value
CBK	Call - OTC USD versus JPY	JPY 114.000	02/03/2015	$ 1,100	$ 21	$ 54
FBF	Call - OTC USD versus JPY	114.000	02/03/2015	1,100	21	55
					$ 42	$ 109

INTEREST RATE SWAPTIONS

Counterparty	Description	Floating Rate Index	Pay/Receive Floating Rate	Exercise Rate	Expiration Date	Notional Amount	Cost	Market Value
BOA	Put - OTC 30-Year Interest Rate Swap	3-Month USD-LIBOR	Receive	3.450%	09/21/2015	$ 1,000	$ 81	$ 10
GLM	Call - OTC 10-Year Interest Rate Swap	6-Month EUR-EURIBOR	Pay	1.000%	11/26/2015	EUR 2,500	41	70
							$ 122	$ 80
Total Purchased Options							**$ 164**	**$ 189**

WRITTEN OPTIONS:

CREDIT DEFAULT SWAPTIONS ON CREDIT INDICES

Counterparty	Description	Buy/Sell Protection	Exercise Rate	Expiration Date	Notional Amount	Premiums (Received)	Market Value
BOA	Put - OTC CDX.IG-23 5-Year Index	Sell	1.000%	03/18/2015	$ 1,800	$ (4)	$ (1)
BPS	Call - OTC iTraxx Europe 22 5-Year Index	Buy	0.600%	01/21/2015	EUR 400	(1)	(1)
	Put - OTC iTraxx Europe 22 5-Year Index	Sell	0.900%	01/21/2015	400	(1)	0
BRC	Call - OTC iTraxx Europe 22 5-Year Index	Buy	0.500%	03/18/2015	100	0	0
	Put - OTC iTraxx Europe 22 5-Year Index	Sell	0.950%	03/18/2015	100	0	0
CBK	Call - OTC iTraxx Europe 22 5-Year Index	Buy	0.600%	01/21/2015	900	(1)	(1)
	Put - OTC iTraxx Europe 22 5-Year Index	Sell	0.900%	01/21/2015	500	(1)	0
	Put - OTC iTraxx Europe 22 5-Year Index	Sell	1.000%	01/21/2015	400	(1)	0
	Call - OTC iTraxx Europe 22 5-Year Index	Buy	0.550%	02/18/2015	200	0	0
	Put - OTC iTraxx Europe 22 5-Year Index	Sell	0.850%	02/18/2015	200	0	0
GST	Call - OTC iTraxx Europe 22 5-Year Index	Buy	0.600%	01/21/2015	500	(1)	(1)
	Put - OTC iTraxx Europe 22 5-Year Index	Sell	1.000%	01/21/2015	500	(1)	0
	Put - OTC iTraxx Europe 22 5-Year Index	Sell	1.100%	01/21/2015	200	(1)	0
	Put - OTC iTraxx Europe 22 5-Year Index	Sell	1.200%	01/21/2015	900	(2)	0
JPM	Call - OTC iTraxx Europe 22 5-Year Index	Buy	0.600%	01/21/2015	500	(1)	(1)
	Put - OTC iTraxx Europe 22 5-Year Index	Sell	1.000%	01/21/2015	500	(1)	0
SOG	Call - OTC iTraxx Europe 22 5-Year Index	Buy	0.600%	01/21/2015	300	(1)	0
	Put - OTC iTraxx Europe 22 5-Year Index	Sell	0.900%	01/21/2015	300	0	0
						$ (17)	$ (5)

FOREIGN CURRENCY OPTIONS

Counterparty	Description	Strike Price	Expiration Date	Notional Amount	Premiums (Received)	Market Value
BOA	Call - OTC USD versus BRL	BRL 2.640	06/10/2015	$ 300	$ (8)	$ (19)
	Put - OTC USD versus JPY	JPY 93.000	09/08/2016	1,000	(18)	(6)
	Put - OTC USD versus JPY	80.000	02/18/2019	400	(22)	(6)
	Put - OTC USD versus JPY	80.000	02/28/2019	200	(10)	(3)
BPS	Call - OTC USD versus BRL	BRL 2.700	05/29/2015	400	(10)	(20)
	Call - OTC USD versus MXN	MXN 15.450	03/17/2015	600	(6)	(5)
BRC	Put - OTC USD versus JPY	JPY 91.000	02/18/2016	300	(7)	(1)
	Put - OTC USD versus JPY	94.750	04/21/2016	600	(18)	(2)
	Put - OTC USD versus JPY	97.000	09/08/2016	1,000	(22)	(9)
CBK	Call - OTC USD versus BRL	BRL 2.600	03/11/2015	200	(4)	(10)
	Call - OTC USD versus BRL	2.740	06/08/2015	300	(7)	(13)
	Call - OTC USD versus JPY	JPY 116.000	02/03/2015	1,100	(13)	(38)
	Call - OTC USD versus JPY	118.000	02/03/2015	1,100	(8)	(24)
	Put - OTC USD versus JPY	93.000	04/21/2016	200	(5)	(1)
	Put - OTC USD versus JPY	95.000	09/08/2016	1,600	(35)	(11)
	Put - OTC USD versus JPY	96.000	09/08/2016	500	(12)	(4)

Counterparty	Description		Strike Price	Expiration Date	Notional Amount	Premiums (Received)	Market Value
DUB	Put - OTC USD versus JPY	JPY	92.000	05/19/2016	$ 500	$ (12)	$ (2)
FBF	Call - OTC USD versus JPY		116.000	02/03/2015	1,100	(14)	(38)
	Call - OTC USD versus JPY		118.000	02/03/2015	1,100	(9)	(24)
GLM	Call - OTC USD versus BRL	BRL	2.650	05/29/2015	100	(3)	(6)
	Call - OTC USD versus BRL		2.710	06/02/2015	200	(6)	(10)
	Put - OTC USD versus JPY	JPY	91.000	02/18/2016	200	(5)	0
JPM	Put - OTC USD versus JPY		91.000	02/18/2016	800	(20)	(2)
MSB	Call - OTC USD versus BRL	BRL	2.650	06/08/2015	200	(6)	(12)
	Call - OTC USD versus MXN	MXN	15.450	03/17/2015	700	(7)	(5)
UAG	Call - OTC USD versus BRL	BRL	2.640	06/15/2015	400	(11)	(26)
						$ (298)	$ (297)

INTEREST RATE SWAPTIONS

Counterparty	Description	Floating Rate Index	Pay/Receive Floating Rate	Exercise Rate	Expiration Date	Notional Amount	Premiums (Received)	Market Value
BOA	Put - OTC 5-Year Interest Rate Swap	3-Month USD-LIBOR	Pay	2.500%	09/21/2015	$ 4,000	$ (76)	$ (27)
GLM	Call - OTC 5-Year Interest Rate Swap	6-Month GBP-LIBOR	Receive	1.650%	01/22/2015	GBP 900	(6)	(14)
	Put - OTC 5-Year Interest Rate Swap	6-Month GBP-LIBOR	Pay	2.000%	01/22/2015	900	(5)	0
	Call - OTC 30-Year Interest Rate Swap	6-Month EUR-EURIBOR	Receive	1.564%	11/26/2015	EUR 1,000	(41)	(81)
							$ (128)	$ (122)
Total Written Options							**$ (443)**	**$ (424)**

TRANSACTIONS IN WRITTEN CALL AND PUT OPTIONS FOR THE PERIOD ENDED DECEMBER 31, 2014:

	# of Contracts	Notional Amount in $	Notional Amount in AUD	Notional Amount in EUR	Notional Amount in GBP	Premiums
Balance at Beginning of Period	9	$ 12,300	AUD 0	EUR 3,600	GBP 0	$ (117)
Sales	171	43,900	1,000	12,900	1,800	(614)
Closing Buys	0	(1,400)	0	0	0	23
Expirations	(121)	(28,200)	(1,000)	(6,800)	0	195
Exercised	(59)	(5,700)	0	(1,800)	0	70
Balance at End of Period	0	$ 20,900	AUD 0	EUR 7,900	GBP 1,800	$ (443)

SWAP AGREEMENTS:

CREDIT DEFAULT SWAPS ON CORPORATE ISSUES - BUY PROTECTION (1)

Counterparty	Reference Entity	Fixed Deal (Pay) Rate	Maturity Date	Implied Credit Spread at December 31, 2014 (3)	Notional Amount (4)	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value Asset	Liability
BOA	Universal Health Services, Inc.	(1.250%)	06/20/2016	0.279%	$ 1,000	$ 0	$ (15)	$ 0	$ (15)
CBK	Navient Corp.	(5.000%)	06/20/2015	0.508%	600	(18)	5	0	(13)
						$ (18)	$ (10)	$ 0	$ (28)

CREDIT DEFAULT SWAPS ON SOVEREIGN ISSUES - SELL PROTECTION (2)

Counterparty	Reference Entity	Fixed Deal Receive Rate	Maturity Date	Implied Credit Spread at December 31, 2014 (3)	Notional Amount (4)	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value Asset	Liability
BOA	Brazil Government International Bond	1.000%	03/20/2019	1.681%	$ 300	$ (15)	$ 7	$ 0	$ (8)
	Brazil Government International Bond	1.000%	09/20/2019	1.862%	100	(3)	(1)	0	(4)
BPS	Italy Government International Bond	1.000%	09/20/2019	1.155%	200	0	(2)	0	(2)
BRC	Italy Government International Bond	1.000%	09/20/2019	1.155%	300	1	(3)	0	(2)
CBK	Brazil Government International Bond	1.000%	03/20/2019	1.681%	100	(4)	1	0	(3)
DUB	Brazil Government International Bond	1.000%	03/20/2019	1.681%	300	(13)	5	0	(8)
	Italy Government International Bond	1.000%	03/20/2019	1.069%	600	(11)	10	0	(1)
	Italy Government International Bond	1.000%	06/20/2019	1.114%	100	(1)	1	0	0
	Italy Government International Bond	1.000%	09/20/2019	1.155%	100	0	(1)	0	(1)
GST	Greece Government International Bond	1.000%	12/20/2015	18.551%	100	(7)	(7)	0	(14)

Counterparty	Reference Entity	Fixed Deal Receive Rate	Maturity Date	Implied Credit Spread at December 31, 2014 (3)	Notional Amount (4)	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value Asset	Liability
HUS	Brazil Government International Bond	1.000%	06/20/2019	1.777%	$ 100	$ (2)	$ (1)	$ 0	$ (3)
	Brazil Government International Bond	1.000%	09/20/2019	1.862%	100	(3)	(1)	0	(4)
	Italy Government International Bond	1.000%	03/20/2019	1.069%	100	(3)	2	0	(1)
	Italy Government International Bond	1.000%	09/20/2019	1.155%	100	0	(1)	0	(1)
JPM	Brazil Government International Bond	1.000%	03/20/2019	1.681%	200	(8)	2	0	(6)
MYC	Brazil Government International Bond	1.000%	03/20/2019	1.681%	100	(4)	2	0	(2)
	Brazil Government International Bond	1.000%	09/20/2019	1.862%	100	(3)	(1)	0	(4)
						$ (76)	$ 12	$ 0	$ (64)

CREDIT DEFAULT SWAPS ON CREDIT INDICES - BUY PROTECTION [(1)]

Counterparty	Index/Tranches	Fixed Deal (Pay) Rate	Maturity Date	Notional Amount (4)	Premiums Paid	Unrealized (Depreciation)	Swap Agreements, at Value (5) Asset	Liability
CBK	iTraxx Europe Subordinated 22 5-Year Index	(1.000%)	12/20/2019	EUR 400	$ 14	$ (3)	$ 11	$ 0
GST	iTraxx Europe Subordinated 22 5-Year Index	(1.000%)	12/20/2019	200	7	(1)	6	0
					$ 21	$ (4)	$ 17	$ 0

(1) If the Portfolio is a buyer of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Portfolio will either (i) receive from the seller of protection an amount equal to the notional amount of the swap and deliver the referenced obligation or underlying securities comprising the referenced index or (ii) receive a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index.

(2) If the Portfolio is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Portfolio will either (i) pay to the buyer of protection an amount equal to the notional amount of the swap and take delivery of the referenced obligation or underlying securities comprising the referenced index or (ii) pay a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index.

(3) Implied credit spreads, represented in absolute terms, utilized in determining the market value of credit default swap agreements on corporate or sovereign issues as of period end serve as an indicator of the current status of the payment/performance risk and represent the likelihood or risk of default for the credit derivative. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to be made to enter into the agreement. Wider credit spreads represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

(4) The maximum potential amount the Portfolio could be required to pay as a seller of credit protection or receive as a buyer of credit protection if a credit event occurs as defined under the terms of that particular swap agreement.

(5) The prices and resulting values for credit default swap agreements on credit indices serve as an indicator of the current status of the payment/performance risk and represent the likelihood of an expected liability (or profit) for the credit derivative should the notional amount of the swap agreement be closed/sold as of the period end. Increasing market values, in absolute terms when compared to the notional amount of the swap, represent a deterioration of the referenced indices' credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

CROSS-CURRENCY SWAPS

Counterparty	Receive	Pay	Maturity Date (6)	Notional Amount of Currency Received	Notional Amount of Currency Delivered	Premiums Paid/(Received)	Unrealized (Depreciation)	Swap Agreements, at Value Asset	Liability
BOA	Floating rate equal to 3-Month EUR-EURIBOR less 0.100% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	06/17/2020	EUR 800	$ 990	$ 0	$ (20)	$ 0	$ (20)
BPS	Floating rate equal to 3-Month EUR-EURIBOR less 0.100% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	06/17/2020	2,000	2,490	(11)	(53)	0	(64)
	Floating rate equal to 3-Month EUR-EURIBOR less 0.100% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	06/17/2020	2,000	2,637	(154)	(57)	0	(211)
	Floating rate equal to 3-Month EUR-EURIBOR less 0.100% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	06/17/2020	1,200	1,582	(87)	(40)	0	(127)
CBK	Floating rate equal to 3-Month EUR-EURIBOR less 0.100% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	06/17/2020	800	986	0	(15)	0	(15)
DUB	Floating rate equal to 3-Month EUR-EURIBOR less 0.100% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	06/17/2020	2,400	2,974	3	(65)	0	(62)

Counterparty	Receive	Pay	Maturity Date [6]	Notional Amount of Currency Received	Notional Amount of Currency Delivered	Premiums Paid/(Received)	Unrealized (Depreciation)	Swap Agreements, at Value Asset	Swap Agreements, at Value Liability
FBF	Floating rate equal to 3-Month CHF-LIBOR less 0.230% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	06/17/2017	CHF 800	$ 825	$ 1	$ (20)	$ 0	$ (19)
GLM	Floating rate equal to 3-Month EUR-EURIBOR less 0.100% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	06/17/2020	EUR 2,500	3,095	1	(63)	0	(62)
UAG	Floating rate equal to 3-Month CHF-LIBOR less 0.210% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	12/15/2016	600	622	19	(37)	604	(622)
	Floating rate equal to 3-Month CHF-LIBOR less 0.225% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	12/15/2016	800	829	26	(50)	806	(830)
	Floating rate equal to 3-Month CHF-LIBOR less 0.230% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	12/15/2016	500	518	15	(29)	504	(518)
						$ (187)	$ (449)	$ 1,914	$ (2,550)

(6) At the maturity date, the notional amount of the currency received will be exchanged back for the notional amount of the currency delivered.

INTEREST RATE SWAPS

Counterparty	Pay/Receive Floating Rate	Floating Rate Index	Fixed Rate	Maturity Date	Notional Amount	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value Asset	Swap Agreements, at Value Liability
DUB	Pay	28-Day MXN-TIIE	6.600%	05/21/2029	MXN 500	$ 0	$ 1	$ 1	$ 0
FBF	Pay	28-Day MXN-TIIE	4.620%	09/23/2016	27,600	0	2	2	0
UAG	Pay	28-Day MXN-TIIE	5.010%	10/10/2019	5,400	(3)	(2)	0	(5)
	Pay	28-Day MXN-TIIE	5.630%	10/11/2021	4,000	1	(3)	0	(2)
						$ (2)	$ (2)	$ 3	$ (7)
Total Swap Agreements						**$ (262)**	**$ (453)**	**$ 1,934**	**$ (2,649)**

FINANCIAL DERIVATIVE INSTRUMENTS: OVER THE COUNTER SUMMARY

The following is a summary by counterparty of the market value of OTC financial derivative instruments and collateral (received)/pledged as of December 31, 2014:

(i) Securities with an aggregate market value of $298 have been pledged as collateral for financial derivative instruments as governed by International Swaps and Derivatives Association, Inc. master agreements as of December 31, 2014.

	Financial Derivative Assets				Financial Derivative Liabilities						
Counterparty	Forward Foreign Currency Contracts	Purchased Options	Swap Agreements	Total Over the Counter	Forward Foreign Currency Contracts	Written Options	Swap Agreements	Total Over the Counter	Net Market Value of OTC Derivatives	Collateral (Received)/ Pledged	Net Exposure [7]
AZD	$ 134	$ 0	$ 0	$ 134	$ 0	$ 0	$ 0	$ 0	$ 134	$ 0	$ 134
BOA	344	10	0	354	(305)	(62)	(47)	(414)	(60)	298	238
BPS	459	0	0	459	(303)	(26)	(404)	(733)	(274)	(140)	(414)
BRC	72	0	0	72	(95)	(12)	(2)	(109)	(37)	0	(37)
CBK	744	54	11	809	(155)	(102)	(31)	(288)	521	(280)	241
DUB	60	0	1	61	(58)	(2)	(72)	(132)	(71)	0	(71)
FBF	37	55	2	94	0	(62)	(19)	(81)	13	0	13
GLM	1,513	70	0	1,583	(4)	(111)	(62)	(177)	1,406	(1,280)	126
GST	0	0	6	6	0	(1)	(14)	(15)	(9)	0	(9)
HUS	487	0	0	487	(27)	0	(9)	(36)	451	(330)	121
JPM	23	0	0	23	(158)	(3)	(6)	(167)	(144)	0	(144)
MSB	65	0	0	65	(30)	(17)	0	(47)	18	0	18
MYC	0	0	0	0	0	0	(6)	(6)	(6)	(10)	(16)
RBC	85	0	0	85	0	0	0	0	85	0	85
SOG	78	0	0	78	0	0	0	0	78	(10)	68
UAG	116	0	1,914	2,030	(17)	(26)	(1,977)	(2,020)	10	0	10
Total Over the Counter	**$4,217**	**$189**	**$1,934**	**$6,340**	**$(1,152)**	**$(424)**	**$(2,649)**	**$(4,225)**			

(7) Net Exposure represents the net receivable/(payable) that would be due from/to the counterparty in the event of default. Exposure from OTC financial derivative instruments can only be netted across transactions governed under the same master agreement with the same legal entity. See Note 7, Principal Risks, in the Notes to Financial Statements for more information regarding master netting arrangements.

FAIR VALUE OF FINANCIAL DERIVATIVE INSTRUMENTS

The following is a summary of the fair valuation of the Portfolio's derivative instruments categorized by risk exposure. See Note 7, Principal Risks, in the Notes to Financial Statements on risks of the Portfolio.

Fair Values of Financial Derivative Instruments on the Statement of Assets and Liabilities as of December 31, 2014:

	Derivatives not accounted for as hedging instruments					
	Commodity Contracts	Credit Contracts	Equity Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Total
Financial Derivative Instruments - Assets						
Exchange-traded or centrally cleared						
Futures	$ 0	$ 0	$ 0	$ 0	$ 58	$ 58
Swap Agreements	0	0	0	0	135	135
	$ 0	$ 0	$ 0	$ 0	$ 193	$ 193
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 4,217	$ 0	$ 4,217
Purchased Options	0	0	0	109	80	189
Swap Agreements	0	17	0	1,914	3	1,934
	$ 0	$ 17	$ 0	$ 6,240	$ 83	$ 6,340
	$ 0	$ 17	$ 0	$ 6,240	$ 276	$ 6,533
Financial Derivative Instruments - Liabilities						
Exchange-traded or centrally cleared						
Futures	$ 0	$ 0	$ 0	$ 0	$ 21	$ 21
Swap Agreements	0	0	0	0	31	31
	$ 0	$ 0	$ 0	$ 0	$ 52	$ 52
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 1,152	$ 0	$ 1,152
Written Options	0	5	0	297	122	424
Swap Agreements	0	92	0	2,550	7	2,649
	$ 0	$ 97	$ 0	$ 3,999	$ 129	$ 4,225
	$ 0	$ 97	$ 0	$ 3,999	$ 181	$ 4,277

The Effect of Financial Derivative Instruments on the Statement of Operations for the Period Ended December 31, 2014:

	Derivatives not accounted for as hedging instruments					
	Commodity Contracts	Credit Contracts	Equity Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Total
Net Realized Gain (Loss) on Financial Derivative Instruments						
Exchange-traded or centrally cleared						
Written Options	$ 0	$ 0	$ 0	$ 0	$ 29	$ 29
Futures	0	0	0	0	556	556
Swap Agreements	0	2	0	0	(528)	(526)
	$ 0	$ 2	$ 0	$ 0	$ 57	$ 59
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 5,116	$ 0	$ 5,116
Purchased Options	0	0	0	(13)	0	(13)
Written Options	0	12	0	129	31	172
Swap Agreements	0	51	0	(714)	319	(344)
	$ 0	$ 63	$ 0	$ 4,518	$ 350	$ 4,931
	$ 0	$ 65	$ 0	$ 4,518	$ 407	$ 4,990
Net Change in Unrealized Appreciation (Depreciation) on Financial Derivative Instruments						
Exchange-traded or centrally cleared						
Written Options	$ 0	$ 0	$ 0	$ 0	$ (2)	$ (2)
Futures	0	0	0	0	77	77
Swap Agreements	0	0	0	0	1,442	1,442
	$ 0	$ 0	$ 0	$ 0	$ 1,517	$ 1,517
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 3,487	$ 0	$ 3,487
Purchased Options	0	0	0	66	(128)	(62)
Written Options	0	12	0	0	66	78
Swap Agreements	0	9	0	(450)	(9)	(450)
	$ 0	$ 21	$ 0	$ 3,103	$ (71)	$ 3,053
	$ 0	$ 21	$ 0	$ 3,103	$ 1,446	$ 4,570

FAIR VALUE MEASUREMENTS

The following is a summary of the fair valuations according to the inputs used as of December 31, 2014 in valuing the Portfolio's assets and liabilities:

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 12/31/2014
Investments in Securities, at Value				
Australia				
Corporate Bonds & Notes	$ 0	$ 702	$ 0	$ 702
Mortgage-Backed Securities	0	80	0	80
Sovereign Issues	0	654	0	654
Brazil				
Corporate Bonds & Notes	0	465	0	465
Canada				
Corporate Bonds & Notes	0	500	0	500
Sovereign Issues	0	1,305	0	1,305
Cayman Islands				
Asset-Backed Securities	0	998	0	998
China				
Corporate Bonds & Notes	0	211	0	211
France				
Corporate Bonds & Notes	0	2,697	0	2,697
Sovereign Issues	0	9,750	0	9,750
Germany				
Corporate Bonds & Notes	0	1,616	0	1,616
Sovereign Issues	0	316	0	316
Greece				
Corporate Bonds & Notes	0	620	0	620
Hong Kong				
Corporate Bonds & Notes	0	204	0	204
Ireland				
Asset-Backed Securities	0	94	0	94
Corporate Bonds & Notes	0	2,165	0	2,165
Mortgage-Backed Securities	0	240	0	240
Italy				
Asset-Backed Securities	0	160	0	160
Corporate Bonds & Notes	0	2,444	0	2,444
Mortgage-Backed Securities	0	879	0	879
Sovereign Issues	0	18,250	0	18,250
Mexico				
Sovereign Issues	0	1,543	0	1,543
Netherlands				
Asset-Backed Securities	0	449	0	449
Norway				
Sovereign Issues	0	403	0	403
Poland				
Sovereign Issues	0	3,636	0	3,636
Portugal				
Corporate Bonds & Notes	0	483	0	483
Slovenia				
Sovereign Issues	0	4,058	0	4,058
Spain				
Corporate Bonds & Notes	0	767	0	767
Sovereign Issues	0	16,737	0	16,737
Supranational				
Corporate Bonds & Notes	0	555	0	555

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 12/31/2014
Sweden				
Corporate Bonds & Notes	$ 0	$ 364	$ 0	$ 364
Sovereign Issues	0	180	0	180
United Kingdom				
Asset-Backed Securities	0	325	0	325
Corporate Bonds & Notes	0	2,736	0	2,736
Mortgage-Backed Securities	0	2,886	0	2,886
Sovereign Issues	0	8,328	0	8,328
United States				
Asset-Backed Securities	0	870	0	870
Corporate Bonds & Notes	0	3,222	0	3,222
Mortgage-Backed Securities	0	4,209	38	4,247
Municipal Bonds & Notes	0	400	0	400
Preferred Securities	22	0	0	22
U.S. Government Agencies	0	3,746	0	3,746
U.S. Treasury Obligations	0	5,776	0	5,776
Short-Term Instruments				
Certificates of Deposit	0	1,102	0	1,102
Repurchase Agreements	0	1,003	0	1,003
Mexico Treasury Bills	0	6,375	0	6,375
	$ 22	$ 114,503	$ 38	$ 114,563
Investments in Affiliates, at Value				
Short-Term Instruments				
Central Funds Used for Cash Management Purposes	$ 40,651	$ 0	$ 0	$ 40,651
Total Investments	$ 40,673	$ 114,503	$ 38	$ 155,214
Short Sales, at Value - Liabilities				
U.S. Government Agencies	$ 0	$ (13,025)	$ 0	$ (13,025)
Financial Derivative Instruments - Assets				
Exchange-traded or centrally cleared	58	135	0	193
Over the counter	0	6,340	0	6,340
	$ 58	$ 6,475	$ 0	$ 6,533
Financial Derivative Instruments - Liabilities				
Exchange-traded or centrally cleared	(21)	(31)	0	(52)
Over the counter	0	(4,225)	0	(4,225)
	$ (21)	$ (4,256)	$ 0	$ (4,277)
Totals	$ 40,710	$ 103,697	$ 38	$ 144,445

There were no significant transfers between Level 1 and 2 during the period ended December 31, 2014. There were assets and liabilities valued at $1,885 transferred from Level 3 to Level 2 during the period ended December 31, 2014. There were no significant assets and liabilities transferred from Level 2 to Level 3 during the period ended December 31, 2014.

1. ORGANIZATION

The PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) (the "Portfolio") is a series of the PIMCO Variable Insurance Trust (the "Trust"). The Trust is registered under the Investment Company Act of 1940, as amended (the "Act"), as an open-end management investment company organized as a Delaware business trust on October 3, 1997. The Portfolio offers three classes of shares: Institutional, Administrative and Advisor. Information presented on these financial statements pertains to the Administrative Class of the Portfolio. Certain detailed financial information for the Institutional Class and Advisor Class is provided separately and is available upon request. The Trust is designed to be used as an investment vehicle by separate accounts of insurance companies that fund variable annuity contracts and variable life insurance policies and by qualified pension and retirement plans. Pacific Investment Management Company LLC ("PIMCO") serves as the investment adviser (the "Adviser") for the Portfolio.

2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies consistently followed by the Portfolio in the preparation of its financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Portfolio is treated as an investment company under the reporting requirements of U.S. GAAP. The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

(a) Securities Transactions and Investment Income Securities transactions are recorded as of the trade date for financial reporting purposes. Realized gains and losses from securities sold are recorded on the identified cost basis. Dividend income is recorded on the ex-dividend date, except certain dividends from foreign securities where the ex-dividend date may have passed, which are recorded as soon as the Portfolio is informed of the ex-dividend date. Interest income, adjusted for the accretion of discounts and amortization of premiums, is recorded on the accrual basis from settlement date. For convertible securities, premiums attributable to the conversion feature are not amortized. Estimated tax liabilities on certain foreign securities are recorded on an accrual basis and are reflected as components of interest income or net change in unrealized gain/loss on investments on the Statement of Operations, as appropriate. Tax liabilities realized as a result of such security sales are reflected as a component of net realized gain/loss on investments on the Statement of Operations.

Paydown gains and losses on mortgage-related and other asset-backed securities are recorded as components of interest income on the Statement of Operations. Income or short-term capital gain distributions received from underlying funds are recorded as dividend income. Long-term capital gain distributions received from underlying funds are recorded as realized gains.

Debt obligations may be placed on non-accrual status and related interest income may be reduced by ceasing current accruals and writing off interest receivable when the collection of all or a portion of interest has become doubtful based on consistently applied procedures. A debt obligation is removed from non-accrual status when the issuer resumes interest payments or when collectability of interest is probable.

(b) Cash and Foreign Currency The functional and reporting currency for the Portfolio is the U.S. dollar. The market values of foreign securities, currency holdings and other assets and liabilities are translated into U.S. dollars based on the current exchange rates each business day. Purchases and sales of securities and income and expense items denominated in foreign currencies, if any, are translated into U.S. dollars at the exchange rate in effect on the transaction date. The Portfolio does not separately report the effects of changes in foreign exchange rates from changes in market prices on securities held. Such changes are included in net realized and net changes in unrealized gain or loss from investments on the Statement of Operations. The Portfolio may invest in foreign currency-denominated securities and may engage in foreign currency transactions either on a spot (cash) basis at the rate prevailing in the currency exchange market at the time or through a forward foreign currency contract (see financial derivative instruments). Realized foreign exchange gains or losses arising from sales of spot foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the recorded amounts of dividends, interest, and foreign withholding taxes and the U.S. dollar equivalent of the amounts actually received or paid are included in net realized gain or loss on foreign currency transactions on the Statement of Operations. Net unrealized foreign exchange gains and losses arising from changes in foreign exchange rates on foreign denominated assets and liabilities other than investments in securities held at the end of the reporting period are included in net change in unrealized appreciation or depreciation on foreign currency assets and liabilities on the Statement of Operations.

(c) Multiclass Operations Each class offered by the Portfolio has equal rights as to assets and voting privileges (except that shareholders of a class have exclusive voting rights regarding any matter relating solely to that class of shares). Income and non-class specific expenses are allocated daily to each class on the basis of the relative value of settled shares. Realized and unrealized capital gains and losses are allocated daily based on the relative net assets of each class of the Portfolio. Class specific expenses, where applicable, currently include supervisory and administrative and distribution and servicing fees.

(d) Dividends and Distributions to Shareholders Dividends from net investment income, if any, are declared daily and distributed to shareholders monthly. Net realized capital gains earned by the Portfolio, if any, will be distributed no less frequently than once each year.

Income dividends and capital gain distributions are determined in accordance with income tax regulations which may differ from U.S. GAAP. Differences between tax regulations and U.S. GAAP may cause timing differences between income and capital gain recognition. Examples of events that give rise to timing differences include wash sales, straddles and capital loss carryforwards. Further, the character of investment income and capital gains may be different for certain transactions under the two methods of accounting. Examples of characterization differences include the treatment of paydowns on mortgage-backed securities, swaps, foreign currency transactions and contingent debt instruments. As a result, income dividends and capital gain distributions declared during a fiscal period may differ significantly from the net investment income (loss) and realized gains (losses) reported on the Portfolio's annual financial statements presented under U.S. GAAP.

Distributions classified as a tax basis return of capital, if any, are reflected on the accompanying Statements of Changes in Net Assets and have been recorded to paid in capital. In addition, other amounts have been reclassified between undistributed net investment income, accumulated undistributed net realized gains or losses and/or paid in capital to more appropriately conform financial accounting to tax characterizations of dividend distributions.

(e) New Accounting Pronouncements In June 2013 the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") providing updated guidance for assessing whether an entity is an investment company and for the measurement of noncontrolling ownership interests in other investment companies. This update became effective for interim or annual periods beginning on or after December 15, 2013. The Portfolio has adopted the ASU as it follows the investment company reporting requirements under U.S. GAAP and its implementation did not have an impact on the Portfolio's financial statements.

In June 2014, the FASB issued an ASU that expands secured borrowing accounting for certain repurchase agreements. The ASU also sets forth additional disclosure requirements for certain transactions accounted for as sales in order to provide financial statement users with information to compare to similar transactions accounted for as secured borrowings. The ASU is effective prospectively for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. At this time, management is evaluating the implications of these changes on the financial statements.

3. INVESTMENT VALUATION AND FAIR VALUE MEASUREMENTS

(a) Investment Valuation Policies The Net Asset Value ("NAV") of the Portfolio's shares is valued as of the close of regular trading (normally 4:00 p.m., Eastern time) (the "NYSE Close") on each day that the New York Stock Exchange ("NYSE") is open (each a "Business Day"). Information that becomes known to the Portfolio or its agents after the NAV has been calculated on a particular day will not generally be used to retroactively adjust the price of a security or the NAV determined earlier that day.

For purposes of calculating the NAV, portfolio securities and other financial derivative instruments are valued on each Business Day using valuation methods as adopted by the Board of Trustees (the "Board") of the Trust. The Board has formed a Valuation Committee whose function is to monitor the valuation of portfolio securities and other financial derivative instruments and, as required by the Trust's valuation policies, determine in good faith the fair value of portfolio holdings after consideration of all relevant factors, including recommendations provided by the Adviser. The Board has delegated responsibility for applying the valuation methods to the Adviser. The Adviser monitors the continual appropriateness of methods applied and determines if adjustments should be made in light of market factor changes and events affecting issuers.

Where market quotes are readily available, fair market value is generally determined on the basis of official closing prices or the last reported sales prices, or if no sales are reported, based on quotes obtained from a quotation reporting system, established market makers, or pricing services. Where market quotes are not readily available, portfolio securities and other financial derivative instruments are valued at fair value, as determined in good faith by the Board, its Valuation Committee, or the Adviser pursuant to instructions from the Board or its Valuation Committee. Market quotes are considered not readily available in circumstances where there is an absence of current or reliable market-based data (e.g., trade information, bid/ask information, or broker quotes), including where events occur after the close of the relevant market, but prior to the NYSE Close, that materially affect the values of the Portfolio's securities or financial derivative instruments. In addition, market quotes are considered not readily available when, due to extraordinary circumstances, the exchanges or markets on which securities trade do not open for trading for the entire day and no other market prices are available. The Board has delegated to the Adviser the responsibility for monitoring significant events that may materially affect the values of the Portfolio's securities or financial derivative instruments and for determining whether the value of the applicable securities or financial derivative instruments should be re-evaluated in light of such significant events.

The Board has adopted methods for valuing securities and other financial derivative instruments that may require fair valuation under particular circumstances. The Adviser monitors the continual appropriateness of fair valuation methods applied and determines if adjustments should be made in light of market changes, events affecting the issuer, or other factors. If the Adviser determines that a fair valuation method may no longer be appropriate, another valuation method may be selected, or the Valuation Committee will take any appropriate action in accordance with procedures set forth by the Board. The Board reviews the appropriateness of the valuation methods from time to time and these methods may be amended or supplemented from time to time by the Valuation Committee.

In circumstances in which daily market quotes are not readily available, investments may be valued pursuant to guidelines established by the Board. In the event that the security or asset cannot be valued pursuant to the established guidelines, the value of the security or other financial derivative instrument will be determined in good faith by the Valuation Committee of the Board, generally based upon recommendations provided by PIMCO. These methods may require subjective determinations about the value of a security. While the Trust's policy is intended to result in a calculation of the Portfolio's NAV that fairly reflects security values as of the time of pricing, the Trust cannot guarantee that values determined by the Board or persons acting at their direction would accurately reflect the price that the Portfolio could obtain for a security if it were to dispose of that security as of the time of pricing (for instance, in a forced or distressed sale). The prices used by the Portfolio may differ from the value that would be realized if the securities were sold.

(b) Fair Value Hierarchy U.S. GAAP describes fair market value as the price that the Portfolio would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. It establishes a fair value hierarchy that prioritizes inputs to valuation methods and requires disclosure of the fair value hierarchy, separately for each major category of assets and liabilities, that segregates fair value measurements into levels (Level 1, 2, and 3). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Levels 1, 2, and 3 of the fair value hierarchy are defined as follows:

- Level 1—Inputs using (unadjusted) quoted prices in active markets or exchanges for identical assets and liabilities.
- Level 2—Significant other observable inputs, which may include, but are not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates) or other market corroborated inputs.
- Level 3—Significant unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available, which may include assumptions made by the Board or persons acting at their direction that are used in determining the fair value of investments.

Assets or liabilities categorized as Level 2 or 3 as of period end have been transferred between Levels 2 and 3 since the prior period due to changes in the valuation method utilized in valuing the investments. Transfers from Level 3 to Level 2 are a result of the availability of current and reliable market-based data provided by third-party pricing services or other valuation techniques which utilize significant observable inputs. In accordance with the requirements of U.S. GAAP, the amounts of transfers between Levels 1 and 2 and transfers in and out of Level 3, if material, are disclosed in the Notes to Schedule of Investments for the Portfolio.

For fair valuations using significant unobservable inputs, U.S. GAAP requires a reconciliation of the beginning to ending balances for reported fair values that presents changes attributable to total realized and unrealized gains or losses, purchases and sales, and transfers in or out of the Level 3 category during the period. The end of period timing recognition is used for the transfers between Levels of the Portfolio's assets and liabilities. Additionally, U.S. GAAP requires quantitative information regarding the significant unobservable inputs used in the determination of fair value of assets or liabilities categorized as Level 3 in the fair value hierarchy. In accordance with the requirements of U.S. GAAP, a fair value hierarchy, and if material, a Level 3 reconciliation and details of significant unobservable inputs, have been included in the Notes to Schedule of Investments for the Portfolio.

(c) Valuation Techniques and the Fair Value Hierarchy
Level 1 and Level 2 trading assets and trading liabilities, at fair market value The valuation methods (or "techniques") and significant inputs used in determining the fair market values of portfolio securities or financial derivative instruments categorized as Level 1 and Level 2 of the fair value hierarchy are as follows:

Fixed income securities including corporate, convertible and municipal bonds and notes, U.S. government agencies, U.S. treasury obligations, sovereign issues, bank loans, convertible preferred securities and non-U.S. bonds are normally valued by pricing service providers that use broker-dealer quotations, reported trades or valuation estimates from their internal pricing models. The service providers' internal models use inputs that are observable such as issuer details, interest rates, yield curves, prepayment speeds, credit risks/spreads, default rates and quoted prices for similar assets. Securities that use similar valuation techniques and inputs as described above are categorized as Level 2 of the fair value hierarchy.

Mortgage-related and asset-backed securities are usually issued as separate tranches, or classes, of securities within each deal. These securities are also normally valued by pricing service providers that use broker-dealer quotations or valuation estimates from their internal pricing models. The pricing models for these securities usually consider tranche-level attributes, current market data, estimated cash flows and market-based yield spreads for each tranche, and incorporate deal collateral performance, as available. Mortgage-related and asset-backed securities that use similar valuation techniques and inputs as described above are categorized as Level 2 of the fair value hierarchy.

Common stocks, exchange-traded funds, exchange-traded notes and financial derivative instruments, such as futures contracts or options on futures that are traded on a national securities exchange, are stated at the last reported sale or settlement price on the day of valuation. To the extent these securities are actively traded and valuation adjustments are not applied, they are categorized as Level 1 of the fair value hierarchy.

Investments initially valued in currencies other than the U.S. dollar are converted to the U.S. dollar using exchange rates obtained from pricing service providers. As a result, the NAV of the Portfolio's shares may be affected by changes in the value of currencies in relation to the U.S. dollar. The value of securities traded in markets outside the United States or denominated in currencies other than the U.S. dollar may be affected significantly on a day that the NYSE is closed. Valuation adjustments may be applied to certain securities that are solely traded on a foreign exchange to account for the market movement between the close of the foreign market and the NYSE Close. These securities are valued using pricing service providers that consider the correlation of the trading patterns of the foreign security to the intraday trading in the U.S. markets for investments. Securities using these valuation adjustments are categorized as Level 2 of the fair value hierarchy. Preferred securities and other equities traded on inactive markets or valued by reference to similar instruments are also categorized as Level 2 of the fair value hierarchy.

Investments in registered open-end investment companies will be valued based upon the NAVs of such investments and are categorized as Level 1 of the fair value hierarchy. Investments in unregistered open-end investment companies will be calculated based upon the NAVs of such investments and are considered Level 1 provided that the NAVs are observable, calculated daily and are the value at which both purchases and sales will be conducted. Investments in privately held investment funds with significant restrictions on redemption where the inputs to the NAVs are observable will be valued based upon the NAVs of such investments and are categorized as Level 2 of the fair value hierarchy.

Short-term investments having a maturity of 60 days or less and repurchase agreements are generally valued at amortized cost which approximates fair market value. These investments are categorized as Level 2 of the fair value hierarchy.

Equity exchange-traded options and over the counter financial derivative instruments, such as foreign currency contracts, options contracts, or swap agreements, derive their value from underlying asset prices, indices, reference rates, and other inputs or a combination of these factors. These contracts are normally valued by independent pricing service providers. Depending on the product and the terms of the transaction, financial derivative instruments can be valued by a pricing service provider using a series of techniques, including simulation pricing models. The pricing models use inputs that are observed from actively quoted markets such as quoted prices, issuer details, indices, bid/ask spreads, interest rates, implied volatilities, yield curves, dividends and exchange rates. Financial derivative instruments that use similar valuation techniques and inputs as described above are categorized as Level 2 of the fair value hierarchy.

Centrally cleared swaps listed or traded on a multilateral or trade facility platform, such as a registered exchange, are valued at the daily settlement price determined by the respective exchange. For centrally cleared credit default swaps the clearing facility requires its members to provide actionable price levels across complete term structures. These levels along with external third-party prices are used to produce daily settlement prices. These securities are categorized as Level 2 of the fair value hierarchy. Centrally cleared interest rate swaps are valued using a pricing model that references the underlying rates including the overnight index swap rate and London Interbank Offered Rate ("LIBOR") forward rate to produce the daily settlement price. These securities are categorized as Level 2 of the fair value hierarchy.

Level 3 trading assets and trading liabilities, at fair value When a fair valuation method is applied by PIMCO that uses significant unobservable inputs, securities will be priced by a method that the Board or persons acting at their direction believe reflects fair value and are categorized as Level 3 of the fair value hierarchy. The valuation techniques and significant inputs used in determining the fair values of portfolio assets and liabilities categorized as Level 3 of the fair value hierarchy are as follows:

If third-party evaluated vendor pricing is not available or not deemed to be indicative of fair value, the Adviser may elect to obtain indicative market quotations ("broker quotes") directly from the broker-dealer or passed through from a third-party vendor. In the event that fair value is based upon a single sourced broker quote, these securities are categorized as Level 3 of the fair value hierarchy. Broker quotes are typically received from established market participants. Although independently received, the Adviser does not have the transparency to view the underlying inputs which support the market quotation. Significant changes in the broker quote would have direct and proportional changes in the fair value of the security.

4. SECURITIES AND OTHER INVESTMENTS

(a) Investments in Securities

Inflation-Indexed Bonds The Portfolio may invest in inflation-indexed bonds. Inflation-indexed bonds are fixed income securities whose principal value is periodically adjusted to the rate of inflation. The interest rate on these bonds is generally fixed at issuance at a rate lower than typical bonds. Over the life of an inflation-indexed bond, however, interest will be paid based on a principal value which is adjusted for inflation. Any increase or decrease in the principal amount of an inflation-indexed bond will be included as interest income on the Statement of Operations, even though investors do not receive their principal until maturity.

Mortgage-Related and Other Asset-Backed Securities The Portfolio may invest in mortgage-related and other asset-backed securities that directly or indirectly represent a participation in, or are secured by and payable from, loans on real property. Mortgage-related securities are created from pools of residential or commercial mortgage loans, including mortgage loans made by savings and loan institutions, mortgage bankers, commercial banks and others. These securities provide a monthly payment which consists of both interest and principal. Interest may be determined by fixed or adjustable rates. The rate of prepayments on underlying mortgages will affect the price and volatility of a mortgage-related security, and may have the effect of shortening or extending the effective duration of the security relative to what was anticipated at the time of purchase. The timely payment of principal and interest of certain mortgage-related securities is guaranteed with the full faith and credit of the U.S. Government. Pools created and guaranteed by non-governmental issuers, including government-sponsored corporations, may be supported by various forms of insurance or guarantees, but there can be no assurance that private insurers or guarantors can meet their obligations under the insurance policies or guarantee arrangements. Many of the risks of investing in mortgage-related securities secured by commercial mortgage loans reflect the effects of local and other economic conditions on real estate markets, the ability of tenants to make lease payments, and the ability of a property to attract and retain tenants. These securities may be less liquid and may exhibit greater price volatility than other types of mortgage-related or other asset-backed securities. Other asset-backed securities are created from many types of assets, including auto loans, credit card receivables, home equity loans, and student loans.

Collateralized Mortgage Obligations ("CMOs") are debt obligations of a legal entity that are collateralized by whole mortgage loans or private mortgage bonds and divided into classes. CMOs are structured into multiple classes, often referred to as "tranches," with each class bearing a different stated maturity and entitled to a different schedule for payments of principal and interest, including prepayments. CMOs may be less liquid and may exhibit greater price volatility than other types of mortgage-related or asset-backed securities.

Stripped Mortgage-Backed Securities ("SMBS") are derivative multi-class mortgage securities. SMBS are usually structured with two classes that receive different proportions of the interest and principal distributions on a pool of mortgage assets. A SMBS will have one class that will receive all of the interest (the interest-only or "IO" class), while the other class will receive the entire principal (the principal-only or "PO" class). Payments received for IOs are included in interest income on the Statement of Operations. Because no principal will be received at the maturity of an IO, adjustments are made to the cost of the security on a monthly basis until maturity. These adjustments are included in interest income on the Statement of Operations. Payments received for POs are treated as reductions to the cost and par value of the securities.

Collateralized Debt Obligations ("CDOs") include Collateralized Bond Obligations ("CBOs"), Collateralized Loan Obligations ("CLOs") and other similarly structured securities. CBOs and CLOs are types of asset-backed securities. A CBO is a trust which is backed by a diversified pool of high risk, below investment grade fixed income securities. A CLO is a trust typically collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans, and subordinate corporate loans, including loans that may be rated below investment grade or equivalent unrated loans. The risks of an investment in a CDO depend largely on the type of the collateral securities and the class of the CDO in which the Portfolio invests. CDOs carry additional risks including, but not limited to, (i) the possibility that distributions from collateral securities will not be adequate to make interest or other payments, (ii) the collateral may decline in value or default, (iii) the Portfolio may invest in CDOs that are subordinate to other classes, and (iv) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the issuer or unexpected investment results.

U.S. Government Agencies or Government-Sponsored Enterprises The Portfolio may invest in securities of U.S. Government agencies or government-sponsored enterprises. U.S. Government securities are obligations of and, in certain cases, guaranteed by, the U.S. Government, its agencies or instrumentalities. Some U.S. Government securities, such as Treasury bills, notes and bonds, and securities guaranteed by the Government National Mortgage Association ("GNMA" or "Ginnie Mae"), are supported by the full faith and credit of the U.S. Government; others, such as those of the Federal Home Loan Banks, are supported by the right of the issuer to borrow from the U.S. Department of the Treasury (the "U.S. Treasury"); and others, such as those of the Federal National Mortgage Association ("FNMA" or "Fannie Mae"), are supported by the discretionary authority of the U.S. Government to purchase the agency's obligations. U.S. Government securities may include zero coupon securities. Zero coupon securities do not distribute interest on a current basis and tend to be subject to a greater risk than interest paying securities.

Government-related guarantors (i.e., not backed by the full faith and credit of the U.S. Government) include FNMA and the Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac"). FNMA is a government-sponsored corporation. FNMA purchases conventional (i.e., not insured or guaranteed by any government agency) residential mortgages from a list of approved seller/servicers which include state and federally chartered savings and loan associations, mutual savings banks, commercial banks and credit unions and mortgage bankers. Pass-through securities issued by FNMA are guaranteed as to timely payment of principal and interest by FNMA, but are not backed by the full faith and credit of the U.S. Government. FHLMC issues Participation Certificates ("PCs"), which are pass-through securities, each representing an undivided interest in a pool of residential mortgages. FHLMC guarantees the timely payment of interest and ultimate collection of principal, but PCs are not backed by the full faith and credit of the U.S. Government.

(b) Investments in Affiliates

The Portfolio may invest in the PIMCO Short-Term Floating NAV Portfolio and PIMCO Short-Term Floating NAV Portfolio III ("Central Funds") to the extent permitted by the Act and rules thereunder. The Central Funds are registered investment companies created for use solely by the series of the Trust and series of the PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series, PIMCO Equity Series VIT, and other series of registered investment companies advised by PIMCO, in connection with their cash management activities. The main investments of the Central Funds are money market and short maturity fixed income instruments. The Central Funds may incur expenses related to their investment activities, but do not pay Investment Advisory or Supervisory and Administrative Fees to PIMCO. The Central Funds are considered to be affiliated with the Portfolio. The table below shows the Portfolio's transactions in and earnings from investments in the Central Funds for the period ended December 31, 2014 (amounts in thousands†):

Investments in PIMCO Short-Term Floating NAV Portfolio

Market Value 12/31/2013	Purchases at Cost	Proceeds from Sales	Net Realized Gain/(Loss)	Change in Unrealized Appreciation/ (Depreciation)	Market Value 12/31/2014	Dividend Income	Realized Net Capital Gain Distributions
$ 4,935	$ 9,902	$ (14,820)	$ 0	$ 0	$ 17	$ 2	$ 0

Investments in PIMCO Short-Term Floating NAV Portfolio III

Market Value 12/31/2013	Purchases at Cost	Proceeds from Sales	Net Realized Gain/(Loss)	Change in Unrealized Appreciation/ (Depreciation)	Market Value 12/31/2014	Dividend Income	Realized Net Capital Gain Distributions
$ 0	$ 120,262	$ (79,400)	$ (17)	$ (211)	$ 40,634	$ 263	$ 0

† A zero balance may reflect actual amounts rounding to less than one thousand.

5. BORROWINGS AND OTHER FINANCING TRANSACTIONS

The following disclosures contain information on the Portfolio's ability to lend or borrow cash or securities to the extent permitted under the Act, which may be viewed as borrowing or financing transactions by the Portfolio. The location and fair value amounts of these instruments are described below. For a detailed description of credit and counterparty risks that can be associated with borrowings and other financing transactions, please see Note 7, Principal Risks.

(a) Repurchase Agreements The Portfolio may engage in repurchase agreements. Under the terms of a typical repurchase agreement, the Portfolio takes possession of an underlying debt obligation (collateral) subject to an obligation of the seller to repurchase, and the Portfolio to resell, the obligation at an agreed-upon price and time. The underlying securities for all repurchase agreements are held in safekeeping at the Portfolio's custodian or designated subcustodians under tri-party repurchase agreements. The market value of the collateral must be equal to or exceed the total amount of the repurchase obligations, including interest. Repurchase agreements, including accrued interest, are included on the Statement of Assets and Liabilities. Interest earned is recorded as a component of interest income on the Statement of Operations. In periods of increased demand for collateral, the Portfolio may pay a fee for receipt of collateral, which may result in interest expense to the Portfolio.

(b) Reverse Repurchase Agreements The Portfolio may enter into reverse repurchase agreements. In a reverse repurchase agreement, the Portfolio delivers a security in exchange for cash to a financial institution, the counterparty, with a simultaneous agreement to repurchase the same or substantially the same security at an agreed upon price and date. The Portfolio is entitled to receive principal and interest payments, if any, made on the security delivered to the counterparty during the term of the agreement. Cash received in exchange for securities delivered plus accrued interest payments to be made by the Portfolio to counterparties are reflected as a liability on the Statement of Assets and Liabilities. Interest payments made by the Portfolio to counterparties are recorded as a component of interest expense on the Statement of Operations. In periods of increased demand for the security, the Portfolio may receive a fee for use of the security by the counterparty, which may result in interest income to the Portfolio. The Portfolio will segregate assets determined to be liquid by PIMCO or will otherwise cover its obligations under reverse repurchase agreements.

(c) Sale-Buybacks The Portfolio may enter into financing transactions referred to as 'sale-buybacks'. A sale-buyback transaction consists of a sale of a security by the Portfolio to a financial institution, the counterparty, with a simultaneous agreement to repurchase the same or substantially the same security at an agreed-upon price and date. The Portfolio is not entitled to receive principal and interest payments, if any, made on the security sold to the counterparty during the term of the agreement. The agreed-upon proceeds for securities to be repurchased by the Portfolio are reflected as a liability on the Statement of Assets and Liabilities. The Portfolio will recognize net income represented by the price differential between the price received for the transferred security and the agreed-upon repurchase price. This is commonly referred to as the 'price drop'. A price drop consists of (i) the foregone interest and inflationary income adjustments, if any, the Portfolio would have otherwise received had the security not been sold and (ii) the negotiated financing terms between the Portfolio and counterparty. Foregone interest and inflationary income adjustments, if any, are recorded as components of interest income on the Statement of Operations. Interest payments based upon negotiated financing terms made by the Portfolio to counterparties are recorded as a component of interest expense on the Statement of Operations. In periods of increased demand for the security, the Portfolio may receive a fee for use of the security by the counterparty, which may result in interest income to the Portfolio. The Portfolio will segregate assets determined to be liquid by PIMCO or will otherwise cover its obligations under sale-buyback transactions.

(d) Short Sales The Portfolio may enter into short sales transactions. A short sale is a transaction in which the Portfolio sells securities it may not own in anticipation of a decline in the fair market value of the securities. Securities sold in short sale transactions and the interest payable on such securities, if any, are reflected as a liability on the Statement of Assets and Liabilities. The Portfolio is obligated to deliver securities at the trade price at the time the short position is covered. Possible losses from short sales may be unlimited, whereas losses from purchases cannot exceed the total amount invested.

6. FINANCIAL DERIVATIVE INSTRUMENTS

The following disclosures contain information on how and why the Portfolio uses financial derivative instruments, the credit-risk-related contingent features in certain financial derivative instruments, and how financial derivative instruments affect the Portfolio's financial position, results of operations and cash flows. The location and fair value amounts of these instruments on the Statement of Assets and Liabilities and the realized and changes in unrealized gains and losses on the Statement of Operations, each categorized by type of financial derivative contract and related risk exposure, are included in a table in the Notes to Schedule of Investments. The financial derivative instruments outstanding as of period end and the amounts of realized and changes in unrealized gains and losses on financial derivative instruments during the period, as disclosed in the Notes to Schedule of Investments, serve as indicators of the volume of financial derivative activity for the Portfolio.

(a) Forward Foreign Currency Contracts The Portfolio may enter into forward foreign currency contracts in connection with settling planned purchases or sales of securities, to hedge the currency exposure associated with some or all of the Portfolio's securities or as a part of an investment strategy. A forward foreign currency contract is an agreement between two parties to buy and sell a currency at a set price on a future date. The market value of a forward foreign currency contract fluctuates with changes in foreign currency exchange rates. Forward foreign currency contracts are marked to market daily and the change in value is recorded by the Portfolio as an unrealized gain or loss. Realized gains or losses equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed are recorded upon delivery or receipt of the currency. These contracts may involve market risk in excess of the unrealized gain or loss reflected on the Statement of Assets and Liabilities. In addition, the Portfolio could be exposed to risk if the counterparties are unable to meet the terms of the contracts or if the value of the currency changes unfavorably to the U.S. dollar. In connection with these contracts, cash or securities may be identified as collateral in accordance with the terms of the respective contracts.

(b) Futures Contracts The Portfolio may enter into futures contracts. The Portfolio may use futures contracts to manage its exposure to the securities markets or to movements in interest rates and currency values. The primary risks associated with the use of futures contracts are the imperfect correlation between the change in market value of the securities held by the Portfolio and the prices of futures contracts and the possibility of an illiquid market. Futures contracts are valued based upon their quoted daily settlement prices. Upon entering into a futures contract, the Portfolio is required to deposit with its futures broker an amount of cash, U.S. Government and Agency Obligations, or select sovereign debt, in accordance with the initial margin requirements of the broker or exchange. Futures contracts are marked to market daily and an appropriate payable or receivable for the change in value ("variation margin") is recorded by the Portfolio. Gains or losses are recognized but not considered realized until the contracts expire or are closed. Futures contracts involve, to varying degrees, risk of loss in excess of variation margin disclosed within exchange traded or centrally cleared financial derivative instruments on the Statement of Assets and Liabilities.

(c) Options Contracts The Portfolio may write call and put options on securities and financial derivative instruments it owns or in which it may invest. Writing put options tends to increase the Portfolio's exposure to the underlying instrument. Writing call options tends to decrease the Portfolio's exposure to the underlying instrument. When the Portfolio writes a call or put, an amount equal to the premium received is recorded as a liability and subsequently marked to market to reflect the current value of the option written. These liabilities are included on the Statement of Assets and Liabilities. Premiums received from writing options which expire are treated as realized gains. Premiums received from writing options which are exercised or closed are added to the proceeds or offset against amounts paid on the underlying futures, swap, security or currency transaction to determine the realized gain or loss. Certain options may be written with premiums to be determined on a future date. The premiums for these options are based upon implied volatility parameters at specified terms. The Portfolio as a writer of an option has no control over whether the underlying instrument may be sold ("call") or purchased ("put") and as a result bears the market risk of an unfavorable change in the price of the instrument underlying the written option. There is the risk the Portfolio may not be able to enter into a closing transaction because of an illiquid market.

The Portfolio may also purchase put and call options. Purchasing call options tends to increase the Portfolio's exposure to the underlying instrument. Purchasing put options tends to decrease the Portfolio's exposure to the underlying instrument. The Portfolio pays a premium which is included as an asset on the Statement of Assets and Liabilities 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. Certain options may be purchased with premiums to be determined on a future date. The premiums for these options are based upon implied volatility parameters at specified terms. The risk associated with purchasing put and call options is limited to the premium paid. Premiums paid for purchasing options which are exercised or closed are added to the amounts paid or offset against the proceeds on the underlying investment transaction to determine the realized gain or loss when the underlying transaction is executed.

Credit Default Swaptions The Portfolio may write or purchase credit default swaption agreements to hedge exposure to the credit risk of an investment without making a commitment to the underlying instrument. A credit default swaption is an option to sell or buy credit protection to a specific reference by entering into a pre-defined swap agreement by some specified date in the future.

Interest Rate Swaptions The Portfolio may write or purchase interest rate swaption agreements which are options to enter into a pre-defined swap agreement by some specified date in the future. The writer of the swaption becomes the counterparty to the swap if the buyer exercises. The interest rate swaption agreement will specify whether the buyer of the swaption will be a fixed-rate receiver or a fixed-rate payer upon exercise.

Foreign Currency Options The Portfolio may write or purchase foreign currency options. Purchasing foreign currency options gives the Portfolio the right, but not the obligation to buy or sell the currency and will specify the amount of currency and a rate of exchange that may be exercised by a specified date. These options may be used as a short or long hedge against possible variations in foreign exchange rates or to gain exposure to foreign currencies.

(d) Swap Agreements The Portfolio may invest in swap agreements. Swap agreements are bilaterally negotiated agreements between the Portfolio and a counterparty to exchange or swap investment cash flows, assets, foreign currencies or market-linked returns at specified, future intervals. Swap agreements are privately negotiated in the over the counter market ("OTC swaps") or may be executed in a multilateral or other trade facility platform, such as a registered exchange ("centrally cleared swaps"). The Portfolio may enter into asset, credit default, cross-currency, interest rate, total return, variance and other forms of swap agreements to manage its exposure to credit, currency, interest rate, commodity, equity and inflation risk. In connection with these agreements, securities or cash may be identified as collateral or margin in accordance with the terms of the respective swap agreements to provide assets of value and recourse in the event of default or bankruptcy/insolvency.

Swaps are marked to market daily based upon values from third-party vendors, which may include a registered exchange, or quotations from market makers to the extent available. In the event that market quotes are not readily available and the swap cannot be valued pursuant to one of the valuation methods, the value of the swap will be determined in good faith by the Valuation Committee, generally based upon recommendations provided by PIMCO. Changes in market value, if any, are reflected as a component of net change in unrealized appreciation/(depreciation) on the Statement of Operations. Daily changes in valuation of centrally cleared swaps, if any, are recorded as a receivable or payable for the change in value as appropriate ("variation margin") on the Statement of Assets and Liabilities. OTC swap payments received or paid at the beginning of the measurement period are included on the Statement of Assets and Liabilities and represent premiums paid or received upon entering into the swap agreement to compensate for differences between the stated terms of the swap agreement and prevailing market conditions (credit spreads, currency exchange rates, interest rates, and other relevant factors). Upfront premiums received (paid) are initially recorded as liabilities (assets) and subsequently marked to market to reflect the current value of the swap. These upfront premiums are recorded as realized gains or losses on the Statement of Operations upon termination or maturity of the swap. A liquidation payment received or made at the termination of the swap is recorded as realized gain or loss on the Statement of Operations. Net periodic payments received or paid by the Portfolio are included as part of realized gains or losses on the Statement of Operations.

Entering into these agreements involves, to varying degrees, elements of interest, credit, market and documentation risk in excess of the amounts recognized on the Statement of Assets and Liabilities. Such risks involve the possibility that there will be no liquid market for these agreements, that the counterparty to the agreements may default on its obligation to perform or disagree as to the meaning of contractual terms in the agreements and that there may be unfavorable changes in interest rates.

The Portfolio's maximum risk of loss from counterparty credit risk is the discounted net value of the cash flows to be received from the counterparty over the contract's remaining life, to the extent that amount is positive. The risk is mitigated by having a master netting arrangement between the Portfolio and the counterparty and by the posting of collateral to the Portfolio to cover the Portfolio's exposure to the counterparty.

Credit Default Swap Agreements Credit default swap agreements involve one party making a stream of payments (referred to as the buyer of protection) to another party (the seller of protection) in exchange for the right to receive a specified return in the event of a default or other credit event for the referenced entity, obligation or index. As a seller of protection on credit default swap agreements, the Portfolio will generally receive from the buyer of protection a fixed rate of income throughout the term of the swap provided that there is no credit event. As the seller, the Portfolio would effectively add leverage to its portfolio because, in addition to its total net assets, the Portfolio would be subject to investment exposure on the notional amount of the swap.

If the Portfolio is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Portfolio will either (i) pay to the buyer of protection an amount equal to the notional amount of the swap and take delivery of the referenced obligation, other deliverable obligations or underlying securities comprising the referenced index or (ii) pay a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index. If the Portfolio is a buyer of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Portfolio will either (i) receive from the seller of protection an amount equal to the notional amount of the swap and deliver the referenced obligation, other deliverable obligations or underlying securities comprising the referenced index or (ii) receive a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index. Recovery values are estimated by market makers considering either industry standard recovery rates or entity specific factors and considerations until a credit event occurs. If a credit event has occurred, the recovery value is determined by a facilitated auction whereby a minimum number of allowable broker bids, together with a specified valuation method, are used to calculate the settlement value.

Credit default swap agreements on corporate or sovereign issues involve one party making a stream of payments to another party in exchange for the right to receive a specified return in the event of a default or other credit event. If a credit event occurs and cash settlement is not elected, a variety of other deliverable obligations may be delivered in lieu of the specific referenced obligation. The ability to deliver other obligations may result in a cheapest-to-deliver option (the buyer of protection's right to choose the deliverable obligation with the lowest value following a credit event). The Portfolio may use credit default swaps on corporate or sovereign issues to provide a measure of protection against defaults of the issuers (i.e., to reduce risk where the Portfolio owns or has exposure to the referenced obligation) or to take an active long or short position with respect to the likelihood of a particular issuer's default.

Credit default swap agreements on credit indices involve one party making a stream of payments to another party in exchange for the right to receive a specified return in the event of a write-down, principal shortfall, interest shortfall or default of all or part of the referenced entities comprising the credit index. A credit index is a basket of credit instruments or exposures designed to be representative of some part of the credit market as a whole. These indices are made up of reference credits that are judged by a poll of dealers to be the most liquid entities in the credit default swap market based on the sector of the index. Components of the indices may include, but are not limited to, investment grade securities, high yield securities, asset-backed securities, emerging markets, and/or various credit ratings within each sector. Credit indices are traded using credit default swaps with standardized terms including a fixed spread and standard maturity dates. An index credit default swap references all the names in the index, and if there is a default, the credit event is settled based on that name's weight in the index. The composition of the indices changes periodically, usually every six months, and for most indices, each name has an equal weight in the index. The Portfolio may use credit default swaps on credit indices to hedge a portfolio of credit default swaps or bonds, which is less expensive than it would be to buy many credit default swaps to achieve a similar effect. Credit default swaps on indices are instruments for protecting investors owning bonds against default, and traders use them to speculate on changes in credit quality.

Implied credit spreads, represented in absolute terms, utilized in determining the market value of credit default swap agreements on corporate or sovereign issues as of period end are disclosed in the Notes to Schedule of Investments. They serve as an indicator of the current status of payment/performance risk and represent the likelihood or risk of default for the reference entity. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to be made to enter into the agreement. Wider credit spreads represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement. For credit default swap agreements on asset-backed securities and credit indices, the quoted market prices and resulting values serve as the indicator of the current status of the payment/performance risk. Increasing market values, in absolute terms when compared to the notional amount of the swap, represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

The maximum potential amount of future payments (undiscounted) that the Portfolio as a seller of protection could be required to make under a credit default swap agreement equals the notional amount of the agreement. Notional amounts of each individual credit default swap agreement outstanding as of period end for which the Portfolio is the seller of protection are disclosed in the Notes to Schedule of Investments. These potential amounts would be partially offset by any recovery values of the respective referenced obligations, upfront payments received upon entering into the agreement, or net amounts received from the settlement of buy protection credit default swap agreements entered into by the Portfolio for the same referenced entity or entities.

Cross-Currency Swap Agreements The Portfolio may enter into cross-currency swap agreements to gain or mitigate exposure to currency risk. Cross-currency swap agreements involve two parties exchanging two different currencies with an agreement to reverse the exchange at a later date at specified exchange rates. The exchange of currencies at the inception date of the contract takes place at the current spot rate. The re-exchange at maturity may take place at the same exchange rate, a specified rate, or the then current spot rate. Interest payments, if applicable, are made between the parties based on interest rates available in the two currencies at the inception of the contract. The terms of cross-currency swap contracts may extend for many years. Cross-currency swaps are usually negotiated with commercial and investment banks. Some cross-currency swaps may not provide for exchanging principal cash flows, but only for exchanging interest cash flows.

Interest Rate Swap Agreements The Portfolio is subject to interest rate risk exposure in the normal course of pursuing its investment objectives. Because the Portfolio holds fixed rate bonds, the value of these bonds may decrease if interest rates rise. To help hedge against this risk and to maintain its ability to generate income at prevailing market rates, the Portfolio may enter into interest rate swap agreements. Interest rate swap agreements involve the exchange by the Portfolio with another party for their respective commitment to pay or receive interest on the notional amount of principal. Certain forms of interest rate swap agreements may include: (i) interest rate caps, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates exceed a specified rate, or "cap", (ii) interest rate floors, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates fall below a specified rate, or "floor", (iii) interest rate collars, under which a party sells a cap and purchases a floor or vice versa in an attempt to protect itself against interest rate movements exceeding given minimum or maximum levels, (iv) callable interest rate swaps, under which the buyer pays an upfront fee in consideration for the right to early terminate the swap transaction in whole, at zero cost and at a predetermined date and time prior to the maturity date, (v) spreadlocks, which allow the interest rate swap users to lock in the forward differential (or spread) between the interest rate swap rate and a specified benchmark, or (vi) basis swaps, under which two parties can exchange variable interest rates based on different segments of money markets.

7. PRINCIPAL RISKS

In the normal course of business, the Portfolio trades financial instruments and enters into financial transactions where risk of potential loss exists due to such things as changes in the market (market risk) or failure or inability of the other party to a transaction to perform (credit and counterparty risk). See below for a detailed description of select principal risks. For a more comprehensive list of potential risks the Portfolio may be subject to, please see the Important Information About the Portfolio.

Market Risks The Portfolio's investments in financial derivatives and other financial instruments expose the Portfolio to various risks such as, but not limited to, interest rate, foreign currency, equity and commodity risks.

Interest rate risk is the risk that fixed income securities will decline in value because of an increase in interest rates. As nominal interest rates rise, the value of certain fixed income securities held by the Portfolio is likely to decrease. A nominal interest rate can be described as the sum of a real interest rate and an expected inflation rate. Interest rate changes can be sudden and unpredictable, and the Portfolio may lose money if these changes are not anticipated by Portfolio management. The Portfolio may not be able to hedge against changes in interest rates or may choose not to do so for cost or other reasons. In addition, any hedges may not work as intended.

Fixed income securities with longer durations tend to be more sensitive to changes in interest rates, usually making them more volatile than securities with shorter durations. Duration is useful primarily as a measure of the sensitivity of a fixed income security's market price to interest rate (i.e. yield) movements. A wide variety of factors can cause interest rates to rise (e.g., central bank monetary policies, inflation rates, general economic conditions). At present, the U.S. is experiencing historically low interest rates. This, combined with recent economic recovery and the end of the Fed's quantitative easing program in October 2014, may increase the probability of an upward interest rate environment in the near future.

Further, while U.S. bond markets have steadily grown over the past three decades, dealer "market making" ability has remained relatively stagnant. Given the importance of intermediary "market making" in creating a robust and active market, fixed income securities are currently facing increased volatility and liquidity risks. All of these factors, collectively and/or individually, could cause a Portfolio to lose value. If the Portfolio lost enough value, the Portfolio could face increased redemptions by shareholders, which could further impair its performance.

The Portfolio may invest in securities and instruments that are economically tied to Russia. Investments in Russia are subject to political, economic, legal, market and currency risks. The risks include uncertain political and economic policies, short-term market volatility, poor accounting standards, corruption and crime, an inadequate regulatory system, and unpredictable taxation. Investments in Russia are particularly subject to the risk that economic sanctions may be imposed by the United States and/or other countries. Such sanctions—which may impact companies in many sectors, including energy, financial services and defense, among others—may negatively impact the Portfolio's performance and/or ability to achieve its investment objective. The Russian securities market is characterized by limited volume of trading, resulting in difficulty in obtaining accurate prices and trading. The Russian securities market, as compared to U.S. markets, has significant price volatility, less liquidity, a smaller market capitalization and a smaller number of traded securities. There may be little publicly available information about issuers. Settlement, clearing and registration of securities transactions are subject to risks because of registration systems that may not be subject to effective government supervision. This may result in significant delays or problems in registering the transfer of securities. Russian securities laws may not recognize foreign nominee accounts held with a custodian bank, and therefore the custodian may be considered the ultimate owner of securities they hold for their clients. Ownership of securities issued by Russian companies is recorded by companies themselves and by registrars instead of through a central registration system. It is possible that the ownership rights of the Portfolio could be lost through fraud or negligence. While applicable Russian regulations impose liability on registrars for losses resulting from their errors, it may be difficult for the Portfolio to enforce any rights it may have against the registrar or issuer of the securities in the event of loss of share registration. Adverse currency exchange rates are a risk and there may be a lack of available currency hedging instruments. Investments in Russia may be subject to the risk of nationalization or expropriation of assets. Oil, natural gas, metals, and timber account for a significant portion of Russia's exports, leaving the country vulnerable to swings in world prices.

If the Portfolio invests directly in foreign (non-U.S.) currencies or in securities that trade in, and receive revenues in, foreign (non-U.S.) currencies, or in financial derivatives that provide exposure to foreign (non-U.S.) currencies, it will be subject to the risk that those currencies will decline in value relative to the base currency of the Portfolio, or, in the case of hedging positions, that the Portfolio's base currency will decline in value relative to the currency being hedged. Currency rates in foreign countries may fluctuate significantly over short periods of time for a number of reasons, including changes in interest rates, intervention (or the failure to intervene) by U.S. or foreign governments, central banks or supranational entities such as the International Monetary Fund, or by the imposition of currency controls or other political developments in the United States or abroad. As a result, the Portfolio's investments in foreign currency denominated securities may reduce the Portfolio's returns.

The market values of equities, such as common stocks and preferred securities or equity related investments such as futures and options, have historically risen and fallen in periodic cycles and may decline due to general market conditions which are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors which affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Different types of equity securities may react differently to these developments. Equity securities and equity related investments generally have greater market price volatility than fixed income securities.

Credit and Counterparty Risks The Portfolio will be exposed to credit risk to parties with whom it trades and will also bear the risk of settlement default. The Portfolio minimizes concentrations of credit risk by undertaking transactions with a large number of customers and counterparties on recognized and reputable exchanges. The Portfolio could lose money if the issuer or guarantor of a fixed income security, or the counterparty to a financial derivatives contract, repurchase agreement or a loan of portfolio securities, is unable or unwilling to make timely principal and/or interest payments, or to otherwise honor its obligations. Securities are subject to varying degrees of credit risk, which are often reflected in credit ratings.

Similar to credit risk, the Portfolio may be exposed to counterparty risk, or the risk that an institution or other entity with which the Portfolio has unsettled or open transactions will default. Financial assets, which potentially expose the Portfolio to counterparty risk, consist principally of cash due from counterparties and investments. PIMCO, as the Adviser, minimizes counterparty risks to the Portfolio by performing extensive reviews of each counterparty and obtaining approval from the PIMCO Counterparty Risk Committee prior to entering into transactions with a third-party. Furthermore, to the extent that unpaid amounts owed to the Portfolio exceed a predetermined threshold agreed to with the counterparty, such counterparty shall advance collateral to the Portfolio in the form of cash or cash equivalents equal in value to the unpaid amount owed to the Portfolio. The Portfolio may invest such collateral in securities or other instruments and will typically pay interest to the counterparty on the collateral received. If the unpaid amount owed to the Portfolio subsequently decreases, the Portfolio would be required to return to the counterparty all or a portion of the collateral previously advanced to the Portfolio.

All transactions in listed securities are settled/paid for upon delivery using approved counterparties. The risk of default is considered minimal, as delivery of securities sold is only made once the Portfolio has received payment. Payment is made on a purchase once the securities have been delivered by the counterparty. The trade will fail if either party fails to meet its obligation.

Master Netting Arrangements The Portfolio may be subject to various netting arrangements with select counterparties ("Master Agreements"). Master Agreements govern the terms of certain transactions, and reduce the counterparty risk associated with relevant transactions by specifying credit protection mechanisms and providing standardization that improves legal certainty. Since different types of transactions have different mechanics and are sometimes traded out of different legal entities of a particular organization, each type of transaction may be covered by a different Master Agreement, resulting in the need for multiple agreements with a single counterparty. As the Master Agreements are specific to unique operations of different asset types, they allow the Portfolio to close out and net its total exposure to a counterparty in the event of a default with respect to all the transactions governed under a single agreement with a counterparty.

Master Agreements can also help limit counterparty risk by specifying collateral posting arrangements at pre-arranged exposure levels. Under the Master Agreements, collateral is routinely transferred if the total net exposure to certain transactions (net of existing collateral already in place) governed under the relevant Master Agreement with a counterparty in a given account exceeds a specified threshold, which typically ranges from zero to $250,000 depending on the counterparty and the type of Master Agreement. United States Treasury Bills and U.S. dollar cash are generally the preferred forms of collateral, although other forms of AAA rated paper or sovereign securities may be used. Securities and cash pledged as collateral are reflected as assets in the Statement of Assets and Liabilities as either a component of Investments at value (securities) or Deposits due from Counterparties (cash). Cash collateral received is not typically held in a segregated account and as such is reflected as a liability in the Statement of Assets and Liabilities as Deposits due to Counterparties. The market value of any securities received as collateral is not reflected as a component of net asset value. The Portfolio's overall exposure to counterparty risk can change substantially within a short period, as it is affected by each transaction subject to the relevant Master Agreement.

Master Repurchase Agreements and Global Master Repurchase Agreements (individually and collectively "Master Repo Agreements") govern repurchase, reverse repurchase, and sale-buyback transactions between the Portfolio and select counterparties. Master Repo Agreements maintain provisions for, among other things, initiation, income payments, events of default, and maintenance of collateral. The market value of transactions under the Master Repo Agreement, collateral pledged or received, and the net exposure by counterparty as of period end are disclosed in the Notes to Schedule of Investments.

Master Securities Forward Transaction Agreements ("Master Forward Agreements") govern the considerations and factors surrounding the settlement of certain forward settling transactions, such as To-Be-Announced securities, delayed-delivery or sale-buyback transactions by and between the Portfolio and select counterparties. The Master Forward Agreements maintain provisions for, among other things, initiation and confirmation, payment and transfer, events of default, termination, and maintenance of collateral. The market value of forward settling transactions, collateral pledged or received, and the net exposure by counterparty as of period end is disclosed in the Notes to Schedule of Investments.

Customer Account Agreements and related addendums govern cleared derivatives transactions such as futures, options on futures, and cleared OTC derivatives. Cleared derivative transactions require posting of initial margin as determined by each relevant clearing agency which is segregated at a broker account registered with the Commodity Futures Trading Commission (CFTC), or the applicable regulator. In the U.S., counterparty risk is significantly reduced as creditors of the futures broker do not have claim to Portfolio assets in the segregated account. Additionally, portability of exposure in the event of default further reduces risk to the Portfolio. Variation margin, or changes in market value, are exchanged daily, but may not be netted between futures and cleared OTC derivatives. The market value or accumulated unrealized appreciation or depreciation, initial margin posted, and any unsettled variation margin as of period end is disclosed in the Notes to Schedule of Investments.

International Swaps and Derivatives Association, Inc. Master Agreements and Credit Support Annexes ("ISDA Master Agreements") govern OTC financial derivative transactions entered into by the Portfolio and select counterparties. ISDA Master Agreements maintain provisions for general obligations, representations, agreements, collateral and events of default or termination. Events of termination include conditions that may entitle counterparties to elect to terminate early and cause settlement of all outstanding transactions under the applicable ISDA Master Agreement. Any election to terminate early could be material to the financial statements. In limited circumstances, the ISDA Master Agreement may contain additional provisions that add counterparty protection beyond coverage of existing daily exposure if the counterparty has a decline in credit quality below a predefined level. These amounts, if any, may be segregated with a third-party custodian. The market value of OTC financial derivative instruments, collateral received or pledged, and net exposure by counterparty as of period end are disclosed in the Notes to Schedule of Investments.

8. FEES AND EXPENSES

(a) Investment Advisory Fee PIMCO is a majority-owned subsidiary of Allianz Asset Management of America L.P. ("Allianz Asset Management") and serves as the Adviser to the Trust, pursuant to an investment advisory contract. The Adviser receives a monthly fee from the Portfolio at an annual rate based on average daily net assets (the "Investment Advisory Fee"). The Investment Advisory Fee for all classes is charged at an annual rate of 0.25%.

(b) Supervisory and Administrative Fee PIMCO serves as administrator (the "Administrator") and provides supervisory and administrative services to the Trust for which it receives a monthly supervisory and administrative fee based on each share class's average daily net assets (the "Supervisory and Administrative Fee"). As the Administrator, PIMCO bears the costs of various third-party services, including audit, custodial, portfolio accounting, legal, transfer agency and printing costs. The Supervisory and Administrative Fee for all classes is charged at the annual rate of 0.50%.

(c) Distribution and Servicing Fees PIMCO Investments LLC ("PI"), a wholly-owned subsidiary of PIMCO, serves as the distributor ("Distributor") of the Trust's shares. The Trust has adopted an Administrative Services Plan with respect to the Administrative Class shares of the Portfolio pursuant to Rule 12b-1 under the Act (the "Administrative Plan"). Under the terms of the Administrative Plan, the Trust is permitted to compensate the Distributor, out of the Administrative Class assets of the Portfolio, in an amount up to 0.15% on an annual basis of the average daily net assets of that class, for providing or procuring through financial intermediaries administrative, recordkeeping and investor services for Administrative Class shareholders of the Portfolio.

The Trust has adopted a separate Distribution and Servicing Plan for the Advisor Class shares of the Portfolio (the "Distribution and Servicing Plan"). The Distribution and Servicing Plan has been adopted pursuant to Rule 12b-1 under the Act. The Distribution and Servicing Plan permits the Portfolio to compensate the Distributor for providing or procuring through financial intermediaries distribution, administrative, recordkeeping, shareholder and/or related services with respect to Advisor Class shares. The Distribution and Servicing Plan permits the Portfolio to make total payments at an annual rate of up to 0.25% of its average daily net assets attributable to its Advisor Class shares.

(d) Portfolio Expenses The Trust is responsible for the following expenses: (i) salaries and other compensation of any of the Trust's executive officers and employees who are not officers, directors, stockholders or employees of PIMCO or its subsidiaries or affiliates; (ii) taxes and governmental fees; (iii) brokerage fees and commissions and other portfolio transaction expenses; (iv) the costs of borrowing money, including interest expense; (v) fees and expenses of the Trustees who are not "interested persons" of PIMCO or the Trust, and any counsel retained exclusively for their benefit; (vi) extraordinary expense, including costs of litigation and indemnification expenses; (vii) organization expenses; and (viii) any expenses allocated or allocable to a specific class of shares, which include service fees payable with respect to the Administrative Class Shares, and may include certain other expenses as permitted by the Trust's Multi-Class Plan adopted pursuant to Rule 18f-3 under the Act and subject to review and approval by the Trustees. The ratio of expenses to average net assets per share class, as disclosed on the Financial Highlights, may differ from the annual portfolio operating expenses per share class as disclosed in the Prospectus for the reasons set forth above.

Each Trustee, other than those affiliated with PIMCO or its affiliates, will receive an annual retainer of $35,000, plus $3,600 for each Board of Trustees meeting attended in person, $750 for each committee meeting attended and $750 for each Board of Trustees meeting attended telephonically, plus reimbursement of related expenses. In addition, the audit committee chair will receive an additional annual retainer of $5,000 and each other committee chair will receive an additional annual retainer of $1,500.

These expenses are allocated on a pro rata basis to the various portfolios of the Trust according to their respective net assets except PIMCO All Asset Portfolio does not bear any Trustee Fees. The Trust pays no compensation directly to any Trustee or any other officer who is affiliated with the Administrator, all of whom receive remuneration for their services to the Trust from the Administrator or its affiliates.

9. RELATED PARTY TRANSACTIONS

The Adviser, Administrator, and Distributor are related parties. Fees payable to these parties are disclosed in Note 8 and the accrued related party fee amounts are disclosed on the Statement of Assets and Liabilities.

The Portfolio is permitted to purchase or sell securities from or to certain related affiliated portfolios under specified conditions outlined in procedures adopted by the Board of Trustees of the Trust. The procedures have been designed to ensure that any purchase or sale of securities by the Portfolio from or to another portfolio that are, or could be, considered an affiliate by virtue of having a common investment adviser (or affiliated investment advisers), common Trustees and/or common officers complies with Rule 17a-7 of the Act. Further, as defined under the procedures, each transaction is effected at the current market price. During the period ended December 31, 2014, the Portfolio engaged in purchases and sales of securities pursuant to Rule 17a-7 of the Act (amounts in thousands):

Purchases	Sales
$ 13,317	$ 2,386

10. GUARANTEES AND INDEMNIFICATIONS

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

11. PURCHASES AND SALES OF SECURITIES

The length of time a Portfolio has held a particular security is not generally a consideration in investment decisions. A change in the securities held by a Portfolio is known as "portfolio turnover." The Portfolio may engage in frequent and active trading of portfolio securities to achieve its investment objective, particularly during periods of volatile market movements. High portfolio turnover involves correspondingly greater expenses to the Portfolio including brokerage commissions or dealer mark-ups and other transaction costs on the sale of securities and reinvestments in other securities. Such sales may also result in realization of taxable capital gains, including short-term capital gains (which are generally taxed at ordinary income tax rates). The trading costs and tax effects associated with portfolio turnover may adversely affect a Portfolio's performance. The portfolio turnover rates are reported in the Financial Highlights.

Purchases and sales of securities (excluding short-term investments) for the period ended December 31, 2014, were as follows (amounts in thousands):

U.S. Government/Agency		All Other	
Purchases	Sales	Purchases	Sales
$ 72,187	$ 67,282	$ 103,557	$ 56,156

12. SHARES OF BENEFICIAL INTEREST

The Portfolio may issue an unlimited number of shares of beneficial interest with a $0.001 par value. Changes in shares of beneficial interest were as follows (shares and amounts in thousands†):

	Year Ended 12/31/2014		Year Ended 12/31/2013	
	Shares	Amount	Shares	Amount
Receipts for shares sold				
Institutional Class	83	$ 884	0	$ 0
Administrative Class	5,383	56,686	1,848	19,667
Advisor Class	6,335	67,757	0	0
Issued as reinvestment of distributions				
Institutional Class	1	10	0	2
Administrative Class	185	1,966	503	5,145
Advisor Class	61	665	0	0
Cost of shares redeemed				
Institutional Class	(5)	(55)	0	0
Administrative Class	(3,956)	(41,731)	(3,037)	(32,326)
Advisor Class	(1)	(10)	0	0
Net increase (decrease) resulting from Portfolio share transactions	8,086	$ 86,172	(686)	$ (7,512)

† A zero balance may reflect actual amounts rounding to less than one thousand.

As of December 31, 2014, three shareholders each owned 10% or more of the total Portfolio's outstanding shares comprising 73% of the Portfolio.

13. REGULATORY AND LITIGATION MATTERS

The Trust is not engaged in any material litigation or arbitration proceedings and is not aware of any material litigation or claim pending or threatened against it.

14. FEDERAL INCOME TAX MATTERS

The Portfolio intends to qualify as a regulated investment company under Subchapter M of the Internal Revenue Code (the "Code") and distribute all of its taxable income and net realized gains, if applicable, to shareholders. Accordingly, no provision for Federal income taxes has been made.

In accordance with provisions set forth under U.S. GAAP, the Adviser has reviewed the Portfolio's tax positions for all open tax years. As of December 31, 2014, the Portfolio has recorded no liability for net unrecognized tax benefits relating to uncertain income tax positions it has taken or expects to take in future tax returns.

The Portfolio files U.S. tax returns. While the statute of limitations remains open to examine the Portfolio's U.S. tax returns filed for the fiscal years ending in 2011-2013, no examinations are in progress or anticipated at this time. The Portfolio is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months.

Shares of the Portfolio currently are sold to segregated asset accounts ("Separate Accounts") of insurance companies that fund variable annuity contracts and variable life insurance policies ("Variable Contracts"). Please refer to the prospectus for the Separate Account and Variable Contract for information regarding Federal income tax treatment of distributions to the Separate Account.

As of December 31, 2014, the components of distributable taxable earnings are as follows (amounts in thousands):

Undistributed Ordinary Income	Undistributed Long-Term Capital Gains	Net Tax Basis Unrealized Appreciation/ (Depreciation) (1)	Other Book-to-Tax Accounting Differences (2)	Accumulated Capital Losses (3)	Qualified Late-Year Loss Deferral - Capital (4)	Qualified Late-Year Loss Deferral - Ordinary (5)
$ 9,485	$ 174	$ (903)	$ (1,179)	$ —	$ —	$ —

(1) Adjusted for open wash sale loss deferrals and the accelerated recognition of unrealized gain or loss on certain futures, options and forward contracts for federal income tax purposes. Also adjusted for differences between book and tax realized and unrealized gain (loss) on swap contracts, Treasury Inflation-Protected Securities, sale/buyback transactions, and Lehman securities.

(2) Represents differences in income tax regulations and financial accounting principles generally accepted in the United States of America, namely for straddle loss deferrals and distributions payable at fiscal year-end.

(3) Capital losses available to offset future net capital gains expire in varying amounts in the years shown below.

(4) Capital losses realized during the period November 1, 2014 through December 31, 2014 which the Portfolio elected to defer to the following taxable year pursuant to income tax regulations.

(5) Specified losses realized during the period November 1, 2014 through December 31, 2014, which the Portfolio elected to defer to the following taxable year pursuant to income tax regulations.

As of December 31, 2014, the aggregate cost and the net unrealized appreciation/(depreciation) of investments for federal income tax purposes are as follows (amounts in thousands):

Federal Tax Cost	Unrealized Appreciation	Unrealized (Depreciation)	Net Unrealized Appreciation/ (Depreciation) (6)
$ 157,161	$ 2,095	$ (4,042)	$ (1,947)

(6) Primary differences, if any, between book and tax net unrealized appreciation/(depreciation) on investments are attributable to open wash sale loss deferrals, Treasury Inflation-Protected Securities, sale/buyback transactions, convertible preferred stock, and Lehman securities.

For the fiscal years ended December 31, 2014 and December 31, 2013, respectively, the Portfolio made the following tax basis distributions (amounts in thousands):

Fiscal Year Ended	Ordinary Income Distributions (7)	Long-Term Capital Gain Distributions	Return of Capital (8)
12/31/2014	$ 2,371	$ 270	$ —
12/31/2013	$ 4,879	$ 267	$ —

(7) Includes short-term capital gains, if any, distributed.

(8) A portion of the distributions made represents a tax return of capital. Return of capital distributions have been reclassified from undistributed net investment income to paid-in capital to more appropriately conform to financial accounting to tax accounting.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of PIMCO Variable Insurance Trust and Administrative Class Shareholders of PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged):

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 for the Administrative Class present fairly, in all material respects, the financial position of PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) (one of the portfolios constituting PIMCO Variable Insurance Trust, hereinafter referred to as the "Portfolio") at December 31, 2014, 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 the Administrative Class for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Portfolio's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2014 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Kansas City, Missouri
February 20, 2015

Glossary: (abbreviations that may be used in the preceding statements)

Counterparty Abbreviations:

AZD	Australia and New Zealand Banking Group	**FBF**	Credit Suisse International	**MSB**	Morgan Stanley Bank, N.A
BOA	Bank of America N.A.	**GLM**	Goldman Sachs Bank USA	**MYC**	Morgan Stanley Capital Services, Inc.
BPS	BNP Paribas S.A.	**GSC**	Goldman Sachs & Co.	**RBC**	Royal Bank of Canada
BRC	Barclays Bank PLC	**GST**	Goldman Sachs International	**SOG**	Societe Generale
CBK	Citibank N.A.	**HUS**	HSBC Bank USA N.A.	**SSB**	State Street Bank and Trust Co.
DEU	Deutsche Bank Securities, Inc.	**JPM**	JPMorgan Chase Bank N.A.	**UAG**	UBS AG Stamford
DUB	Deutsche Bank AG				

Currency Abbreviations:

AUD	Australian Dollar	**GBP**	British Pound	**PLN**	Polish Zloty
BRL	Brazilian Real	**ILS**	Israeli Shekel	**SEK**	Swedish Krona
CAD	Canadian Dollar	**INR**	Indian Rupee	**SGD**	Singapore Dollar
CHF	Swiss Franc	**JPY**	Japanese Yen	**USD (or $)**	United States Dollar
CNY	Chinese Renminbi (Mainland)	**MXN**	Mexican Peso	**HKD**	Hong Kong Dollar
DKK	Danish Krone	**MYR**	Malaysian Ringgit	**ZAR**	South African Rand
EUR	Euro	**NZD**	New Zealand Dollar		

Exchange Abbreviations:

OTC Over the Counter

Index Abbreviations:

CDX.IG Credit Derivatives Index - Investment Grade

Other Abbreviations:

ALT	Alternate Loan Trust	**CDO**	Collateralized Debt Obligation	**MBS**	Mortgage-Backed Security
BABs	Build America Bonds	**CLO**	Collateralized Loan Obligation	**NCUA**	National Credit Union Administration
BBR	Bank Bill Rate	**EURIBOR**	Euro Interbank Offered Rate	**TIIE**	Tasa de Interés Interbancaria de Equilibrio
BBSW	Bank Bill Swap Reference Rate	**LIBOR**	London Interbank Offered Rate	**WIBOR**	Warsaw Interbank Offered Rate

Federal Income Tax Information

(Unaudited)

As required by the Internal Revenue Code ("Code") and Treasury Regulations, if applicable, shareholders must be notified within 60 days of the Portfolio's fiscal year end regarding the status of qualified dividend income and the dividend received deduction.

Qualified Dividend Income. Under the Jobs and Growth Tax Relief Reconciliation Act of 2003 (the "Act"), the following percentage of ordinary dividends paid during the calendar year was designated as "qualified dividend income", as defined in the Act, subject to reduced tax rates in 2014:

0.39%

Dividend Received Deduction. Corporate shareholders are generally entitled to take the dividend received deduction on the portion of a Portfolio's dividend distribution that qualifies under tax law. The percentage of the following Portfolio's calendar year ordinary income dividend that qualifies for the corporate dividend received deduction is set forth below:

0.20%

Shareholders are advised to consult their own tax advisor with respect to the tax consequences of their investment in the Trust. However, income received by tax-exempt recipients need not be reported as taxable income.

The chart below identifies the Trustees and Officers of the Trust. Each "interested" Trustee as defined by the 1940 Act, is indicated by an asterisk (*). Unless otherwise indicated, the address of all persons below is 650 Newport Center Drive, Newport Beach, CA 92660.

The Portfolio's Statement of Additional Information includes more information about the Trustees and Officers. To request a free copy, call PIMCO at (888) 87-PIMCO or visit the Portfolio's website at http://pvit.pimco-funds.com.

Name, Year of Birth and Position Held with Trust	Term of Office** and Length of Time Served	Principal Occupation(s) During the Past 5 Years	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee
Interested Trustees				
Brent R. Harris* (1959) *Chairman of the Board and Trustee*	08/1997 to Present	Managing Director and member of Executive Committee, PIMCO.	170	Chairman and Trustee, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT; Director, StocksPLUS® Management, Inc.; Director, Applied Natural Gas Fuels, Inc. and member of Board of Governors, Investment Company Institute.
Douglas M. Hodge* (1957) *Trustee*	02/2010 to Present	Managing Director, Chief Executive Officer, PIMCO (since 2/14) and Chief Operating Officer, PIMCO (7/09-2/14); Member of Executive Committee and Head of PIMCO's Asia Pacific region. Member Global Executive Committee, Allianz Asset Management.	151	Trustee, PIMCO Funds and PIMCO ETF Trust.
Independent Trustees				
E. Philip Cannon (1940) *Trustee*	05/2000 to Present	Private Investor. Formerly, President, Houston Zoo.	170	Trustee, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. Formerly, Trustee Allianz Funds (formerly, PIMCO Funds: Multi-Manager Series).
J. Michael Hagan (1939) *Trustee*	05/2000 to Present	Private Investor and Business Advisor (primarily to manufacturing companies).	151	Trustee, PIMCO Funds and PIMCO ETF Trust.
Ronald C. Parker (1951) *Trustee*	07/2009 to Present	Director of Roseburg Forest Products Company. Formerly Chairman of the Board, The Ford Family Foundation. Formerly President, Chief Executive Officer, Hampton Affiliates (forestry products)	151	Trustee, PIMCO Funds and PIMCO ETF Trust.

* Mr. Harris and Mr. Hodge are "interested persons" of the Trust (as that term is defined in the 1940 Act) because of their affiliation with PIMCO.
** Trustees serve until their successors are duly elected and qualified

Executive Officers

Name, Year of Birth and Position Held with Trust	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years
Peter G. Strelow (1970) *President*	01/2015 to Present Senior Vice President 11/2013 to 01/2015	Managing Director, PIMCO.
David C. Flattum (1964) *Chief Legal Officer*	11/2006 to Present	Managing Director and General Counsel, PIMCO. Formerly, Managing Director, Chief Operating Officer and General Counsel, Allianz Asset Management of America L.P.
Jennifer E. Durham (1970) *Chief Compliance Officer*	07/2004 to Present	Managing Director, PIMCO.
Douglas M. Hodge (1957) *Senior Vice President*	05/2010 to Present	Managing Director; Chief Executive Officer, PIMCO (since 2/14) and Chief Operating Officer, PIMCO (7/09-2/14); Member of Executive Committee and Head of PIMCO's Asia Pacific region. Member Global Executive Committee, Allianz Asset Management.
Brent R. Harris (1959) *Senior Vice President*	01/2015 to Present President 03/2009 to 01/2015	Managing Director, PIMCO.
William G. Galipeau (1974) *Vice President*	11/2013 to Present	Executive Vice President, PIMCO.
Eric D. Johnson (1970) *Vice President*	05/2011 to Present	Executive Vice President, PIMCO.
Henrik P. Larsen (1970) *Vice President*	02/1999 to Present	Senior Vice President, PIMCO.
Greggory S. Wolf (1970) *Vice President*	05/2011 to Present	Senior Vice President, PIMCO.
Kevin M. Broadwater (1964) *Vice President - Senior Counsel*	05/2012 to Present	Executive Vice President and Deputy General Counsel, PIMCO.
Joshua D. Ratner (1976) *Vice President - Senior Counsel Secretary*	11/2013 to Present Assistant Secretary 10/2007 to 01/2011	Executive Vice President and Senior Counsel, PIMCO.
Ryan G. Leshaw (1980) *Assistant Secretary*	05/2012 to Present	Vice President and Counsel, PIMCO. Formerly, Associate, Willkie Farr & Gallagher LLP.
Trent W. Walker (1974) *Treasurer*	11/2013 to Present Assistant Treasurer 05/2007 to 11/2013	Senior Vice President, PIMCO.
Stacie D. Anctil (1969) *Assistant Treasurer*	11/2003 to Present	Senior Vice President, PIMCO.
Erik C. Brown (1967) *Assistant Treasurer*	02/2001 to Present	Executive Vice President, PIMCO.

Privacy Policy

The Trust[1] considers customer privacy to be a fundamental aspect of its relationships with shareholders and is committed to maintaining the confidentiality, integrity and security of its current, prospective and former shareholders' personal information. The Trust has developed policies that are designed to protect this confidentiality, while allowing shareholder needs to be served.

Obtaining Personal Information

In the course of providing shareholders with products and services, the Trust and certain service providers to the Trust, such as the Trust's investment adviser ("Adviser"), may obtain non-public personal information about shareholders, which may come from sources such as account applications and other forms, from other written, electronic or verbal correspondence, from shareholder transactions, from a shareholder's brokerage or financial advisory firm, financial advisor or consultant, and/or from information captured on the Trust's internet websites.

Respecting Your Privacy

As a matter of policy, the Trust does not disclose any personal or account information provided by shareholders or gathered by the Trust to non-affiliated third parties, except as required or permitted by law or as necessary for such third parties to perform their agreements with respect to the Trust. As is common in the industry, non-affiliated companies may from time to time be used to provide certain services, such as preparing and mailing prospectuses, reports, account statements and other information, conducting research on shareholder satisfaction and gathering shareholder proxies. The Trust's distributor may also retain non-affiliated companies to market the Trust's shares or products which use the Trust's shares and enter into joint marketing arrangements with them and other companies. These companies may have access to a shareholder's personal and account information, but are permitted to use this information solely to provide the specific service or as otherwise permitted by law. In most cases, the shareholders will be clients of a third party, but the Trust may also provide a shareholder's personal and account information to the shareholder's respective brokerage or financial advisory firm and/or financial advisor or consultant.

Sharing Information with Third Parties

The Trust reserves the right to disclose or report personal information to non-affiliated third parties in limited circumstances where the Trust believes in good faith that disclosure is required under law, to cooperate with regulators or law enforcement authorities, to protect its rights or property, or upon reasonable request by any Trust in which a shareholder has invested. In addition, the Trust may disclose information about a shareholder's accounts to a non-affiliated third party at the shareholder's request or with the consent of the shareholder.

Sharing Information with Affiliates

The Trust may share shareholder information with its affiliates in connection with servicing shareholders' accounts, and subject to applicable law may provide shareholders with information about products and services that the Trust or its Adviser, distributors or their affiliates ("Service Affiliates") believe may be of interest to such shareholders. The information that the Trust may share may include, for example, a shareholder's participation in the Trust or in other investment programs sponsored by a Service Affiliate, a shareholder's ownership of certain types of accounts (such as IRAs), information about the Trust's experiences or transactions with a shareholder, information captured on the Trust's internet website, or other data about a shareholder's accounts, subject to applicable law. The Trust's Service Affiliates, in turn, are not permitted to share shareholder information with non-affiliated entities, except as required or permitted by law.

Procedures to Safeguard Private Information

The Trust takes seriously the obligation to safeguard shareholder non-public personal information. In addition to this policy, the Trust has implemented procedures that are designed to restrict access to a shareholder's non-public personal information to internal personnel who need to know that information to perform their jobs, such as servicing shareholder accounts or notifying shareholders of new products or services. Physical, electronic and procedural safeguards are in place to guard a shareholder's non-public personal information.

[1] When distributing this Policy, the Trust may combine the distribution with any similar distribution of its investment adviser's privacy policy. The distributed, combined, policy may be written in the first person (i.e. by using "we" instead of "the Trust").

At a meeting held on August 11-12, 2014, the Board of Trustees (the "Board") of PIMCO Variable Insurance Trust (the "Trust"), including all of the independent Trustees, approved the Trust's Amended and Restated Investment Advisory Contract (the "Investment Advisory Contract") with Pacific Investment Management Company LLC ("PIMCO"), on behalf of each of the Trust's portfolios (the "Portfolios"), for an additional one-year term through August 31, 2015. The Board also considered and approved for an additional one-year term through August 31, 2015, the Supervision and Administration Agreement (together with the Investment Advisory Contract, the "Agreements") with PIMCO, on behalf of the Portfolios. The Board also considered and approved the renewal of the Amended and Restated Asset Allocation Sub Advisory Agreement (the "Asset Allocation Agreement") with Research Affiliates, LLC ("Research Affiliates"), on behalf of the PIMCO All Asset Portfolio and PIMCO All Asset All Authority Portfolio, each a series of the Trust, for an additional one-year term through August 31, 2015.

The information, material factors and conclusions that formed the basis for the Board's approvals are described below.

1. INFORMATION RECEIVED

(a) Materials Reviewed: During the course of each year, the Trustees receive a wide variety of materials relating to the services provided by PIMCO and Research Affiliates. At each of its quarterly meetings, the Board reviews the Portfolios' investment performance and a significant amount of information relating to Portfolio operations, including the Portfolios' compliance program, shareholder services, valuation, custody, distribution, and other information relating to the nature, extent and quality of services provided by PIMCO and Research Affiliates to the Trust. In considering whether to approve renewal of the Agreements and Asset Allocation Agreement, the Board also reviewed supplementary information, including, but not limited to, comparative industry data with regard to investment performance, advisory and supervisory and administrative fees and expenses, financial and profitability information regarding PIMCO and Research Affiliates, information about the personnel providing investment management services, other advisory services and supervisory and administrative services to the Portfolios, and information about the fees charged and services provided to other clients with similar investment mandates as the Portfolios (where applicable). The Board also reviewed material provided by counsel to the Trust and the independent Trustees, which included, among other things, memoranda outlining legal duties of the Board in considering the continuation of the Agreements.

(b) Review Process: In connection with the renewal of the Agreements and the Asset Allocation Agreement, the Board reviewed written materials prepared by PIMCO and Research Affiliates in response to requests from counsel to the Trust. The Board also requested and received assistance and advice regarding applicable legal standards from counsel to the Trust and the independent Trustees, and reviewed comparative fee and performance data prepared at the Board's request by Lipper, Inc. ("Lipper"), an independent provider of investment company performance and fee and expense data. The Board also heard oral presentations on matters related to the Agreements and Asset Allocation Agreement and met both as a full Board and as the independent Trustees, without management present, at the August 11-12, 2014 meeting. The independent Trustees also conducted a telephonic meeting with counsel to the Trust and the independent Trustees on August 5, 2014 to discuss the materials presented. In addition, the independent Trustees requested and received from PIMCO additional information including, but not limited to, information related to portfolio profitability and comparative performance information.

The approval determinations were made on the basis of each Trustee's business judgment after consideration of all the information presented. Individual Trustees may have given different weights to certain factors and assigned various degrees of materiality to information received in connection with the approval process. In deciding to approve the renewal of the Agreements and Asset Allocation Agreement, the Board did not identify any single factor or particular information that, in isolation, was controlling. This summary describes the most important, but not all, of the factors considered by the Board.

2. NATURE, EXTENT AND QUALITY OF SERVICES

(a) PIMCO, Research Affiliates, their Personnel, and Resources: The Board considered the depth and quality of PIMCO's investment management process, including: the experience, capability and integrity of its senior management and other personnel; the overall financial strength and stability of its organization; and the ability of its organizational structure to address changes in assets under management. The Board also considered the various services in addition to portfolio management that PIMCO provides under the Investment Advisory Contract. The Board noted that PIMCO makes available to its investment professionals a variety of resources and systems relating to investment management, compliance, trading, performance and portfolio accounting. The Board noted PIMCO's commitment to investing in information technology supporting investment management and compliance, as well as PIMCO's continuing efforts to attract and retain qualified personnel and to maintain and enhance its resources and systems. The Board considered PIMCO's policies, procedures and systems to reasonably assure compliance with applicable laws and regulations and its commitment to these programs; its oversight of matters that may involve conflicts of interest between the Portfolios' investments and those of other accounts; and its efforts to keep the Trustees informed about matters relevant to the Portfolios and their shareholders.

The Trustees considered the steps that PIMCO has taken in recent years with respect to active management of counterparty risk, such as implementing procedures requiring daily collateral adjustments and frequent communication between credit analysts and the counterparty risk committee which oversees counterparty risk on a firm-wide basis, continually evaluating requests to add or remove approved counterparties as market needs and conditions warrant. The Trustees considered that, over the last several years, PIMCO has continued to strengthen the process it uses to assess the financial stability of broker-dealers with which the Portfolios do business, to manage collateral and to protect portfolios from an unforeseen deterioration in the creditworthiness of trading counterparties. The Trustees noted that, consistent with its fiduciary duty, PIMCO executes transactions through a competitive best execution process and uses counterparties that meet its stringent and monitored criteria. The Trustees also considered that PIMCO's collateral management team utilizes the counterparty risk system to analyze portfolio level exposure and collateral being exchanged with counterparties.

The Trustees also considered new services and service enhancements that PIMCO has implemented since the Agreements were last renewed in 2013, including, but not limited to, constructing and moving into a new global headquarters in Newport Beach in May 2014; investing significant resources into developing its global portfolio management expertise; expanding PIMCO's technology team and investing in technology, with a focus on projects that increase capacity and investment management stability; engaging in detailed preparation efforts for the potential consequences of an unanticipated financial crisis or global liquidity vacuum; focusing on global business continuity program management; investing in additional personnel with fund operations expertise, including additional accounting, financial reporting, pricing and tax resources; and continuing to develop the PIMCO Accounting Yield Application (or PAY), which provides yield and income reporting, and the rollout of the Pricing Portal, which is a web-based workflow application that will automate the daily pricing review process, improve communications among stakeholders and enhance the ability to identify pricing variance and provide feedback to pricing vendors.

Similarly, the Board considered the asset-allocation services provided by Research Affiliates to the PIMCO All Asset and All Asset All Authority Portfolios. The Board noted that the PIMCO All Asset All Authority Portfolio commenced operations on April 30, 2014. The Board considered the depth and quality of Research Affiliates' investment management and research capabilities, the experience and capabilities of its portfolio management personnel, and in particular the experience and capabilities of Robert Arnott, Research Affiliates' principal, and the overall financial strength of the organization.

Ultimately, the Board concluded that the nature, extent and quality of services proposed to be provided by PIMCO under the Agreements and by Research Affiliates under the Asset Allocation Agreement are likely to benefit the Portfolios and their shareholders.

(b) Other Services: The Board considered PIMCO's policies, procedures and systems to reasonably assure compliance with applicable laws and regulations and its commitment to these programs; its oversight of matters that may involve conflicts of interest with the Trust; and its efforts to keep the Trustees informed about matters relevant to the Trust and its shareholders. The Board also considered the nature, extent, quality and cost of supervisory and administrative services provided by PIMCO to the Portfolios under both Agreements. The Board noted that the Supervision and Administration Agreement was approved at the August 2008 Board meeting to replace the Trust's previous Administration Agreement. The purpose of the change was to reflect the increased scope and complexity of supervisory and administrative services that PIMCO had been providing to the Trust pursuant to the Administration Agreement. The Board considered the terms of the Trust's Supervision and Administration Agreement, under which the Trust pays for the administrative services under that Agreement under what is essentially an all-in fee structure (the "unified fee"). In return, PIMCO provides or procures certain supervisory and administrative services and bears the costs of various third party services required by the Portfolios, including audit, custodial, portfolio accounting, legal, transfer agency and printing costs. The Board noted that the scope and complexity of the supervisory and administrative services provided by PIMCO under the Agreements continue to increase. The Board considered PIMCO's provision of these services and supervision of the Trust's third party service providers to assure that these service providers continue to provide a high level of service relative to alternatives in the market.

Ultimately, the Board concluded that the nature, extent and quality of the services provided by PIMCO has benefited and will likely continue to benefit the Portfolios and their shareholders.

3. INVESTMENT PERFORMANCE

The Board received and examined information from PIMCO concerning the Portfolios' year-to-date, one-, three-, five-, seven- and ten-year performance, as available, for the periods ended May 31, 2014 and other performance data, as available, for the period ended June 30, 2014 (the "PIMCO Report") and from Lipper concerning the Portfolios' one-, three-, five-, ten-, and fifteen-year performance, as available, for the periods ended May 31, 2014 (the "Lipper Report").

The Board considered information regarding both the short-term and long-term investment performance of each Portfolio relative to its peer group and relevant benchmark index as provided to the Board in advance of each of its quarterly meetings throughout the year, including the PIMCO Report and Lipper Report, which were provided in advance of the August 11-12, 2014 meeting. The Trustees noted that the assets of the Portfolios continued to grow and that a majority of the Portfolios outperformed the Lipper medians over the three-year and longer periods ended May 31, 2014.

The Board noted that, as of May 31, 2014, the Administrative Class of 69%, 71% and 100% of the Portfolios outperformed its Lipper category median over the three-year, five-year and ten-year periods, respectively. The Trustees considered that other classes of each Portfolio would have substantially similar performance to that of the Administrative Class of the relevant Portfolio on a relative basis because all of the classes are invested in the same portfolio of securities and that differences in performance among classes could principally be attributed to differences in the distribution and servicing expenses of each class. The Board also considered that the investment objectives of certain of the Portfolios may not always be identical to those of the other funds in their respective peer groups, that the Lipper categories do not separate funds based upon maturity or duration, do not account for the Portfolios' hedging strategies, do not distinguish between enhanced index and actively managed equity strategies, do not include as many subsets as the Portfolios offer (i.e., Portfolios may be placed in a "catch-all" Lipper category to which they do not properly belong) and do not account for certain fee waivers. The Board noted that, due to these differences, performance comparisons between certain of the Portfolios and their so-called peers may be inexact.

The Board noted that 85% or more of the assets of the Trust had outperformed their respective benchmarks on a net-of-fees basis over the three-year, five-year and ten-year periods ending May 31, 2014 (based on the performance of the Administrative Class). The Board also noted that 11 of 14 Portfolios, representing 92% of the total assets of the Trust, had outperformed their respective benchmark indexes over the five-year period ending May 31, 2014, on a net-of-fees basis. The Board also noted that, while the Lipper universe comparisons provide a valuable performance comparison reference, there are several Portfolios that do not fit well into their respective Lipper classifications. The Board also discussed actions that have been taken by PIMCO to attempt to improve performance and took note of PIMCO's plans to monitor performance going forward, as applicable. The Board also considered that the Trust's assets had increased to $22.8 billion as of May 31, 2014.

The Board considered PIMCO's discussion of the intensive nature of managing bond funds, noting that it requires the consideration of a number of factors, including: varying maturities, prepayments, collateral management, counter-party management, pay-downs, credit events, workouts, derivatives and net new issuance in the bond market. The Board noted that in addition to managing these factors, PIMCO must also balance risk controls and strategic positions in each portfolio it manages. Despite these challenges, the Board noted that PIMCO has generated "alpha" (i.e., non-market correlated excess performance) for its clients, including the Trust.

The Board ultimately determined, within the context of all of its considerations in connection with the Agreements, that the Trust's overall investment performance was strong, and concluded that PIMCO's performance record and process in managing the Portfolios indicates that its continued management is likely to benefit the Portfolios and their shareholders, and merits the approval of the continuation of the Agreements.

4. ADVISORY FEES, SUPERVISORY AND ADMINISTRATIVE FEES AND TOTAL EXPENSES

The Board considered that PIMCO seeks to price funds with total expense ratios at or below the respective Lipper median, if there is an appropriate Lipper category comparison, while providing premium investment offerings. Fees charged to or proposed for different Portfolios for advisory services and supervisory and administrative services may vary in light of these various factors. The Board also considered that PIMCO reviews the Portfolios' fee levels and carefully considers reductions where appropriate. Further, the Board noted that PIMCO believes that the growth in the Trusts' assets under management over time and long-term positive net flows are important indicators of proper and effective pricing.

The Board reviewed the advisory fees, supervisory and administrative fees and total expenses of the Portfolios (each as a percentage of average net assets) and compared such amounts with the average and median fee and expense levels of other similar funds. With respect to advisory fees, the Board reviewed data from Lipper that compared the average and median advisory fees of other funds in an "Expense Group" of comparable funds, as well as the universe of other similar funds. The Board noted that a number of Portfolios have total expense ratios that fall below the average and median expense ratios in their Lipper Expense Group and Lipper universe.

The Board also reviewed data comparing the Portfolios' advisory fees to the standard fee rate PIMCO charges to separate accounts and as sub-adviser to other investment companies with a similar investment strategy, including differences in advisory services provided. The Trustees noted that the advisory fees for the Portfolios were equal to or lower than PIMCO standard separate account fee rates in ten out of 15 strategies. In cases where the fees for other clients were lower than those charged to the Portfolios, the Trustees noted that the differences in fees were attributable to various factors, including differences in the advisory and other services provided by PIMCO to the Portfolios, the manner in which similar portfolios may be managed, different requirements with respect to liquidity management and the implementation of other regulatory requirements, and the fact that separate accounts may have other contractual arrangements that justify different levels of fees. Regarding advisory fees charged by PIMCO in its capacity as sub-adviser to third-party/unaffiliated funds, the Trustees took into account that such fees may be lower than the fees charged by PIMCO to serve as adviser to the Portfolios for various other reasons, including, but not limited to, the fact that PIMCO may be subject to varying levels of entrepreneurial risk and regulatory requirements, differing legal liabilities per contract and diverse servicing requirements when it does not serve as the sponsor of a fund and is not principally responsible for all aspects of a fund's investment program and operations than when PIMCO serves as investment adviser and sponsor.

The Board also considered the Portfolios' supervisory and administrative fees, comparing them to similar funds in the report supplied by Lipper. The Board considered that as the Portfolios' business has become increasingly complex and the number of Portfolios has grown, PIMCO has provided an increasingly broad array of fund supervisory and administrative functions. The Board considered the Trust's unified fee structure, under which the Trust pays for the supervisory and administrative services it requires for one set fee, and in return, PIMCO provides or procures supervisory and administrative services and bears the costs of various third party services required by the Portfolios, including audit, custodial, portfolio accounting, legal, transfer agency and printing costs. The Board considered that many other funds pay for these services separately, and thus it is difficult to directly compare the Portfolios' unified supervisory and administrative fees with the fees paid by other funds for administrative services alone. The Board considered that the unified supervisory and administrative fee leads to fund fees that are fixed, rather than variable. The Board concluded that the Portfolios' supervisory and administrative fees were reasonable in relation to the value of the services provided, including the services provided to different classes of shareholders, and that the expenses assumed contractually by PIMCO under the Supervision and Administration Agreement represent, in effect, a cap on overall fund fees which is beneficial to the Portfolios and their shareholders.

The Board considered the Portfolios' total expenses and discussed with PIMCO those Portfolios and/or classes of Portfolios that had above median total expenses. The Board noted that several Portfolios launched in recent years have been unique products that have few, if any peers, and cannot easily be grouped with comparable funds. Upon comparing the Portfolios' total expenses to other funds in the Expense Groups provided by Lipper, the Board found total expenses of each Portfolio to be reasonable.

The Trustees also considered the advisory fees charged to the Portfolios that operate as funds of funds (the "Funds of Funds") and the advisory services provided in exchange for such fees. The Trustees determined that such services were in addition to the advisory services provided to the underlying series in which the Funds of Funds may invest and, therefore, such services were not duplicative of the advisory services provided to the underlying series. The Board also considered the various fee waiver agreements in place for the Funds of Funds.

The Board noted that, with few exceptions, PIMCO has maintained Portfolio fees at the same level as implemented when the unified fee was adopted, and has reduced fees for a number of Portfolios in prior years. The Board further noted that, although the unified fee structure does not have breakpoints, it implicitly reflects economies of scale by fixing the absolute level of Portfolio fees at competitive levels even if the Portfolios' operating costs rise when assets remain flat or decrease.

Based on the information presented by PIMCO, Research Affiliates and Lipper, members of the Board then determined, in the exercise of their business judgment, that the level of the advisory fees and supervisory and administrative fees charged by PIMCO under the Agreements, as well as the total expenses of each Portfolio, are reasonable.

5. ADVISER COSTS, LEVEL OF PROFITS AND ECONOMIES OF SCALE

The Board reviewed information regarding PIMCO's costs of providing services to the Portfolios as a whole, as well as the resulting level of profits to PIMCO, noting that those results were slightly higher than the previous year while 2014 net income is expected to decline due to the fee impact of outflows. Additionally, the Board noted that profit margins were within the ranges, although above the median, of publicly held investment management companies reported by Lipper and Strategic Insight (an independent provider of fund industry research). The Board noted that PVIT is profitable, although less so than PIMCO Funds due to payments made by PIMCO to participating insurance companies. The Board noted that it had also received information regarding the structure and manner in which PIMCO's investment professionals were compensated, and PIMCO's view of the relationship of such compensation to the attraction and retention of quality personnel. The Board considered PIMCO's need to invest in technology, cyber security, shareholder privacy, business continuity planning, infrastructure and staff to reinforce and offer new services and to accommodate changing regulatory requirements.

With respect to potential economies of scale, the Board noted that PIMCO shares the benefits of economies of scale with the Portfolios and their shareholders in a number of ways, including through the pricing of Portfolios to scale from inception, fee reductions or waivers, and the enhancement of services provided to the Portfolios in return for fees paid. The Board reviewed the history of the Portfolios' fee structure. The Board considered that the Portfolios' unified fee rates had been set competitively and/or priced to scale from inception, had been reduced for some Portfolios over time, had been held steady at that scaled competitive rate for most Portfolios as assets grew, or as assets declined in the case of some Portfolios, and continued to be competitive compared with peers. The Board also considered that the unified fee is a transparent means of informing Portfolio shareholders of the fees associated with the Portfolios, and that the Portfolios bear certain expenses that are not covered by the advisory fee or the unified supervision and administrative fee.

The Trustees also considered that the unified fee has provided inherent economies of scale because a Portfolio maintains competitive fixed unified fees even if the particular Portfolio's assets decline and/or operating costs rise. The Trustees further considered that, in contrast, breakpoints are a proxy for charging higher fees on lower asset levels and that when a fund's assets decline, breakpoints may reverse, which causes expense ratios to increase. The Trustees also considered that, unlike the Portfolios' unified fee structure, funds with "pass through" administrative fee structures may experience increased expense ratios when fixed dollar fees are charged against declining fund assets. The Trustees noted that the benefits of the unified fee were apparent during the 2008 financial crisis, as the total expense ratios of certain funds in other fund complexes that do not have a unified fee increased due to decreases in fund assets; moreover, these benefits may reemerge in the event a particular Portfolio's assets decline in the future. The Trustees also considered that the unified fee protects shareholders from a rise in operating costs that may result from, including, among other things, PIMCO's investments in various business enhancements and infrastructure, including those described above. The Trustees noted that PIMCO's investments in these areas are extensive.

The Board concluded that the Portfolios' cost structures were reasonable and that the unified fee structure inherently involves the sharing of economies of scale between PIMCO and the Portfolios, to the benefit of Portfolio shareholders.

6. ANCILLARY BENEFITS

The Board considered other benefits received by PIMCO and its affiliates as a result of PIMCO's relationship with the Trust, including possible ancillary benefits to PIMCO's institutional investment management business due to the reputation and market penetration of the Portfolios. The Board also considered that affiliates of PIMCO provide distribution and shareholder services to the Portfolios and their shareholders, for which they may be compensated through distribution and servicing fees paid pursuant to the Portfolios' Rule 12b-1 plans or otherwise. The Board reviewed PIMCO's soft dollar policies and procedures, noting that while PIMCO has the authority to receive the benefit of research provided by broker-dealers executing portfolio transactions on behalf of the Portfolios, it has adopted a policy not to enter into contractual soft dollar arrangements.

7. CONCLUSIONS

Based on its review, including its consideration of each of the factors referred to above, the Board concluded that the nature, extent and quality of the services rendered to the Portfolios by PIMCO and Research Affiliates favored the renewal of the Agreements and the Asset Allocation Agreement. The Board concluded that the Agreements and the Asset Allocation Agreement continued to be fair and reasonable to the Portfolios and their shareholders, that the Portfolios' shareholders received reasonable value in return for the fees paid to PIMCO by the Portfolios under the Agreements and the fees paid to Research Affiliates by PIMCO under the Asset Allocation Agreement, and that the renewal of the Agreements and the Asset Allocation Agreement was in the best interests of the Portfolios and their shareholders.

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General Information

Investment Adviser and Administrator

Pacific Investment Management Company LLC
650 Newport Center Drive
Newport Beach, CA 92660

Distributor

PIMCO Investments LLC
1633 Broadway
New York, NY 10019

Custodian

State Street Bank & Trust Company
801 Pennsylvania
Kansas City, MO 64105

Transfer Agent

Boston Financial Data Services
330 W. 9th Street, 5th Floor
Kansas City, MO 64105

Legal Counsel

Dechert LLP
1900 K Street, N.W.
Washington, D.C. 20006

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP
1100 Walnut Street, Suite 1300
Kansas City, MO 64106

This report is submitted for the general information of the shareholders of the PIMCO Variable Insurance Trust.

pvit.pimco-funds.com

PIMCO

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P I M C O

Your Global Investment Authority

PIMCO Variable Insurance Trust

PIMCO Low Duration Portfolio

This brochure contains the following documents:

- Supplement dated September 29, 2014 to the Prospectus for each share class regarding Portfolio Manager changes.
- Supplement dated September 12, 2014 to the Prospectus for each share class regarding investment guidelines pertaining to investments in securities and instruments economically tied to emerging market countries.
- The Annual Report dated December 31, 2014.

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PIMCO Variable Insurance Trust

Supplement Dated September 29, 2014 to the PIMCO Low Duration Portfolio Administrative Class Prospectus, PIMCO Low Duration Portfolio Institutional Class Prospectus and PIMCO Low Duration Portfolio Advisor Class Prospectus, each dated April 30, 2014, as supplemented from time to time (the "Prospectuses")

Disclosure Related to the PIMCO Low Duration Portfolio (the "Portfolio")

Effective September 26, 2014, the Portfolio's portfolio is jointly managed by Scott A. Mather and Jerome Schneider. Accordingly, effective immediately, the paragraph in the "Investment Adviser/Portfolio Manager" section in the Portfolio's Portfolio Summary in the Prospectuses is deleted and replaced with the following:

PIMCO serves as the investment adviser for the Portfolio. The Portfolio's portfolio is jointly managed by Scott A. Mather and Jerome Schneider. Mr. Mather is CIO U.S. Core Strategies and a Managing Director of PIMCO. Mr. Schneider is a Managing Director of PIMCO. Messrs. Mather and Schneider have jointly managed the Portfolio since September 2014.

In addition, effective immediately, the table in the "Management of the Portfolio—Individual Portfolio Managers" section of the Prospectuses is deleted and replaced with the following:

Portfolio Manager(s)	Since	Recent Professional Experience
Scott A. Mather	9/14	CIO U.S. Core Strategies and Managing Director, PIMCO. Previously he was head of global portfolio management. He joined PIMCO in 1998.
Jerome Schneider	9/14	Managing Director, PIMCO. Mr. Schneider joined PIMCO in 2008. Prior to joining PIMCO, he served as Senior Managing Director with Bear Stearns, specializing in credit and mortgage-related funding transactions. Mr. Schneider joined Bear Stearns in 1995.

Investors Should Retain This Supplement for Future Reference

PVIT_SUPP6_092914

This supplement is not part of the Annual Report and is not authorized for distribution to prospective investors unless preceded or accompanied by a current prospectus.

PIMCO Variable Insurance Trust

Supplement Dated September 12, 2014 to the Administrative Class Prospectus, Institutional Class Prospectus, and Advisor Class and Class M Prospectus, each dated April 30, 2014, each as supplemented; and Prospectuses for each share class of the PIMCO CommodityRealReturn® Strategy Portfolio, PIMCO Global Diversified Allocation Portfolio, PIMCO Global Multi-Asset Managed Allocation Portfolio, PIMCO Global Multi-Asset Managed Volatility Portfolio, PIMCO High Yield Portfolio, PIMCO Low Duration Portfolio, PIMCO Real Return Portfolio, PIMCO Short-Term Portfolio, PIMCO Total Return Portfolio, and PIMCO Unconstrained Bond Portfolio, each dated April 30, 2014, each as supplemented (the "Prospectuses")

Disclosure Regarding Investment Guidelines Pertaining to Investments in Securities and Instruments Economically Tied to Emerging Market Countries

Effective October 14, 2014, for the Portfolios listed below, percentage limitations on investments in securities and instruments that are economically tied to emerging market countries, as disclosed in the Principal Investment Strategies or elsewhere in the Prospectuses, do not apply to investment grade sovereign debt denominated in the local currency with less than 1 year remaining to maturity.

PIMCO CommodityRealReturn® Strategy Portfolio

PIMCO Global Diversified Allocation Portfolio

PIMCO Global Multi-Asset Managed Allocation Portfolio

PIMCO Global Multi-Asset Managed Volatility Portfolio

PIMCO High Yield Portfolio

PIMCO Low Duration Portfolio

PIMCO Real Return Portfolio

PIMCO Short-Term Portfolio

PIMCO Total Return Portfolio

PIMCO Unconstrained Bond Portfolio

Investors Should Retain This Supplement for Future Reference

PVIT_SUPP1_091214

This supplement is not part of the Annual Report and is not authorized for distribution to prospective investors unless preceded or accompanied by a current prospectus.

PIMCO

Annual Report
December 31, 2014

Your Global Investment Authority

PIMCO Variable Insurance Trust

Share Class

- Administrative

PIMCO Low Duration Portfolio

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Dear PIMCO Variable Insurance Trust Shareholder,

We are pleased to provide you with the Annual Report for the PIMCO Variable Insurance Trust covering the twelve-month reporting period ended December 31, 2014. On the following pages please find specific details as to the Portfolio's investment performance and a discussion of the factors that affected performance.

As previously announced on September 26, 2014, William "Bill" Gross, PIMCO's Chief Investment Officer and co-founder, resigned from the firm. PIMCO subsequently elected Daniel Ivascyn to serve as Group Chief Investment Officer ("Group CIO"). In addition, PIMCO appointed Andrew Balls, CIO Global Fixed Income; Mark Kiesel, CIO Global Credit; Virginie Maisonneuve, CIO Global Equities; Scott Mather, CIO U.S. Core Strategies; and Mihir Worah, CIO Real Return and Asset Allocation. On November 3, 2014, PIMCO also announced that Marc Seidner would return to the firm effective November 12, 2014 in a new role as CIO Non-traditional Strategies and Head of Portfolio Management in the New York office.

Under this leadership structure, Mr. Balls and Mr. Worah have additional managerial responsibility for PIMCO's Portfolio Management group and trade floor activities globally. Mr. Balls will oversee Portfolio Management in Europe and Asia-Pacific, and Mr. Worah will oversee Portfolio Management in the U.S. Douglas Hodge, PIMCO's Chief Executive Officer, and Jay Jacobs, PIMCO's President, continue to serve as the firm's senior executive leadership team, spearheading PIMCO's business strategy, client service and the firm's operations.

These appointments are a further evolution of the structure that PIMCO established early in 2014, reflecting our belief that the best approach for PIMCO's clients and our firm is an investment leadership team of seasoned, highly skilled investors overseeing all areas of PIMCO's investment activities.

During his 43 years at PIMCO, Mr. Gross made great contributions to building the firm and delivering value to PIMCO's clients. Over this period PIMCO developed into a global asset manager, expanding beyond core fixed income, and now encompasses nearly 2,500 employees across 13 offices, including over 250 portfolio managers. Mr. Gross was also responsible for starting PIMCO's robust investment process, with a focus on long-term macroeconomic views and bottom-up security selection—a process that is well institutionalized and will continue into PIMCO's future.

Highlights of the financial markets during our twelve-month fiscal reporting period include:

- The U.S. economy showed continuing signs of strong growth and a steady decline in unemployment and renewed business investment activity, as the U.S. continued to be a key driving force behind global growth. The Federal Reserve ("Fed") provided an optimistic view of the U.S. economy and completed its bond purchase program at the end of October. On December 17, the Fed removed language indicating its intent to keep the Federal Funds Rate near zero for "a considerable time", and instead said it would remain patient on the timing of its first interest rate increase since 2006. The Fed also noted that future increases in the Federal Funds Rate would be dependent on economic conditions, including signs of continuing U.S. economic growth and a decline in the U.S. unemployment rate.
- In Europe, developed bond markets rallied on raised expectations that the European Central Bank ("ECB") will expand asset purchases to include sovereign bonds. Slower economic growth and fears of deflation prompted a series of unprecedented actions by the ECB. Beginning in June, ECB President Mario Draghi lowered the ECB's benchmark rate, reduced its deposit rate into negative territory to help mitigate potential deflationary forces (making the ECB the first major central bank to do so), opened a liquidity channel to help encourage bank lending, and initiated dedicated asset purchases of covered bonds and asset-backed securities. These measures reflect the ECB's determination to tackle the threat of deflation in the Eurozone amid slower-than-expected economic growth. As such, outside of the reporting period on January 22, 2015, the ECB announced an expansion to its quantitative easing asset purchase program to also include purchases of investment grade sovereign and Agency bonds at 60 billion Euros per month until September 2016, implying a total of just over 1 trillion euros.
- U.S. Treasuries, as represented by the Barclays U.S. Treasury Index, returned 5.05% for the reporting period as intermediate and longer maturity yields declined and the front-end of the U.S. Treasury yield curve was modestly weaker in anticipation of monetary tightening sometime in 2015. The benchmark ten-year U.S. Treasury note yielded 2.17% at the end of the reporting period, down from 3.03% on December 31, 2013. The Barclays U.S. Aggregate Index, a widely used index of U.S. investment-grade bonds, returned 5.97% for the reporting period.

- U.S. Treasury Inflation-Protected Securities ("TIPS"), as represented by the Barclays U.S. TIPS Index, returned 3.64% over the reporting period. The collapse in oil prices in the second half of the year pushed inflation expectations to multi-year lows and caused U.S. TIPS to underperform nominal U.S. Treasuries by a large margin. Outside of the U.S., returns of global inflation-linked bonds ("ILBs") varied across countries depending on their respective inflation expectations. However, few ILB markets were able to keep pace with their nominal counterparts as global inflation expectations were similarly impacted by lower energy prices. Diversified commodities, as represented by the Bloomberg Commodity Index Total Return, declined 17.01% over the period.
- Agency mortgage-backed securities ("MBS"), as represented by the Barclays Agency Fixed-Rate MBS Index, returned 6.15% over the reporting period. The sector also outperformed like-duration U.S. Treasuries during the period, driven by continued Fed support. The Fed stopped net purchases of Agency MBS in late October but has continued to reinvest paydowns from existing holdings. New issuance was materially lower than the previous year and prepayments were also relatively benign, despite falling interest rates. Non-Agency MBS prices rallied during the period and the sector benefited from strong investor demand and limited supply. Fundamentals have also continued to improve, although the U.S. housing recovery has moderated.
- U.S. investment grade credit, as represented by the Barclays U.S. Credit Index, returned 7.53% over the reporting period. Performance deteriorated towards the end of the reporting period amid the significant sell-off in oil and subsequent emerging markets selloff, combined with heightened volatility in the Eurozone. The U.S. high yield sector, as measured by the BofA Merrill Lynch U.S. High Yield Index, returned 2.53% over the reporting period. However, declining oil prices were the primary reason for lackluster returns in the high yield sector over the second half of the reporting period. The dramatic decline in oil also elevated general risk aversion and most specifically to high yield, where oil makes up a meaningful component of the broader high yield market, which turned flows negative.
- Emerging markets ("EM") external debt, as represented by the JPMorgan Emerging Markets Bond Index (EMBI) Global, returned 5.53% over the reporting period. EM local bonds, as represented by the JPMorgan Government Bond Index-Emerging Markets Global Diversified Index (Unhedged), declined 5.72% over the period. The steep decline in global oil prices weighed on the assets of exporting EM countries (though benefited importers). Across asset classes, Russian securities were among the worst performing over the period as the Russian currency plunged before stabilizing towards the end of the reporting period. Local assets were again affected by weaker domestic currencies, which struggled against U.S. dollar strength.
- Developed market equities posted mixed returns as global growth divergence was evidenced in the last part of the reporting period. Additionally, the sharp decline in oil prices led to heightened market volatility. Growth in the U.S., for example, exceeded investor expectations and outpaced its peers in the developed world, especially Japan and Europe, which both continued to struggle. U.S. equities, as represented by the S&P 500 Index, returned 13.69%. Global equities, as represented by the MSCI All Country World Index Net USD, returned 4.16% and EM equities, as represented by the MSCI Emerging Markets Index (Net Dividends in USD), declined 2.19%.

Thank you once again for the trust you have placed in us. We value your commitment and will continue to work diligently to meet your investment needs.

Sincerely,

Brent R. Harris
Chairman of the Board,
PIMCO Variable Insurance Trust

January 23, 2015

Important Information About the Portfolio

PIMCO Variable Insurance Trust (the "Trust") is an open-end management investment company currently consisting of nineteen separate investment portfolios, including the PIMCO Low Duration Portfolio (the "Portfolio"). The Portfolio is only available as a funding vehicle under variable life insurance policies or variable annuity contracts issued by insurance companies ("Variable Contracts"). Individuals may not purchase shares of the Portfolio directly. Shares of the Portfolio also may be sold to qualified pension and retirement plans outside of the separate account context.

We believe that bond funds have an important role to play in a well diversified investment portfolio. It is important to note, however, that in an environment where interest rates may trend upward, rising rates would negatively impact the performance of most bond funds, and fixed-income securities held by a fund are likely to decrease in value. A number of factors can cause interest rates to rise (e.g., central bank monetary policies, inflation rates, general economic conditions). Accordingly, changes in interest rates can be sudden, and there is no guarantee that Fund management will anticipate such movement.

As of the date of this report, interest rates in the U.S. are at or near historically low levels. As such, bond funds may currently face an increased exposure to the risks associated with a rising interest rate environment. This is especially true as the Fed ended its quantitative easing program in October 2014. Further, while the U.S. bond market has steadily grown over the past three decades, dealer inventories of corporate bonds have remained relatively stagnant. As a result, there has been a significant reduction in the ability of dealers to "make markets." All of the factors mentioned above, individually or collectively, could lead to increased volatility and/or lower liquidity in the fixed income markets, which could result in losses to the Portfolio.

Bond funds and individual bonds with a longer duration (a measure used to determine the sensitivity of a security's price to changes in interest rates) tend to be more sensitive to changes in interest rates, usually making them more volatile than securities or funds with shorter durations. If the performance of the Portfolio were to be negatively impacted by rising interest rates, the Portfolio could face increased redemptions by its shareholders, which could further reduce the value of the Portfolio.

The Portfolio may be subject to various risks in addition to those described above. Some of these risks may include, but are not limited to, the following: interest rate risk, call risk, credit risk, high yield risk, market risk, issuer risk, liquidity risk, derivatives risk, equity risk, mortgage-related and other asset-backed securities risk, foreign (non-U.S.) investment risk, emerging markets risk, currency risk, leveraging risk, management risk, and short sale risk. A complete description of these risks is contained in the Portfolio's prospectus.

The Portfolio may use derivative instruments for hedging purposes or as part of an investment strategy. Use of these instruments may involve certain costs and risks such as liquidity risk, interest rate risk, market risk, credit risk, management risk and the risk that the Portfolio may not be able to close out a position when it would be most advantageous to do so. Certain derivative transactions may have a leveraging effect on the Portfolio. For example, a small investment in a derivative instrument may have a significant impact on the Portfolio's exposure to interest rates, currency exchange rates or other investments. As a result, a relatively small price movement in a derivative instrument may cause an immediate and substantial loss or gain, which translates into heightened volatility in the Portfolio. The Portfolio may engage in such transactions regardless of whether the Portfolio owns the asset, instrument or components of the index underlying the derivative instrument. The Portfolio may invest a significant portion of its assets in these types of instruments. If it does, the Portfolio's investment exposure could far exceed the value of its portfolio securities and its investment performance could be primarily dependent upon securities it does not own. Investing in foreign (non-U.S.) securities may entail risk due to foreign (non-U.S.) economic and political developments; this risk may be increased when investing in emerging markets. For example, if the Portfolio invests in emerging market debt, it may face increased exposure to interest rate, liquidity, volatility, and redemption risk due to the specific economic, political, geographical, or legal background of the foreign issuer.

High-yield bonds typically have a lower credit rating than other bonds. Lower-rated bonds generally involve a greater risk to principal than higher-rated bonds. Further, markets for lower-rated bonds are typically less liquid than for higher-rated bonds, and public information is usually less abundant in such markets. Thus, high yield investments increase the chance that the Portfolio will lose money. The credit quality of a particular security or group of securities does not ensure the stability or safety of the overall portfolio. Mortgage- and Asset-Backed Securities represent ownership interests in "pools" of mortgages or other assets such as consumer loans or receivables. As a general matter, Mortgage- and Asset-Backed Securities are subject to interest rate risk, extension risk, prepayment risk, and credit risk. These risks largely stem from the fact that returns on Mortgage- and Asset-Backed Securities depend on the ability of the underlying assets to generate cash flow.

The geographical classification of foreign (non-U.S.) securities in this report are classified by the country of incorporation of a holding. In certain instances, a security's country of incorporation may be different from its country of economic exposure.

On the Portfolio Summary page in this Shareholder Report, the Average Annual Total Return table and Cumulative Return chart measure performance assuming that all dividend and capital gain distributions were reinvested.

An investment in the Portfolio is not a deposit of a bank and is not guaranteed or insured by the Federal Deposit Insurance Corporation or any other government agency. It is possible to lose money on investments in the Portfolio.

PIMCO has adopted written proxy voting policies and procedures ("Proxy Policy") as required by Rule 206(4)-6 under the Investment Advisers Act of 1940, as amended. The Proxy Policy has been adopted by the Trust as the policies and procedures that PIMCO will use when voting proxies on behalf of the Portfolio. A description of the policies and procedures that PIMCO uses to vote proxies relating to portfolio securities of the Portfolio, and information about how the Portfolio voted proxies relating to portfolio securities held during the most recent twelve-month period ended June 30, are available without charge, upon request, by calling the Trust at (888) 87-PIMCO, on the Portfolio's website at http://pvit.pimco-funds.com, and on the Securities and Exchange Commission's ("SEC") website at http://www.sec.gov.

The Portfolio files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. A copy of the Trust's Form N-Q is 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 D.C. and is available without charge, upon request, by calling the Trust at (888) 87-PIMCO and on the Portfolio's website at http://pvit.pimco-funds.com. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

PIMCO Variable Insurance Trust is distributed by PIMCO Investments LLC, 1633 Broadway, New York, New York 10019.

The following disclosure provides important information regarding the Portfolio's Expense Example ("Example" or "Expense Example"), which appears in this Shareholder Report. Please refer to this information when reviewing the Expense Example for the Portfolio.

Expense Example

As a shareholder of the Portfolio, you incur two types of costs: (1) transaction costs and (2) ongoing costs, including management fees; distribution and/or service (12b-1) fees (Administrative and Advisor Class only); and other Portfolio expenses. The Example is intended to help you understand your ongoing costs (in dollars) of investing in the Portfolio and to compare these costs with the ongoing costs of investing in other mutual funds. The Expense Example does not reflect any fees or other expenses imposed by the Variable Contracts. If it did, the expenses reflected in the Expense Example would be higher. The Example is based on an investment of $1,000 invested at the beginning of the period and held for the entire period indicated, which is from July 1, 2014 to December 31, 2014.

Actual Expenses

The information in the table under the heading "Actual" provides information about actual account values and actual expenses. You may use the information in these columns, 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 = $8.60), then multiply the result by the number in the row titled "Expenses Paid During Period" to estimate the expenses you paid on your account during this period.

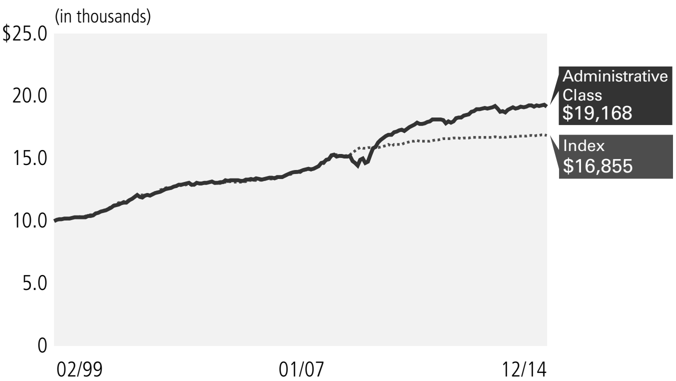
Hypothetical Example for Comparison Purposes

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

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs. Therefore, the information under the heading "Hypothetical (5% return before expenses)" is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different portfolios. In addition, if these transactional costs were included, your costs would have been higher.

The expense ratio may vary period to period because of various factors, such as an increase in expenses not covered by the management fees (such as expenses of the independent trustees and their counsel, extraordinary expenses and interest expense).

Cumulative Returns Through December 31, 2014



$10,000 invested at the end of the month when the Portfolio's Administrative Class commenced operations.

Allocation Breakdown†

Corporate Bonds & Notes	38.9%
Short-Term Instruments‡	17.2%
Sovereign Issues	11.5%
U.S. Treasury Obligations	11.4%
Asset-Backed Securities	9.5%
Mortgage-Backed Securities	7.6%
Other	3.9%

† % of Investments, at value as of 12/31/14

‡ Includes Central Funds used for Cash Management Purposes

Average Annual Total Return for the period ended December 31, 2014

	1 Year	5 Years	10 Years	Class Inception (02/16/1999)
— PIMCO Low Duration Portfolio Administrative Class	0.85%	2.56%	3.74%	4.16%
····· The BofA Merrill Lynch 1-3 Year U.S. Treasury Index±	0.62%	1.06%	2.54%	3.35%

All Portfolio returns are net of fees and expenses.

Performance quoted represents past performance. Past performance is not a guarantee or a reliable indicator of future results. Current performance may be lower or higher than performance shown. Investment return and the principal value of an investment will fluctuate. Shares may be worth more or less than original cost when redeemed. The Portfolio's performance does not reflect the deduction of additional charges and expenses imposed in connection with investing in Variable Contracts, which will reduce returns. For performance current to the most recent month-end, visit http://pvit.pimco-funds.com. The Portfolio's total annual operating expense ratio as stated in the Portfolio's current prospectus, as supplemented to date, is 0.65% for Administrative Class shares.

± The BofA Merrill Lynch 1-3 Year U.S. Treasury Index is an unmanaged index comprised of U.S. Treasury securities, other than inflation-protection securities and STRIPS, with at least $1 billion in outstanding face value and a remaining term to final maturity of at least one year and less than three years. It is not possible to invest directly in an unmanaged index.

Expense Example

	Actual	Hypothetical (5% return before expenses)
Beginning Account Value (07/01/14)	$1,000.00	$1,000.00
Ending Account Value (12/31/14)	$ 996.10	$1,022.05
Expenses Paid During Period†	$ 3.29	$ 3.33
Net Annualized Expense Ratio	0.65%	0.65%

† Expenses Paid During Period are equal to the net annualized expense ratio for the class, multiplied by the average account value over the period, multiplied by the number of days in the period/365 (to reflect the one-half year period). Overall fees and expenses of investing in the Portfolio will be higher because the example does not reflect variable contract fees and expenses.

Please refer to the Important Information Section for an explanation of the information presented in the above Expense Example.

Portfolio Insights

» The PIMCO Low Duration Portfolio seeks maximum total return, consistent with preservation of capital and prudent investment management, by investing under normal circumstances at least 65% of its total assets in a diversified portfolio of Fixed Income Instruments of varying maturities, which may be represented by forwards or derivatives, such as options, futures contracts or swap agreements. "Fixed Income Instruments" include bonds, debt securities and other similar instruments issued by various U.S. and non-U.S. public- or private-sector entities.

» Exposure to Italian and Spanish duration (or sensitivity to changes in market interest rates) benefited performance as bond yields in both countries declined during the reporting period.

» Exposure to investment grade credit benefited performance as investment grade credit generally posted positive total returns during the reporting period.

» Exposure to non-Agency residential mortgage-backed securities ("RMBS") benefited performance as prices on these securities generally increased during the reporting period.

» Short exposure to the Japanese yen benefited performance as the Japanese yen depreciated versus the U.S. dollar during the reporting period.

» Short exposure to thirty-year U.S. interest rates detracted from performance as longer term U.S. yields declined during the reporting period.

» An overweight to emerging market debt detracted from performance as these securities generally posted negative returns during the reporting period.

Financial Highlights PIMCO Low Duration Portfolio

Selected Per Share Data for the Year Ended:	12/31/2014	12/31/2013	12/31/2012	12/31/2011	12/31/2010
Administrative Class					
Net asset value beginning of year	$ 10.61	$ 10.78	$ 10.38	$ 10.44	$ 10.11
Net investment income [(a)]	0.10	0.08	0.14	0.14	0.14
Net realized/unrealized gain (loss)	(0.01)	(0.09)	0.46	(0.02)	0.39
Net increase (decrease) from investment operations	0.09	(0.01)	0.60	0.12	0.53
Dividends from net investment income	(0.12)	(0.16)	(0.20)	(0.18)	(0.17)
Distributions from net realized capital gains	0.00	0.00	0.00	0.00	(0.03)
Total distributions	(0.12)	(0.16)	(0.20)	(0.18)	(0.20)
Net asset value end of year	$ 10.58	$ 10.61	$ 10.78	$ 10.38	$ 10.44
Total return	0.85%	(0.14)%	5.85%	1.11%	5.29%
Net assets end of year (000s)	$ 1,481,605	$ 1,510,077	$ 1,527,088	$ 1,326,770	$ 1,238,086
Ratio of expenses to average net assets	0.65%	0.65%	0.65%	0.65%	0.65%
Ratio of expenses to average net assets excluding interest expense	0.65%	0.65%	0.65%	0.65%	0.65%
Ratio of net investment income to average net assets	0.90%	0.79%	1.29%	1.37%	1.33%
Portfolio turnover rate	208%	316%	647%	456%	351%

[(a)] Per share amounts based on average number of shares outstanding during the year.

Statement of Assets and Liabilities PIMCO Low Duration Portfolio

(Amounts in thousands, except per share amounts)	December 31, 2014
Assets:	
Investments, at value	
Investments in securities*	$ 1,948,011
Investments in Affiliates	186,362
Financial Derivative Instruments	
Exchange-traded or centrally cleared	442
Over the counter	44,489
Cash	44,663
Deposits with counterparty	1,121
Foreign currency, at value	2,283
Receivable for investments sold	5,256
Receivable for Portfolio shares sold	2,177
Interest and dividends receivable	7,989
Dividends receivable from Affiliates	1,270
	2,244,063
Liabilities:	
Borrowings & Other Financing Transactions	
Payable for sale-buyback transactions	$ 21,452
Payable for short sales	5,184
Financial Derivative Instruments	
Exchange-traded or centrally cleared	754
Over the counter	18,244
Payable for investments purchased	1,120
Payable for investments in Affiliates purchased	1,270
Deposits from counterparty	50,458
Payable for Portfolio shares redeemed	1,620
Accrued investment advisory fees	470
Accrued supervisory and administrative fees	470
Accrued distribution fees	141
Accrued servicing fees	196
Other liabilities	21
	101,400
Net Assets	$ 2,142,663
Net Assets Consist of:	
Paid in capital	$ 2,146,857
Undistributed net investment income	37,549
Accumulated undistributed net realized (loss)	(22,310)
Net unrealized (depreciation)	(19,433)
	$ 2,142,663
Net Assets:	
Institutional Class	$ 13,590
Administrative Class	1,481,605
Advisor Class	647,468
Shares Issued and Outstanding:	
Institutional Class	1,284
Administrative Class	139,990
Advisor Class	61,176
Net Asset Value and Redemption Price Per Share Outstanding:	
Institutional Class	$ 10.58
Administrative Class	10.58
Advisor Class	10.58
Cost of Investments in Securities	$ 1,990,022
Cost of Investments in Affiliates	$ 187,314
Cost of Foreign Currency Held	$ 2,310
Proceeds Received on Short Sales	$ 5,183
Cost or Premiums of Financial Derivative Instruments, net	$ (657)
* Includes repurchase agreements of:	$ 1,263

Statement of Operations PIMCO Low Duration Portfolio

(Amounts in thousands)	Year Ended December 31, 2014
Investment Income:	
Interest	$ 32,156
Dividends	53
Dividends from Investments in Affiliates	2,716
Total Income	34,925
Expenses:	
Investment advisory fees	5,642
Supervisory and administrative fees	5,642
Servicing fees - Administrative Class	2,342
Distribution and/or servicing fees - Advisor Class	1,613
Trustee fees	29
Interest expense	11
Total Expenses	15,279
Net Investment Income	19,646
Net Realized Gain (Loss):	
Investments in securities	(13,882)
Investments in Affiliates	(554)
Exchange-traded or centrally cleared financial derivative instruments	(6,318)
Over the counter financial derivative instruments	40,834
Foreign currency	481
Net Realized Gain	20,561
Net Change in Unrealized Appreciation (Depreciation):	
Investments in securities	(43,626)
Investments in Affiliates	(754)
Exchange-traded or centrally cleared financial derivative instruments	(7,392)
Over the counter financial derivative instruments	30,534
Foreign currency assets and liabilities	(185)
Net Change in Unrealized (Depreciation)	(21,423)
Net (Loss)	(862)
Net Increase in Net Assets Resulting from Operations	$ 18,784

Statements of Changes in Net Assets PIMCO Low Duration Portfolio

(Amounts in thousands)	Year Ended December 31, 2014	Year Ended December 31, 2013
Increase (Decrease) in Net Assets from:		
Operations:		
Net investment income	$ 19,646	$ 16,469
Net realized gain	20,561	7,475
Net change in unrealized (depreciation)	(21,423)	(27,559)
Net increase (decrease) in net assets resulting from operations	18,784	(3,615)
Distributions to Shareholders:		
From net investment income		
Institutional Class	(607)	(930)
Administrative Class	(17,615)	(21,881)
Advisor Class	(6,660)	(7,780)
Total Distributions	(24,882)	(30,591)
Portfolio Share Transactions:		
Net increase (decrease) resulting from Portfolio share transactions**	(37,311)	106,096
Total Increase (Decrease) in Net Assets	(43,409)	71,890
Net Assets:		
Beginning of year	2,186,072	2,114,182
End of year*	$ 2,142,663	$ 2,186,072
* Including undistributed net investment income of:	$ 37,549	$ 18,035

**See Note 12 in the Notes to Financial Statements.

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
INVESTMENTS IN SECURITIES 90.9%		
BANK LOAN OBLIGATIONS 1.2%		
Chrysler Group LLC		
3.500% due 05/24/2017	$ 2,985	$ 2,981
H.J. Heinz Co.		
3.500% due 06/05/2020	19,860	19,778
HCA, Inc.		
2.919% due 03/31/2017	2,985	2,968
Total Bank Loan Obligations (Cost $25,823)		**25,727**
CORPORATE BONDS & NOTES 38.8%		
BANKING & FINANCE 25.2%		
AerCap Ireland Capital Ltd.		
2.750% due 05/15/2017	3,800	3,729
Ally Financial, Inc.		
2.750% due 01/30/2017	2,860	2,858
3.125% due 01/15/2016	400	403
3.500% due 07/18/2016	3,400	3,447
4.625% due 06/26/2015	4,400	4,439
6.250% due 12/01/2017	2,000	2,165
8.300% due 02/12/2015	4,000	4,025
Banco do Brasil S.A.		
4.500% due 01/22/2015	600	600
Banco Mercantil del Norte S.A.		
4.375% due 07/19/2015	1,600	1,624
Banco Popolare SC		
3.500% due 03/14/2019	EUR 9,700	12,243
Banco Santander Brasil S.A.		
4.625% due 02/13/2017	$ 1,300	1,354
Banco Santander Chile		
3.750% due 09/22/2015	2,900	2,946
Bank of America Corp.		
1.001% due 09/15/2026	900	826
1.500% due 10/09/2015	1,800	1,808
2.650% due 04/01/2019	1,200	1,210
4.750% due 08/01/2015	4,526	4,629
5.650% due 05/01/2018	2,300	2,557
6.500% due 08/01/2016	6,500	7,007
6.875% due 04/25/2018	1,300	1,494
6.875% due 11/15/2018	2,700	3,142
Bank of America N.A.		
0.541% due 06/15/2017	23,900	23,570
0.703% due 11/14/2016	3,900	3,898
Bankia S.A.		
0.285% due 01/25/2016	EUR 2,000	2,407
BB&T Corp.		
0.950% due 01/15/2020	$ 5,100	5,105
BBVA Bancomer S.A.		
4.500% due 03/10/2016	6,100	6,314
BBVA U.S. Senior S.A.U.		
4.664% due 10/09/2015	2,500	2,567
BPCE S.A.		
0.802% due 11/18/2016	500	501
0.862% due 06/23/2017	400	400
1.357% due 03/06/2017	GBP 2,300	3,609
1.625% due 02/10/2017	$ 2,100	2,108
Caterpillar Financial Services Corp.		
2.250% due 12/01/2019	1,700	1,704
CIT Group, Inc.		
5.000% due 05/15/2017	2,200	2,288
Citigroup, Inc.		
1.045% due 04/01/2016	3,800	3,814
1.194% due 07/25/2016	15,400	15,504
1.350% due 03/10/2017	2,500	2,490
4.450% due 01/10/2017	800	846

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Credit Suisse		
1.375% due 05/26/2017	$ 1,500	$ 1,497
Dexia Credit Local S.A.		
0.612% due 11/07/2016	4,500	4,518
Dominion Gas Holdings LLC		
2.500% due 12/15/2019	2,300	2,308
Eksportfinans ASA		
1.570% due 02/14/2018	JPY 500,000	4,098
2.000% due 09/15/2015	$ 1,100	1,103
2.375% due 05/25/2016	6,000	6,029
5.500% due 05/25/2016	5,700	5,970
5.500% due 06/26/2017	3,000	3,208
FCE Bank PLC		
1.875% due 05/12/2016	EUR 600	740
4.750% due 01/19/2015	400	485
First Horizon National Corp.		
5.375% due 12/15/2015	$ 900	932
Ford Motor Credit Co. LLC		
0.682% due 11/08/2016	7,500	7,470
1.008% due 01/17/2017	1,800	1,801
1.162% due 11/04/2019	5,500	5,509
1.700% due 05/09/2016	2,100	2,109
2.375% due 01/16/2018	3,475	3,498
2.750% due 05/15/2015	3,700	3,725
3.000% due 06/12/2017	2,700	2,772
5.625% due 09/15/2015	1,600	1,651
8.000% due 12/15/2016	2,600	2,913
12.000% due 05/15/2015	540	561
General Motors Financial Co., Inc.		
2.750% due 05/15/2016	5,000	5,091
3.000% due 09/25/2017	4,500	4,556
Goldman Sachs Group, Inc.		
1.043% due 12/15/2017	31,500	31,476
6.000% due 06/15/2020	2,000	2,315
7.500% due 02/15/2019	600	714
Hana Bank		
4.000% due 11/03/2016	1,600	1,676
Harley-Davidson Financial Services, Inc.		
2.700% due 03/15/2017	400	410
HBOS PLC		
0.957% due 09/30/2016	4,155	4,145
HSBC Finance Corp.		
0.664% due 06/01/2016	2,200	2,196
HSBC USA, Inc.		
0.843% due 11/13/2019	12,900	12,915
2.375% due 11/13/2019	3,800	3,803
Hutchison Whampoa International Ltd.		
1.625% due 10/31/2017	7,000	6,947
Industrial Bank of Korea		
2.375% due 07/17/2017	2,200	2,234
3.750% due 09/29/2016	3,400	3,541
ING Bank NV		
0.933% due 07/03/2017	3,200	3,191
International Lease Finance Corp.		
2.191% due 06/15/2016	5,500	5,514
5.750% due 05/15/2016	3,535	3,674
6.250% due 05/15/2019	2,250	2,464
6.750% due 09/01/2016	300	320
8.625% due 09/15/2015	20,500	21,422
Intesa Sanpaolo SpA		
2.375% due 01/13/2017	5,900	5,955
3.125% due 01/15/2016	9,645	9,801
JPMorgan Chase & Co.		
0.682% due 11/18/2016	5,800	5,800
1.064% due 05/30/2017	GBP 6,300	9,707
3.150% due 07/05/2016	$ 1,800	1,851
3.400% due 06/24/2015	1,000	1,013

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
JPMorgan Chase Bank N.A.		
0.784% due 05/31/2017	EUR 2,400	$ 2,904
6.000% due 10/01/2017	$ 1,000	1,111
Kookmin Bank		
1.109% due 01/27/2017	10,000	10,071
Korea Development Bank		
0.857% due 01/22/2017	800	802
3.250% due 03/09/2016	6,300	6,454
3.875% due 05/04/2017	1,200	1,258
Korea Finance Corp.		
3.250% due 09/20/2016	1,500	1,550
LeasePlan Corp. NV		
2.500% due 05/16/2018	300	300
3.000% due 10/23/2017	1,200	1,230
Metropolitan Life Global Funding		
1.300% due 04/10/2017	3,600	3,597
MUFG Union Bank N.A.		
0.632% due 05/05/2017	6,600	6,596
1.005% due 09/26/2016	3,700	3,721
Navient Corp.		
6.000% due 01/25/2017	1,000	1,050
6.250% due 01/25/2016	13,765	14,350
8.780% due 09/15/2016	MXN 49,700	3,391
Nordea Bank AB		
0.616% due 04/04/2017	$ 4,900	4,908
Novo Banco S.A.		
2.625% due 05/08/2017	EUR 3,500	3,961
3.875% due 01/21/2015	8,500	10,291
5.875% due 11/09/2015	6,900	8,443
Pacific Life Global Funding		
3.442% due 06/02/2018	$ 3,500	3,346
Pricoa Global Funding		
1.350% due 08/18/2017	23,600	23,520
Prudential Covered Trust		
2.997% due 09/30/2015	2,475	2,510
Qatari Diar Finance Co.		
3.500% due 07/21/2015	4,300	4,343
QNB Finance Ltd.		
3.125% due 11/16/2015	9,200	9,383
Rabobank Group		
0.513% due 11/23/2016	3,300	3,304
RCI Banque S.A.		
5.625% due 10/05/2015	EUR 700	880
Royal Bank of Scotland PLC		
4.875% due 03/16/2015	$ 6,900	6,953
Santander U.S. Debt S.A.U.		
3.724% due 01/20/2015	2,500	2,503
Shinhan Bank		
0.883% due 04/08/2017	13,600	13,641
Springleaf Finance Corp.		
6.500% due 09/15/2017	4,900	5,157
Sumitomo Mitsui Banking Corp.		
1.350% due 07/18/2015	12,300	12,359
U.S. Bank N.A.		
3.778% due 04/29/2020	3,000	3,027
VTB Bank OJSC Via VTB Capital S.A.		
6.465% due 03/04/2015	1,500	1,491
Wachovia Corp.		
0.601% due 10/15/2016	5,000	4,982
WEA Finance LLC		
1.750% due 09/15/2017	1,000	995
		539,641
INDUSTRIALS 9.1%		
AbbVie, Inc.		
0.992% due 11/06/2015	3,715	3,727

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Actavis, Inc.			
1.875% due 10/01/2017	$	1,800	$ 1,794
Amgen, Inc.			
2.125% due 05/15/2017		3,695	3,746
2.200% due 05/22/2019		2,700	2,690
2.500% due 11/15/2016		2,400	2,458
Anglo American Capital PLC			
2.625% due 04/03/2017		200	203
Anheuser-Busch InBev Finance, Inc.			
2.150% due 02/01/2019		200	201
Barrick Gold Corp.			
6.950% due 04/01/2019		300	342
Becton Dickinson and Co.			
0.691% due 06/15/2016		10,500	10,506
1.800% due 12/15/2017		2,100	2,109
2.675% due 12/15/2019		900	913
Boston Scientific Corp.			
5.125% due 01/12/2017		1,500	1,591
Canadian Natural Resources Ltd.			
0.632% due 03/30/2016		1,100	1,098
1.750% due 01/15/2018		1,200	1,194
CNPC General Capital Ltd.			
1.450% due 04/16/2016		3,400	3,396
Comcast Corp.			
5.900% due 03/15/2016		4,550	4,826
COX Communications, Inc.			
9.375% due 01/15/2019		400	504
Daimler Finance North America LLC			
0.588% due 03/10/2017		11,400	11,383
1.250% due 01/11/2016		2,740	2,749
2.300% due 01/09/2015		200	200
2.375% due 08/01/2018		900	913
DISH DBS Corp.			
7.125% due 02/01/2016		1,800	1,897
Florida Gas Transmission Co. LLC			
4.000% due 07/15/2015		1,700	1,724
Freeport-McMoRan, Inc.			
2.300% due 11/14/2017		1,400	1,403
General Mills, Inc.			
0.533% due 01/29/2016		8,900	8,905
Georgia-Pacific LLC			
2.539% due 11/15/2019		4,000	4,003
Gilead Sciences, Inc.			
2.350% due 02/01/2020		800	805
Hellenic Railways Organization S.A.			
4.028% due 03/17/2017	EUR	1,300	1,292
4.500% due 12/06/2016	JPY	29,000	219
Humana, Inc.			
7.200% due 06/15/2018	$	1,200	1,403
Hyundai Capital America			
1.450% due 02/06/2017		950	947
1.875% due 08/09/2016		300	302
Imperial Tobacco Finance PLC			
2.050% due 02/11/2018		1,250	1,244
Kinder Morgan Energy Partners LP			
2.650% due 02/01/2019		500	493
9.000% due 02/01/2019		300	364
Kinder Morgan, Inc.			
2.000% due 12/01/2017		1,500	1,492
3.050% due 12/01/2019		4,000	3,973
KLA-Tencor Corp.			
2.375% due 11/01/2017		500	503
3.375% due 11/01/2019		150	153
Korea National Oil Corp.			
4.000% due 10/27/2016		400	418
Kraft Foods Group, Inc.			
1.625% due 06/04/2015		3,880	3,897
Kroger Co.			
0.758% due 10/17/2016	$	5,600	$ 5,593
Medtronic, Inc.			
1.043% due 03/15/2020		6,300	6,301
1.375% due 04/01/2018		2,900	2,872
Merck Sharp & Dohme Corp.			
5.000% due 06/30/2019		1,400	1,582
MGM Resorts International			
6.625% due 07/15/2015		1,000	1,020
6.875% due 04/01/2016		500	523
7.500% due 06/01/2016		1,700	1,798
7.625% due 01/15/2017		500	540
10.000% due 11/01/2016		400	447
Mylan, Inc.			
2.550% due 03/28/2019		2,100	2,094
NBCUniversal Enterprise, Inc.			
0.768% due 04/15/2016		100	100
Nissan Motor Acceptance Corp.			
1.000% due 03/15/2016		700	701
1.800% due 03/15/2018		200	199
1.950% due 09/12/2017		300	302
2.350% due 03/04/2019		200	201
Pearson Dollar Finance PLC			
6.250% due 05/06/2018		600	671
Petrobras International Finance Co. S.A.			
3.500% due 02/06/2017		1,200	1,149
Pioneer Natural Resources Co.			
6.875% due 05/01/2018		300	336
Rock-Tenn Co.			
4.450% due 03/01/2019		400	426
SABMiller Holdings, Inc.			
2.200% due 08/01/2018		1,300	1,305
2.450% due 01/15/2017		500	510
SABMiller PLC			
6.500% due 07/15/2018		300	343
Sinopec Group Overseas Development Ltd.			
2.750% due 05/17/2017		6,000	6,114
Southwest Airlines Co.			
2.750% due 11/06/2019		6,300	6,336
Telefonica Emisiones S.A.U.			
0.902% due 06/23/2017		13,000	12,991
5.375% due 02/02/2018	GBP	1,300	2,235
6.421% due 06/20/2016	$	1,600	1,713
Thermo Fisher Scientific, Inc.			
1.300% due 02/01/2017		6,600	6,567
Time Warner Cable, Inc.			
5.850% due 05/01/2017		700	765
6.750% due 07/01/2018		1,800	2,066
8.750% due 02/14/2019		1,100	1,363
Time Warner, Inc.			
3.150% due 07/15/2015		11,600	11,765
UnitedHealth Group, Inc.			
1.400% due 12/15/2017		1,000	1,000
Volkswagen Group of America Finance LLC			
0.672% due 11/20/2017		7,500	7,494
2.450% due 11/20/2019		4,200	4,232
Volkswagen International Finance NV			
2.125% due 11/20/2018		1,700	1,698
Walgreens Boots Alliance, Inc.			
0.682% due 05/18/2016		4,500	4,501
1.750% due 11/17/2017		1,700	1,706
Whirlpool Corp.			
1.650% due 11/01/2017		1,100	1,097
			194,636
UTILITIES 4.5%			
AES Corp.			
3.234% due 06/01/2019	$	600	$ 587
AT&T, Inc.			
0.677% due 03/30/2017		6,800	6,801
2.950% due 05/15/2016		900	923
Centrais Eletricas Brasileiras S.A.			
6.875% due 07/30/2019		700	717
Consumers Energy Co.			
6.700% due 09/15/2019		200	239
Dayton Power & Light Co.			
1.875% due 09/15/2016		1,000	1,012
DTE Energy Co.			
2.400% due 12/01/2019		3,700	3,705
Electricite de France S.A.			
6.500% due 01/26/2019		100	117
Gazprom OAO Via Gaz Capital S.A.			
5.875% due 06/01/2015	EUR	1,600	1,926
KT Corp.			
1.750% due 04/22/2017	$	3,700	3,694
Orange S.A.			
2.750% due 09/14/2016		2,500	2,556
Petrobras Global Finance BV			
1.852% due 05/20/2016		7,700	7,375
2.000% due 05/20/2016		1,300	1,245
2.603% due 03/17/2017		6,300	5,831
Plains All American Pipeline LP			
8.750% due 05/01/2019		700	872
Qtel International Finance Ltd.			
3.375% due 10/14/2016		2,300	2,366
Rosneft Finance S.A.			
7.500% due 07/18/2016		400	385
Sinopec Group Overseas Development Ltd.			
1.149% due 04/10/2019		11,000	11,021
Sprint Communications, Inc.			
9.125% due 03/01/2017		5,000	5,512
Verizon Communications, Inc.			
0.636% due 06/09/2017		7,000	6,990
1.771% due 09/15/2016		6,194	6,309
1.991% due 09/14/2018		15,800	16,451
2.500% due 09/15/2016		8,641	8,839
2.625% due 02/21/2020		900	891
3.650% due 09/14/2018		100	106
			96,470
Total Corporate Bonds & Notes (Cost $835,628)			**830,747**
MUNICIPAL BONDS & NOTES 0.4%			
NEW JERSEY 0.4%			
New Jersey Economic Development Authority Revenue Notes, Series 2014			
1.096% due 06/15/2016		9,525	9,508
TEXAS 0.0%			
North Texas Higher Education Authority, Inc. Revenue Bonds, Series 2011			
1.335% due 04/01/2040		384	389
Total Municipal Bonds & Notes (Cost $9,919)			**9,897**
U.S. GOVERNMENT AGENCIES 2.2%			
Fannie Mae			
0.230% due 12/25/2036 - 07/25/2037		674	656
0.520% due 09/25/2042 - 03/25/2044		467	465

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
0.670% due 12/25/2022	$ 65	$ 65
0.970% due 04/25/2023	71	72
1.000% due 01/25/2043	620	602
1.020% due 02/25/2023	3	3
1.062% due 06/17/2027	37	38
1.070% due 05/25/2022	7	7
1.315% due 07/01/2042 - 06/01/2043	371	381
1.365% due 09/01/2041	244	255
1.515% due 09/01/2040	1	1
1.956% due 11/01/2035	60	63
2.025% due 09/01/2035	412	438
2.187% due 07/01/2035	68	73
4.371% due 12/01/2036	21	23
4.478% due 09/01/2034	14	15
4.500% due 03/01/2018 - 01/01/2027	7,224	7,709
5.000% due 05/01/2027 - 04/25/2033	326	360
5.500% due 12/01/2027 - 01/01/2045	2,098	2,349
5.854% due 12/25/2042	9	10
6.000% due 03/01/2017 - 01/01/2039	5,105	5,823
6.500% due 04/01/2036	167	190
FDIC Structured Sale Guaranteed Notes		
2.980% due 12/06/2020	1,891	1,946
Federal Housing Administration		
7.430% due 10/01/2020	2	2
Freddie Mac		
0.210% due 12/25/2036	936	934
0.430% due 08/25/2031	153	150
0.561% due 06/15/2018	15	16
1.315% due 02/25/2045	313	321
2.000% due 11/15/2026	12,509	12,610
2.271% due 09/01/2035	420	450
2.280% due 07/01/2035	155	167
5.000% due 05/01/2024 - 12/01/2041	910	1,008
5.500% due 12/01/2022 - 08/15/2030	2	2
6.500% due 07/25/2043	65	76
Freddie Mac Strips		
9.423% due 08/15/2044	6,038	6,822
Ginnie Mae		
1.932% due 02/20/2041	1,418	1,427
6.000% due 09/15/2017	492	511
Small Business Administration		
5.600% due 09/01/2028	533	593
Total U.S. Government Agencies (Cost $45,996)		**46,633**

U.S. TREASURY OBLIGATIONS 11.3%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
U.S. Treasury Inflation Protected Securities (c)		
0.125% due 04/15/2018 (g)(i)	173,279	172,737
0.125% due 04/15/2019 (g)(i)	20,266	20,070
0.625% due 07/15/2021 (e)	22,539	22,872
1.125% due 01/15/2021	10,311	10,735
1.250% due 07/15/2020 (g)(i)	12,303	12,936
1.375% due 01/15/2020 (g)(i)	3,074	3,231
Total U.S. Treasury Obligations (Cost $248,750)		**242,581**

MORTGAGE-BACKED SECURITIES 7.6%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Adjustable Rate Mortgage Trust		
2.758% due 09/25/2035	1,127	1,004
Aggregator of Loans Backed by Assets		
2.809% due 12/16/2042	GBP 1,471	$ 2,328
American Home Mortgage Investment Trust		
2.069% due 10/25/2034	$ 298	300
2.332% due 02/25/2045	174	174
Banc of America Commercial Mortgage Trust		
5.561% due 04/10/2049	2,533	2,714
5.617% due 07/10/2046	2,097	2,222
5.622% due 04/10/2049	104	105
Banc of America Funding Trust		
0.450% due 07/25/2037	1,276	1,116
2.799% due 01/20/2047 ^	521	418
Banc of America Mortgage Trust		
2.532% due 07/25/2034	856	867
2.690% due 08/25/2034	2,686	2,650
2.730% due 05/25/2033	482	488
6.500% due 10/25/2031	7	7
BCAP LLC Trust		
0.339% due 09/26/2035	610	604
Bear Stearns Adjustable Rate Mortgage Trust		
2.228% due 04/25/2033	6	6
2.290% due 08/25/2035	1,313	1,324
2.504% due 04/25/2033	5	6
2.515% due 03/25/2035	1,524	1,541
2.522% due 01/25/2035	198	191
2.668% due 02/25/2033	1	1
2.674% due 08/25/2035 ^	409	360
2.732% due 01/25/2034	25	26
2.758% due 07/25/2034	363	357
2.870% due 01/25/2035	4,612	4,526
Bear Stearns ALT-A Trust		
0.330% due 02/25/2034	506	457
Bear Stearns Commercial Mortgage Securities Trust		
5.331% due 02/11/2044	347	371
Bear Stearns Structured Products, Inc.		
2.337% due 12/26/2046	626	491
2.591% due 01/26/2036	1,145	910
Chevy Chase Funding LLC Mortgage-Backed Certificates		
0.450% due 01/25/2035	79	70
Citigroup Commercial Mortgage Trust		
6.142% due 12/10/2049	834	915
Citigroup Mortgage Loan Trust, Inc.		
2.540% due 05/25/2035	200	199
2.556% due 08/25/2035	840	616
Citigroup/Deutsche Bank Commercial Mortgage Trust		
5.289% due 12/11/2049	15,923	16,779
5.300% due 01/15/2046	3,489	3,605
Countrywide Alternative Loan Trust		
0.350% due 05/25/2047	610	509
6.000% due 10/25/2033	13	14
Countrywide Home Loan Mortgage Pass-Through Trust		
2.330% due 02/20/2036	597	512
2.418% due 11/20/2034	1,409	1,359
2.418% due 11/25/2034	693	660
2.466% due 02/20/2035	1,087	1,071
Credit Suisse Commercial Mortgage Trust		
5.297% due 12/15/2039	3,647	3,875
5.448% due 01/15/2049	10	10
5.669% due 03/15/2039	14,238	14,835
5.806% due 06/15/2038	5,064	5,305
Credit Suisse First Boston Mortgage Securities Corp.		
0.798% due 03/25/2032	1	1
Credit Suisse Mortgage Capital Certificates		
2.518% due 09/27/2036	5,119	5,144
2.585% due 09/26/2047	647	640
DBRR Trust		
0.853% due 02/25/2045	873	872
Deutsche Mortgage Securities, Inc. Re-REMIC Trust Certificates		
5.254% due 06/26/2035	$ 424	$ 427
Eurosail PLC		
0.242% due 12/10/2044	EUR 193	226
1.260% due 09/13/2045	GBP 1,318	2,038
Extended Stay America Trust		
2.958% due 12/05/2031	$ 500	508
First Horizon Alternative Mortgage Securities Trust		
2.218% due 09/25/2034	1,547	1,516
First Horizon Mortgage Pass-Through Trust		
2.612% due 08/25/2035	452	420
2.625% due 02/25/2035	2,443	2,445
Fosse Master Issuer PLC		
2.658% due 10/18/2054	GBP 300	473
GE Commercial Mortgage Corp. Trust		
5.483% due 12/10/2049	$ 7,275	7,820
GMAC Mortgage Corp. Loan Trust		
2.668% due 11/19/2035	260	234
Granite Master Issuer PLC		
0.305% due 12/20/2054	2,606	2,585
0.365% due 12/20/2054	405	402
0.824% due 12/20/2054	GBP 423	655
Granite Mortgages PLC		
0.461% due 01/20/2044	EUR 62	75
0.938% due 01/20/2044	GBP 54	84
0.940% due 09/20/2044	379	591
Great Hall Mortgages PLC		
0.373% due 06/18/2039	$ 2,400	2,282
Greenpoint Mortgage Pass-Through Certificates		
2.786% due 10/25/2033	1,278	1,255
Greenwich Capital Commercial Funding Corp.		
5.444% due 03/10/2039	1,900	2,028
GSR Mortgage Loan Trust		
2.536% due 09/25/2034	173	164
2.669% due 09/25/2035	884	890
HarborView Mortgage Loan Trust		
0.384% due 05/19/2035	135	113
2.602% due 07/19/2035	707	644
Hercules Eclipse PLC		
0.797% due 10/25/2018	GBP 4,936	7,604
Impac CMB Trust		
1.170% due 07/25/2033	$ 188	177
IndyMac Mortgage Loan Trust		
2.525% due 12/25/2034	349	323
Infinity Classico		
0.268% due 02/15/2024	EUR 862	1,022
JPMorgan Chase Commercial Mortgage Securities Trust		
5.257% due 05/15/2047	$ 7,199	7,539
5.397% due 05/15/2045	2,365	2,489
5.420% due 01/15/2049	565	604
5.637% due 03/18/2051	2,325	2,448
5.882% due 02/15/2051	1,300	1,409
JPMorgan Mortgage Trust		
2.636% due 02/25/2035	111	109
5.750% due 01/25/2036 ^	33	32
Juno Eclipse Ltd.		
0.261% due 11/20/2022	EUR 2,513	2,989
LB-UBS Commercial Mortgage Trust		
5.342% due 09/15/2039	$ 1,425	1,507
MASTR Asset Securitization Trust		
5.500% due 09/25/2033	9	9
Mellon Residential Funding Corp. Mortgage Pass-Through Trust		
0.641% due 06/15/2030	123	118
Merrill Lynch Mortgage Investors Trust		
0.380% due 02/25/2036	403	372

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
0.420% due 11/25/2035		$ 275	$ 262
0.830% due 09/25/2029		1,404	1,402
1.156% due 10/25/2035		191	182
1.941% due 01/25/2029		4	4
2.350% due 10/25/2035		665	672
Merrill Lynch/Countrywide Commercial Mortgage Trust			
5.485% due 03/12/2051		2,700	2,902
Morgan Stanley Capital Trust			
5.412% due 03/12/2044		2,081	2,134
Prime Mortgage Trust			
0.570% due 02/25/2034		11	10
Residential Funding Mortgage Securities, Inc. Trust			
2.976% due 09/25/2035 ^		1,116	883
Salomon Brothers Mortgage Securities, Inc.			
7.000% due 12/25/2018		14	15
Structured Adjustable Rate Mortgage Loan Trust			
1.515% due 01/25/2035		307	248
2.455% due 08/25/2034		538	532
2.514% due 08/25/2035		314	291
2.573% due 02/25/2034		378	378
Structured Asset Mortgage Investments Trust			
0.450% due 02/25/2036		192	155
0.824% due 09/19/2032		4	4
Structured Asset Securities Corp. Trust			
2.619% due 10/28/2035		175	168
Vulcan European Loan Conduit Ltd.			
0.358% due 05/15/2017	EUR	444	530
Wachovia Bank Commercial Mortgage Trust			
0.241% due 06/15/2020		$ 377	376
5.421% due 04/15/2047		129	130
5.749% due 07/15/2045		1,196	1,268
WaMu Mortgage Pass-Through Certificates Trust			
0.440% due 12/25/2045		153	147
0.510% due 01/25/2045		1,086	1,032
0.843% due 01/25/2047		374	341
1.313% due 11/25/2042		58	57
1.513% due 06/25/2042		37	36
1.513% due 08/25/2042		142	132
1.921% due 02/27/2034		22	21
Washington Mutual Mortgage Loan Trust			
1.311% due 05/25/2041		18	17
Wells Fargo Mortgage-Backed Securities Trust			
2.612% due 03/25/2036		473	473
2.613% due 03/25/2035		376	382
2.615% due 12/25/2034		402	408
2.616% due 01/25/2035		518	529
2.618% due 09/25/2034		7,455	7,617
Total Mortgage-Backed Securities (Cost $164,697)			**162,919**

ASSET-BACKED SECURITIES 9.5%		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
ACE Securities Corp.			
0.230% due 10/25/2036		118	65
1.070% due 12/25/2034		1,518	1,390
Ally Auto Receivables Trust			
0.680% due 07/17/2017		9,500	9,496
ALM Ltd.			
1.468% due 07/18/2022		1,059	1,060
Ameriquest Mortgage Securities, Inc. Asset-Backed Pass-Through Certificates			
0.670% due 09/25/2035		7,100	6,388
Amortizing Residential Collateral Trust			
0.750% due 07/25/2032		13	12
Ares European CLO BV			
0.509% due 08/15/2024	EUR	2,541	3,048
Asset-Backed Funding Certificates Trust			
0.845% due 06/25/2035		$ 10,799	9,807
Asset-Backed Securities Corp. Home Equity Loan Trust			
0.720% due 09/25/2034		$ 92	$ 92
1.811% due 03/15/2032		132	127
Atrium CDO Corp.			
1.332% due 11/16/2022		4,200	4,205
Avoca CLO PLC			
0.516% due 01/16/2023	EUR	850	1,021
Bacchus Ltd.			
0.471% due 01/20/2019		$ 751	751
Bear Stearns Asset-Backed Securities Trust			
1.170% due 10/25/2037		2,450	2,302
Cadogan Square CLO BV			
0.532% due 08/12/2022	EUR	1,548	1,858
0.536% due 01/17/2023		2,271	2,716
Carlyle High Yield Partners Ltd.			
0.456% due 04/19/2022		$ 944	931
Cavalry CLO Ltd.			
1.528% due 01/16/2024		10,200	10,200
Citigroup Mortgage Loan Trust, Inc.			
0.650% due 09/25/2035 ^		6,200	5,871
Countrywide Asset-Backed Certificates			
0.350% due 09/25/2036		3,750	3,673
0.650% due 12/25/2031		34	26
0.870% due 12/25/2033		2,002	1,919
Countrywide Asset-Backed Certificates Trust			
0.415% due 05/25/2036		246	246
0.970% due 03/25/2033		1,370	1,270
Credit Suisse First Boston Mortgage Securities Corp.			
0.775% due 01/25/2032		8	7
Duane Street CLO Ltd.			
0.463% due 11/14/2021		687	683
Educational Services of America, Inc.			
1.320% due 09/25/2040		2,325	2,350
Elm CLO Ltd.			
1.635% due 01/17/2023		8,000	8,000
Equity One Mortgage Pass-Through Trust			
0.730% due 11/25/2032		5	5
First Franklin Mortgage Loan Trust			
0.650% due 05/25/2035		300	279
Four Corners CLO Ltd.			
0.525% due 01/26/2020		1,604	1,597
Franklin CLO Ltd.			
0.501% due 06/15/2018		1,649	1,641
Galaxy CLO Ltd.			
1.522% due 08/20/2022		1,100	1,097
Gateway Euro CLO S.A.			
0.398% due 04/25/2023	EUR	586	708
GE-WMC Mortgage Securities Trust			
0.210% due 08/25/2036		$ 16	9
GM Financial Automobile Leasing Trust			
0.250% due 09/21/2015		2,151	2,151
Goldentree Loan Opportunities Ltd.			
0.926% due 10/18/2021		1,036	1,035
Gresham Capital CLO BV			
0.534% due 07/18/2023	EUR	1,190	1,440
GSAMP Trust			
0.560% due 01/25/2036		$ 1,067	895
Halcyon Structured Asset Management European CLO BV			
0.548% due 01/25/2023	EUR	1,448	1,739
Highbridge Loan Management Ltd.			
1.497% due 09/20/2022		$ 5,500	5,506
Hyde Park CDO BV			
0.429% due 06/14/2022	EUR	842	1,011
JPMorgan Mortgage Acquisition Corp.			
0.350% due 02/25/2036		$ 879	845
0.400% due 05/25/2035		9,179	8,963
Jubilee CDO BV			
0.532% due 08/21/2021	EUR	588	$ 708
0.932% due 10/15/2019		3,227	3,899
Landmark CDO Ltd.			
0.506% due 07/15/2018		$ 18	18
Lockwood Grove CLO Ltd.			
1.603% due 01/25/2024		5,400	5,400
Long Beach Mortgage Loan Trust			
0.730% due 10/25/2034		34	32
Madison Park Funding Ltd.			
1.491% due 06/15/2022		786	785
Massachusetts Educational Financing Authority			
1.184% due 04/25/2038		696	702
Mercator CLO PLC			
0.314% due 02/18/2024	EUR	3,173	3,788
Merrill Lynch Mortgage Investors Trust			
0.370% due 08/25/2036		$ 488	482
0.460% due 08/25/2036		700	668
MT Wilson CLO Ltd.			
0.460% due 07/11/2020		1,138	1,136
Octagon Investment Partners Ltd.			
0.471% due 04/23/2020		1,922	1,913
Opteum Mortgage Acceptance Corp. Asset-Backed Pass-Through Certificates			
0.450% due 12/25/2035		861	771
0.480% due 04/25/2035		3,220	3,184
Panhandle-Plains Higher Education Authority, Inc.			
1.385% due 10/01/2035		1,548	1,575
Panther CDO BV			
0.455% due 03/20/2084	EUR	10,478	11,918
Prospero CLO BV			
0.321% due 10/20/2022		1,068	1,284
RAAC Trust			
0.650% due 03/25/2037		$ 833	807
Renaissance Home Equity Loan Trust			
0.670% due 12/25/2033		4,077	3,984
Residential Asset Securities Corp. Trust			
0.490% due 01/25/2036		6,300	6,107
SLC Student Loan Trust			
0.312% due 11/15/2021		106	106
0.362% due 11/15/2021		15,693	15,656
SLM Private Credit Student Loan Trust			
0.421% due 03/15/2024		1,510	1,497
0.431% due 12/15/2023		855	848
SLM Private Education Loan Trust			
0.911% due 10/16/2023		1,753	1,759
1.211% due 06/15/2023		1,905	1,913
1.261% due 12/15/2021		509	511
SLM Student Loan Trust			
1.734% due 04/25/2023		610	627
South Carolina Student Loan Corp.			
0.984% due 03/02/2020		2,000	2,007
Specialty Underwriting & Residential Finance Trust			
0.560% due 12/25/2036		4,800	4,014
SpringCastle America Funding LLC			
2.700% due 05/25/2023		10,622	10,622
Stone Tower CLO Ltd.			
0.458% due 04/17/2021		1,589	1,568
Structured Asset Investment Loan Trust			
0.875% due 03/25/2034		681	633
1.145% due 10/25/2033		1,208	1,161
Symphony CLO Ltd.			
1.529% due 04/16/2022		1,000	997
Wells Fargo Home Equity Asset-Backed Securities Trust			
0.430% due 05/25/2036		1,100	1,037
Wood Street CLO BV			
0.431% due 11/22/2021	EUR	690	830
Total Asset-Backed Securities (Cost $201,473)			**203,382**

See Accompanying Notes

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
SOVEREIGN ISSUES 11.4%		
Autonomous Community of Catalonia		
4.750% due 06/04/2018	EUR 2,700	$ 3,531
Autonomous Community of Valencia		
4.375% due 07/16/2015	2,000	2,468
Brazil Letras do Tesouro Nacional		
0.000% due 10/01/2015	BRL 201,200	69,145
0.000% due 01/01/2017	33,000	9,738
Export-Import Bank of Korea		
0.980% due 01/14/2017	$ 4,600	4,615
1.093% due 09/17/2016	700	704
1.250% due 11/20/2015	8,700	8,720
2.047% due 03/21/2015	33,400	33,486
Italy Buoni Poliennali Del Tesoro		
1.150% due 05/15/2017	EUR 47,800	58,562
2.250% due 05/15/2016	17,500	21,698
3.750% due 08/01/2016	3,400	4,326
Korea Housing Finance Corp.		
3.500% due 12/15/2016	$ 1,500	1,557
Korea Land & Housing Corp.		
1.875% due 08/02/2017	500	499
Mexico Government International Bond		
4.000% due 11/15/2040 (c)	MXN 3,163	242
5.000% due 06/16/2016 (c)	6,853	495
Province of Ontario		
1.000% due 07/22/2016	$ 2,800	2,813
1.100% due 10/25/2017	13,600	13,532
Spain Government International Bond		
3.150% due 01/31/2016	EUR 3,600	4,490
3.250% due 04/30/2016	500	628
3.300% due 07/30/2016	2,500	3,161
Total Sovereign Issues (Cost $264,590)		**244,410**

	SHARES	MARKET VALUE (000S)
CONVERTIBLE PREFERRED SECURITIES 0.0%		
INDUSTRIALS 0.0%		
Motors Liquidation Co.		
5.250% due 03/06/2032 (a)	4,000	$ 0
Total Convertible Preferred Securities (Cost $0)		**0**

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
SHORT-TERM INSTRUMENTS 8.5%		
CERTIFICATES OF DEPOSIT 0.8%		
Intesa Sanpaolo SpA		
1.610% due 04/11/2016	$ 14,600	14,630
Itau Unibanco Holding S.A.		
1.605% due 06/21/2016	2,200	2,200
		16,830
COMMERCIAL PAPER 0.9%		
Ford Motor Credit Co.		
0.680% due 04/21/2015	1,900	1,897
Vodafone Group PLC		
0.600% due 06/29/2015	18,000	17,962
		19,859
REPURCHASE AGREEMENTS (d) 0.1%		
		1,263
MEXICO TREASURY BILLS 6.7%		
3.030% due 02/19/2015 - 05/28/2015 (b)	MXN 2,136,300	143,276
U.S. TREASURY BILLS 0.0%		
0.066% due 05/14/2015 - 05/21/2015 (b)(i)	$ 487	$ 487
Total Short-Term Instruments (Cost $193,146)		**181,715**
Total Investments in Securities (Cost $1,990,022)		**1,948,011**

	SHARES	
INVESTMENTS IN AFFILIATES 8.7%		
SHORT-TERM INSTRUMENTS 8.7%		
CENTRAL FUNDS USED FOR CASH MANAGEMENT PURPOSES 8.7%		
PIMCO Short-Term Floating NAV Portfolio III	18,801,662	186,362
Total Short-Term Instruments (Cost $187,314)		**186,362**
Total Investments in Affiliates (Cost $187,314)		**186,362**
Total Investments 99.6% (Cost $2,177,336)		**$ 2,134,373**
Financial Derivative Instruments (f)(h) 1.2% (Cost or Premiums, net $(657))		**25,933**
Other Assets and Liabilities, net (0.8%)		**(17,643)**
Net Assets 100.0%		**$ 2,142,663**

NOTES TO SCHEDULE OF INVESTMENTS (AMOUNTS IN THOUSANDS*, EXCEPT NUMBER OF CONTRACTS):

* A zero balance may reflect actual amounts rounding to less than one thousand.

^ Security is in default.

(a) Security did not produce income within the last twelve months.

(b) Coupon represents a weighted average yield to maturity.

(c) Principal amount of security is adjusted for inflation.

BORROWINGS AND OTHER FINANCING TRANSACTIONS

(d) REPURCHASE AGREEMENTS:

Counterparty	Lending Rate	Settlement Date	Maturity Date	Principal Amount	Collateralized By	Collateral Received, at Value	Repurchase Agreements, at Value	Repurchase Agreement Proceeds to be Received [1]
SSB	0.000%	12/31/2014	01/02/2015	$ 1,263	Fannie Mae 2.260% due 10/17/2022	$ (1,291)	$ 1,263	$ 1,263
Total Repurchase Agreements						**$ (1,291)**	**$ 1,263**	**$ 1,263**

[1] Includes accrued interest.

SALE-BUYBACK TRANSACTIONS:

Counterparty	Borrowing Rate	Borrowing Date	Maturity Date	Amount Borrowed [2]	Payable for Sale-Buyback Transactions [3]
MSC	0.430%	12/31/2014	01/02/2015	$ (21,454)	$ (21,452)
Total Sale-Buyback Transactions					**$ (21,452)**

[2] As of December 31, 2014, there were no open reverse repurchase agreements. The average amount of borrowings outstanding during the period ended December 31, 2014 was $2,901 at a weighted average interest rate of (1.029%).

[3] Payable for sale-buyback transactions includes $(3) of deferred price drop on sale-buyback transactions.

SHORT SALES:

Description	Coupon	Maturity Date	Principal Amount	Proceeds	Payable for Short Sales
Fannie Mae	5.000%	01/01/2045	$ 100	$ (111)	$ (111)
Fannie Mae	5.500%	01/01/2045	1,000	(1,119)	(1,119)
Fannie Mae	6.000%	01/01/2045	3,000	(3,400)	(3,402)
Freddie Mac	5.000%	01/01/2045	500	(553)	(552)
Total Short Sales				**$ (5,183)**	**$ (5,184)**

BORROWINGS AND OTHER FINANCING TRANSACTIONS SUMMARY

The following is a summary by counterparty of the market value of Borrowings and Other Financing Transactions and collateral (received)/pledged as of December 31, 2014:

(e) Securities with an aggregate market value of $21,375 have been pledged as collateral under the terms of the following master agreements as of December 31, 2014.

Counterparty	Repurchase Agreement Proceeds to be Received	Payable for Reverse Repurchase Agreements	Payable for Sale-Buyback Transactions	Payable for Short Sales	Total Borrowings and Other Financing Transactions	Collateral (Received)/Pledged	Net Exposure [4]
Global/Master Repurchase Agreement							
SSB	$ 1,263	$ 0	$ 0	$ 0	$ 1,263	$ (1,291)	$ (28)
Master Securities Forward Transaction Agreement							
MSC	0	0	(21,452)	0	(21,452)	21,375	(77)
Total Borrowings and Other Financing Transactions	**$ 1,263**	**$ 0**	**$ (21,452)**	**$ 0**			

[4] Net Exposure represents the net receivable/(payable) that would be due from/to the counterparty in the event of default. Exposure from borrowings and other financing transactions can only be netted across transactions governed under the same master agreement with the same legal entity. See Note 7, Principal Risks, in the Notes to Financial Statements for more information regarding master netting arrangements.

(f) FINANCIAL DERIVATIVE INSTRUMENTS: EXCHANGE-TRADED OR CENTRALLY CLEARED

FUTURES CONTRACTS:

Description	Type	Expiration Month	# of Contracts	Unrealized Appreciation/ (Depreciation)	Variation Margin Asset	Variation Margin Liability
90-Day Eurodollar December Futures	Long	12/2015	2,771	$ 93	$ 35	$ 0
90-Day Eurodollar June Futures	Long	06/2015	1,818	(317)	23	0
90-Day Eurodollar June Futures	Short	06/2018	858	(92)	0	(64)
90-Day Eurodollar March Futures	Long	03/2015	1,162	(30)	14	0
90-Day Eurodollar March Futures	Short	03/2018	857	(116)	0	(64)
Euro-Bund 10-Year Bond March Futures	Short	03/2015	208	(639)	0	(13)
U.S. Treasury 5-Year Note March Futures	Short	03/2015	1,824	(215)	0	(285)
U.S. Treasury 10-Year Note March Futures	Long	03/2015	546	(35)	119	0
U.S. Treasury 30-Year Bond March Futures	Short	03/2015	13	(51)	0	(4)
United Kingdom 90-Day LIBOR Sterling Interest Rate March Futures	Short	03/2015	57	(21)	0	(1)
United Kingdom 90-Day LIBOR Sterling Interest Rate September Futures	Short	09/2015	856	(783)	0	(33)
Total Futures Contracts				**$ (2,206)**	**$ 191**	**$ (464)**

SWAP AGREEMENTS:

CREDIT DEFAULT SWAPS ON CORPORATE ISSUES - SELL PROTECTION [2]

Reference Entity	Fixed Deal Receive Rate	Maturity Date	Implied Credit Spread at December 31, 2014	Notional Amount [3]	Market Value [4]	Unrealized (Depreciation)	Variation Margin Asset	Variation Margin Liability
General Electric Capital Corp.	1.000%	06/20/2017	0.389%	$ 1,900	$ 30	$ (8)	$ 0	$ 0

CREDIT DEFAULT SWAPS ON CREDIT INDICES - BUY PROTECTION [1]

Index/Tranches	Fixed Deal (Pay) Rate	Maturity Date	Notional Amount [3]	Market Value [4]	Unrealized Appreciation	Variation Margin Asset	Variation Margin Liability
CDX.IG-22 5-Year Index	(1.000%)	06/20/2019	$ 1,300	$ (24)	$ 1	$ 0	$ 0

See Accompanying Notes

CREDIT DEFAULT SWAPS ON CREDIT INDICES - SELL PROTECTION [2]

Index/Tranches	Fixed Deal Receive Rate	Maturity Date	Notional Amount [3]	Market Value [4]	Unrealized Appreciation/ (Depreciation)	Variation Margin Asset	Variation Margin Liability
CDX.HY-22 5-Year Index	5.000%	06/20/2019	$ 25,641	$ 1,786	$ (37)	$ 22	$ 0
CDX.IG-22 5-Year Index	1.000%	06/20/2019	1,300	24	2	0	0
				$ 1,810	$ (35)	$ 22	$ 0

(1) If the Portfolio is a buyer of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Portfolio will either (i) receive from the seller of protection an amount equal to the notional amount of the swap and deliver the referenced obligation or underlying securities comprising the referenced index or (ii) receive a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index.

(2) If the Portfolio is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Portfolio will either (i) pay to the buyer of protection an amount equal to the notional amount of the swap and take delivery of the referenced obligation or underlying securities comprising the referenced index or (ii) pay a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index.

(3) The maximum potential amount the Portfolio could be required to pay as a seller of credit protection or receive as a buyer of credit protection if a credit event occurs as defined under the terms of that particular swap agreement.

(4) The prices and resulting values for credit default swap agreements on credit indices serve as an indicator of the current status of the payment/performance risk and represent the likelihood of an expected liability (or profit) for the credit derivative should the notional amount of the swap agreement be closed/sold as of the period end. Increasing market values, in absolute terms when compared to the notional amount of the swap, represent a deterioration of the referenced indices' credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

INTEREST RATE SWAPS

Pay/Receive Floating Rate	Floating Rate Index	Fixed Rate	Maturity Date	Notional Amount	Market Value	Unrealized Appreciation/ (Depreciation)	Variation Margin Asset	Variation Margin Liability
Receive	3-Month USD-LIBOR	1.700%	10/16/2019	$ 161,200	$ (223)	$ (30)	$ 0	$ (120)
Receive	3-Month USD-LIBOR	1.650%	10/16/2019	172,700	181	328	0	(128)
Receive	3-Month USD-LIBOR	1.750%	03/19/2020	23,800	150	2	0	(19)
Receive	6-Month GBP-LIBOR	1.500%	09/18/2016	GBP 36,500	(513)	(227)	0	(10)
Receive	6-Month GBP-LIBOR	1.550%	10/06/2016	3,000	(25)	(25)	0	(1)
Receive	6-Month GBP-LIBOR	1.510%	10/07/2016	18,200	(140)	(140)	0	(5)
Receive	6-Month GBP-LIBOR	1.880%	10/05/2017	8,100	(161)	(161)	0	(6)
Receive	6-Month GBP-LIBOR	1.837%	10/06/2017	1,300	(24)	(24)	0	(1)
Pay	28-Day MXN-TIIE	5.250%	06/11/2018	MXN 8,900	8	(5)	1	0
Pay	28-Day MXN-TIIE	5.500%	06/11/2018	17,500	25	(5)	2	0
Pay	28-Day MXN-TIIE	4.955%	06/24/2019	360,000	(270)	(269)	51	0
Pay	28-Day MXN-TIIE	5.280%	10/02/2019	370,000	(4)	(4)	57	0
Pay	28-Day MXN-TIIE	5.010%	10/10/2019	354,500	(313)	(313)	54	0
Pay	28-Day MXN-TIIE	6.410%	11/07/2029	130,400	(159)	(92)	64	0
					$ (1,468)	$ (965)	$ 229	$ (290)
Total Swap Agreements					**$ 348**	**$ (1,007)**	**$ 251**	**$ (290)**

FINANCIAL DERIVATIVE INSTRUMENTS: EXCHANGE-TRADED OR CENTRALLY CLEARED SUMMARY

The following is a summary of the market value and variation margin of Exchange-Traded or Centrally Cleared Financial Derivative Instruments as of December 31, 2014:

(g) Securities with an aggregate market value of $12,335 and cash of $1,121 have been pledged as collateral for exchange-traded and centrally cleared financial derivative instruments as of December 31, 2014. See Note 7, Principal Risks, in the Notes to Financial Statements for more information regarding master netting arrangements.

	Financial Derivative Assets				Financial Derivative Liabilities			
	Market Value	Variation Margin Asset			Market Value	Variation Margin Liability		
	Purchased Options	Futures	Swap Agreements	Total	Written Options	Futures	Swap Agreements	Total
Total Exchange-Traded or Centrally Cleared	**$ 0**	**$ 191**	**$ 251**	**$ 442**	**$ 0**	**$ (464)**	**$ (290)**	**$ (754)**

(h) FINANCIAL DERIVATIVE INSTRUMENTS: OVER THE COUNTER

FORWARD FOREIGN CURRENCY CONTRACTS:

Counterparty	Settlement Month	Currency to be Delivered	Currency to be Received	Unrealized Appreciation/ (Depreciation) Asset	Unrealized Appreciation/ (Depreciation) Liability
BOA	01/2015	ILS 35,563	$ 9,578	$ 461	$ 0
	01/2015	$ 28,869	JPY 3,458,229	19	(17)
	02/2015	EUR 6,425	$ 7,914	136	0
	02/2015	GBP 19,900	31,121	112	0
	02/2015	JPY 1,872,629	15,618	0	(19)
	02/2015	$ 12,141	EUR 9,876	0	(185)
	04/2015	MXN 72,978	$ 5,211	291	0
	05/2015	CAD 21,211	19,324	1,117	0
BPS	01/2015	BRL 10,489	4,037	91	0
	01/2015	$ 3,949	BRL 10,489	0	(3)
	01/2015	11,483	MXN 155,834	0	(923)
	02/2015	EUR 847	$ 1,055	29	0
	02/2015	MXN 54,994	4,019	302	0
	02/2015	$ 12,653	MXN 167,085	0	(1,350)
	06/2015	3,353	EUR 2,501	0	(322)
	07/2015	BRL 314	$ 130	17	0
	10/2015	107,100	40,171	2,830	0
	01/2017	20,000	7,269	1,016	0
BRC	02/2015	MXN 13,475	986	74	0
	02/2015	$ 1,663	MXN 22,584	0	(136)
	03/2015	MXN 28,491	$ 2,009	85	0
	06/2015	EUR 3,372	4,490	403	0
CBK	01/2015	$ 7,968	JPY 943,800	0	(89)
	02/2015	EUR 31,839	$ 39,464	921	0
	02/2015	$ 17,970	EUR 14,412	0	(523)
	02/2015	452	MXN 6,194	0	(33)
DUB	01/2015	BRL 10,489	$ 3,949	3	0
	01/2015	$ 4,533	AUD 5,303	0	(203)
	01/2015	4,076	BRL 10,489	0	(131)
	05/2015	MXN 582,170	$ 42,170	3,062	0
	07/2015	BRL 13,768	5,221	296	0
	10/2015	94,100	34,271	1,462	0
FBF	01/2015	13,528	5,146	57	0
	01/2015	JPY 5,086,929	42,987	518	0
	01/2015	$ 5,093	BRL 13,528	0	(4)
	04/2015	MXN 588,546	$ 42,986	3,345	0
	04/2015	$ 5,184	BRL 14,000	0	(44)
	05/2015	MXN 75,216	$ 5,490	433	0
	06/2015	EUR 8,998	11,976	1,071	0
GLM	01/2015	AUD 7,328	5,989	7	0
	01/2015	JPY 2,792,400	23,668	355	0
	01/2015	$ 10,507	JPY 1,245,800	0	(106)
	02/2015	AUD 2,914	$ 2,358	0	(16)
	02/2015	CHF 2,077	2,153	63	0
	02/2015	EUR 13,277	16,452	379	0
	02/2015	MXN 47,876	3,507	268	0
	02/2015	$ 1,131	CHF 1,098	0	(26)
	02/2015	45,789	EUR 36,962	0	(1,043)
	06/2015	13,231	9,869	0	(1,270)
	07/2015	BRL 14,407	$ 5,946	792	0
HUS	01/2015	$ 6,084	JPY 719,900	0	(74)
	02/2015	AUD 787	$ 640	0	(1)
	02/2015	EUR 15,281	19,045	546	0
JPM	01/2015	BRL 59,268	22,313	17	0
	01/2015	ILS 31,219	8,199	195	0
	01/2015	INR 33,734	529	0	(3)
	01/2015	JPY 759,800	6,437	94	0
	01/2015	$ 22,279	BRL 59,268	18	0
	01/2015	18,996	JPY 2,271,400	37	(70)
	02/2015	JPY 504,300	$ 4,189	0	(22)
	02/2015	MXN 14,757	1,024	26	0
	02/2015	$ 297	MXN 4,074	0	(22)
	03/2015	ILS 38,230	$ 9,707	0	(97)
	04/2015	BRL 14,000	5,913	774	0

Counterparty	Settlement Month	Currency to be Delivered		Currency to be Received		Unrealized Appreciation/ (Depreciation) Asset	Liability
MSB	01/2015	AUD	9,889	$	8,441	$ 367	$ 0
	01/2015	BRL	59,268		22,306	10	0
	01/2015	$	22,361	BRL	59,268	0	(65)
	02/2015		22,117		59,268	6	0
	03/2015		18,383	CAD	21,047	0	(291)
	05/2015	MXN	581,726	$	41,970	2,891	0
	07/2015	BRL	45,000		18,405	2,306	0
RBC	02/2015	EUR	5,174		6,381	117	0
	02/2015	MXN	200,480		14,175	612	0
SOG	02/2015	EUR	189,658		236,535	6,938	0
UAG	01/2015	MXN	155,237		11,790	1,270	0
	01/2015	$	9,758	AUD	11,914	0	(31)
	02/2015	AUD	9,414	$	7,682	13	0
	02/2015	JPY	516,317		4,288	0	(24)
	05/2015	MXN	122,914		8,979	714	0
Total Forward Foreign Currency Contracts						**$ 36,966**	**$ (7,143)**

PURCHASED OPTIONS:

INTEREST RATE SWAPTIONS

Counterparty	Description	Floating Rate Index	Pay/Receive Floating Rate	Exercise Rate	Expiration Date	Notional Amount	Cost	Market Value
GLM	Put - OTC 2-Year Interest Rate Swap	3-Month USD-LIBOR	Receive	3.205%	01/16/2020	$ 270,100	$ 3,923	$ 3,262
Total Purchased Options							**$ 3,923**	**$ 3,262**

WRITTEN OPTIONS:

CREDIT DEFAULT SWAPTIONS ON CREDIT INDICES

Counterparty	Description	Buy/Sell Protection	Exercise Rate	Expiration Date	Notional Amount		Premiums (Received)	Market Value
BPS	Call - OTC iTraxx Europe 22 5-Year Index	Buy	0.600%	01/21/2015	EUR	3,300	$ (6)	$ (4)
	Put - OTC iTraxx Europe 22 5-Year Index	Sell	0.900%	01/21/2015		3,300	(6)	(1)
CBK	Call - OTC iTraxx Europe 22 5-Year Index	Buy	0.600%	01/21/2015		6,500	(11)	(8)
	Put - OTC iTraxx Europe 22 5-Year Index	Sell	0.900%	01/21/2015		4,100	(8)	(1)
	Put - OTC iTraxx Europe 22 5-Year Index	Sell	1.000%	01/21/2015		2,400	(6)	0
	Call - OTC iTraxx Europe 22 5-Year Index	Buy	0.550%	02/18/2015		3,000	(2)	(3)
	Put - OTC iTraxx Europe 22 5-Year Index	Sell	0.850%	02/18/2015		3,000	(6)	(3)
GST	Put - OTC CDX.IG-22 5-Year Index	Sell	0.900%	01/21/2015	$	25,800	(38)	0
	Call - OTC iTraxx Europe 22 5-Year Index	Buy	0.600%	01/21/2015	EUR	3,300	(4)	(4)
	Put - OTC iTraxx Europe 22 5-Year Index	Sell	1.000%	01/21/2015		3,300	(9)	0
	Put - OTC iTraxx Europe 22 5-Year Index	Sell	1.100%	01/21/2015		1,800	(4)	0
	Put - OTC iTraxx Europe 22 5-Year Index	Sell	1.200%	01/21/2015		4,000	(10)	0
JPM	Call - OTC iTraxx Europe 22 5-Year Index	Buy	0.600%	01/21/2015		3,300	(5)	(4)
	Put - OTC iTraxx Europe 22 5-Year Index	Sell	1.000%	01/21/2015		3,300	(9)	0
	Call - OTC iTraxx Europe 22 5-Year Index	Buy	0.550%	02/18/2015		1,500	(1)	(1)
	Put - OTC iTraxx Europe 22 5-Year Index	Sell	0.850%	02/18/2015		1,500	(3)	(1)
SOG	Call - OTC iTraxx Europe 22 5-Year Index	Buy	0.600%	01/21/2015		1,700	(3)	(2)
	Put - OTC iTraxx Europe 22 5-Year Index	Sell	0.900%	01/21/2015		1,700	(3)	0
	Call - OTC iTraxx Europe 22 5-Year Index	Buy	0.550%	02/18/2015		3,200	(4)	(3)
	Put - OTC iTraxx Europe 22 5-Year Index	Sell	0.850%	02/18/2015		3,200	(6)	(3)
							$ (144)	$ (38)

FOREIGN CURRENCY OPTIONS

Counterparty	Description	Strike Price		Expiration Date	Notional Amount		Premiums (Received)	Market Value
BOA	Put - OTC AUD versus USD	$	0.839	01/14/2015	AUD	2,600	$ (15)	$ (62)
	Call - OTC AUD versus USD		0.897	01/14/2015		2,600	(18)	0
	Put - OTC USD versus JPY	JPY	112.000	02/09/2015	$	5,400	(53)	(4)
	Put - OTC USD versus JPY		113.000	05/22/2015		5,200	(75)	(43)
	Put - OTC USD versus JPY		80.000	02/18/2019		15,100	(857)	(213)

Counterparty	Description	Strike Price	Expiration Date	Notional Amount	Premiums (Received)	Market Value
BPS	Put - OTC USD versus JPY	JPY 110.500	01/05/2015	$ 2,600	$ (23)	$ 0
	Put - OTC USD versus JPY	115.000	01/12/2015	2,200	(12)	(1)
	Put - OTC USD versus JPY	111.500	02/09/2015	2,100	(17)	(1)
	Put - OTC USD versus JPY	111.750	02/09/2015	4,400	(40)	(3)
BRC	Call - OTC EUR versus USD	$ 1.268	01/20/2015	EUR 3,200	(25)	(1)
	Put - OTC USD versus INR	INR 60.900	01/16/2015	$ 2,600	(14)	0
	Call - OTC USD versus INR	63.900	01/16/2015	2,600	(14)	(7)
	Call - OTC USD versus INR	63.850	02/05/2015	2,900	(16)	(22)
	Call - OTC USD versus INR	64.250	02/25/2015	2,700	(23)	(25)
	Put - OTC USD versus JPY	JPY 112.000	03/12/2015	4,300	(51)	(11)
CBK	Call - OTC EUR versus USD	$ 1.265	02/13/2015	EUR 4,300	(47)	(6)
	Put - OTC USD versus JPY	JPY 111.900	01/23/2015	$ 5,300	(44)	(1)
	Put - OTC USD versus JPY	112.880	03/13/2015	2,200	(27)	(7)
	Put - OTC USD versus JPY	112.000	05/15/2015	1,500	(26)	(9)
	Put - OTC USD versus JPY	99.000	09/30/2015	6,800	(73)	(16)
DUB	Call - OTC AUD versus USD	$ 0.875	01/08/2015	AUD 2,600	(14)	0
	Put - OTC AUD versus USD	0.855	01/16/2015	1,500	(16)	(60)
	Call - OTC EUR versus USD	1.268	01/27/2015	EUR 2,200	(19)	(1)
	Call - OTC EUR versus USD	1.260	02/10/2015	6,500	(75)	(10)
	Call - OTC EUR versus USD	1.270	02/18/2015	1,700	(19)	(2)
	Put - OTC USD versus JPY	JPY 112.850	03/25/2015	$ 2,200	(29)	(9)
	Put - OTC USD versus JPY	112.500	05/22/2015	2,200	(25)	(16)
FBF	Call - OTC AUD versus USD	$ 0.890	01/22/2015	AUD 2,200	(10)	0
	Call - OTC USD versus INR	INR 64.000	02/05/2015	$ 1,600	(8)	(11)
	Put - OTC USD versus JPY	JPY 112.000	01/20/2015	8,700	(62)	(2)
	Put - OTC USD versus JPY	111.400	05/14/2015	2,200	(30)	(12)
	Call - OTC USD versus MXN	MXN 14.500	02/02/2015	1,500	(10)	(35)
GLM	Put - OTC EUR versus USD	$ 1.230	01/16/2015	EUR 1,700	(19)	(38)
	Put - OTC EUR versus USD	1.225	01/23/2015	1,700	(17)	(34)
	Put - OTC USD versus BRL	BRL 2.300	01/20/2015	$ 2,400	(10)	0
	Call - OTC USD versus BRL	2.800	01/20/2015	2,400	(18)	(5)
	Put - OTC USD versus INR	INR 61.000	02/18/2015	2,900	(15)	(1)
	Call - OTC USD versus INR	63.500	02/18/2015	2,900	(20)	(36)
	Call - OTC USD versus INR	63.850	02/25/2015	900	(8)	(10)
	Call - OTC USD versus JPY	JPY 119.000	01/16/2015	3,200	(33)	(43)
	Call - OTC USD versus JPY	119.000	01/30/2015	3,200	(37)	(52)
	Put - OTC USD versus JPY	113.500	05/27/2015	2,200	(32)	(21)
	Call - OTC USD versus MXN	MXN 14.250	02/18/2015	1,300	(10)	(51)
	Call - OTC USD versus MXN	14.480	02/20/2015	1,500	(14)	(41)
HUS	Call - OTC USD versus INR	INR 63.850	02/25/2015	1,500	(13)	(17)
	Call - OTC USD versus INR	64.250	02/26/2015	1,500	(9)	(14)
	Put - OTC USD versus MXN	MXN 13.350	02/25/2015	2,000	(11)	0
	Call - OTC USD versus MXN	14.050	02/25/2015	2,000	(11)	(105)
JPM	Put - OTC USD versus BRL	BRL 2.300	01/21/2015	2,300	(17)	0
	Call - OTC USD versus BRL	2.800	01/21/2015	2,300	(22)	(6)
	Put - OTC USD versus BRL	2.300	01/23/2015	2,400	(19)	0
	Call - OTC USD versus BRL	2.800	01/23/2015	2,400	(19)	(7)
	Put - OTC USD versus BRL	2.400	02/12/2015	1,100	(3)	0
	Call - OTC USD versus BRL	2.900	02/12/2015	1,100	(9)	(3)
	Call - OTC USD versus INR	INR 63.400	01/22/2015	1,800	(11)	(13)
	Call - OTC USD versus INR	65.900	05/12/2015	5,000	(41)	(67)
	Put - OTC USD versus JPY	JPY 112.600	02/13/2015	3,000	(29)	(4)
	Call - OTC USD versus MXN	MXN 14.350	02/26/2015	5,400	(46)	(188)
MSB	Put - OTC USD versus BRL	BRL 2.300	01/28/2015	2,600	(13)	0
	Call - OTC USD versus BRL	2.800	01/28/2015	2,600	(36)	(10)
SOG	Put - OTC USD versus JPY	JPY 109.000	11/19/2015	2,200	(37)	(26)
UAG	Call - OTC USD versus INR	INR 64.250	02/25/2015	5,100	(43)	(46)
	Put - OTC USD versus JPY	JPY 110.500	01/07/2015	3,400	(33)	0
	Put - OTC USD versus JPY	111.500	02/09/2015	2,100	(17)	(1)
	Put - OTC USD versus JPY	112.500	02/11/2015	1,700	(16)	(2)
	Put - OTC USD versus JPY	110.000	05/12/2015	4,300	(50)	(17)
	Put - OTC USD versus JPY	100.000	07/03/2015	5,600	(36)	(6)
UBS	Put - OTC USD versus JPY	112.000	02/09/2015	1,700	(17)	(1)
					$ (2,578)	$ (1,455)

INTEREST RATE SWAPTIONS

Counterparty	Description	Floating Rate Index	Pay/Receive Floating Rate	Exercise Rate	Expiration Date	Notional Amount	Premiums (Received)	Market Value
BOA	Put - OTC 3-Year Interest Rate Swap	3-Month USD-LIBOR	Pay	1.300%	01/20/2015	$ 158,700	$ (349)	$ (373)
GLM	Put - OTC 2-Year Interest Rate Swap	3-Month USD-LIBOR	Pay	2.800%	01/16/2018	270,100	(3,295)	(2,810)
JPM	Put - OTC 3-Year Interest Rate Swap	3-Month USD-LIBOR	Pay	1.400%	01/20/2015	297,500	(461)	(321)
MYC	Put - OTC 3-Year Interest Rate Swap	3-Month USD-LIBOR	Pay	1.200%	01/16/2015	274,100	(834)	(1,168)
	Put - OTC 5-Year Interest Rate Swap	3-Month USD-LIBOR	Pay	1.900%	01/20/2015	73,400	(327)	(97)
NGF	Put - OTC 5-Year Interest Rate Swap	3-Month USD-LIBOR	Pay	1.920%	02/03/2015	21,600	(127)	(49)
							$ (5,393)	$ (4,818)
Total Written Options							**$ (8,115)**	**$ (6,311)**

TRANSACTIONS IN WRITTEN CALL AND PUT OPTIONS FOR THE PERIOD ENDED DECEMBER 31, 2014:

	# of Contracts	Notional Amount in $	Notional Amount in AUD	Notional Amount in EUR	Premiums
Balance at Beginning of Period	1,940	$ 346,800	AUD 0	EUR 294,800	$ (1,880)
Sales	1,924	2,804,900	40,400	120,400	(12,459)
Closing Buys	0	(572,200)	0	0	1,086
Expirations	(3,864)	(890,800)	(16,100)	(180,000)	4,381
Exercised	0	(393,200)	(12,800)	(156,500)	757
Balance at End of Period	0	$ 1,295,500	AUD 11,500	EUR 78,700	$ (8,115)

SWAP AGREEMENTS:

CREDIT DEFAULT SWAPS ON SOVEREIGN ISSUES - BUY PROTECTION (1)

Counterparty	Reference Entity	Fixed Deal (Pay) Rate	Maturity Date	Implied Credit Spread at December 31, 2014 (3)	Notional Amount (4)	Premiums Paid	Unrealized Appreciation	Swap Agreements, at Value Asset	Swap Agreements, at Value Liability
BRC	Venezuela Government International Bond	(5.000%)	06/20/2015	53.467%	$ 300	$ 37	$ 21	$ 58	$ 0
GST	Venezuela Government International Bond	(5.000%)	06/20/2015	53.467%	1,300	132	119	251	0
						$ 169	$ 140	$ 309	$ 0

CREDIT DEFAULT SWAPS ON CORPORATE, SOVEREIGN AND U.S. TREASURY OBLIGATION ISSUES - SELL PROTECTION (2)

Counterparty	Reference Entity	Fixed Deal Receive Rate	Maturity Date	Implied Credit Spread at December 31, 2014 (3)	Notional Amount (4)	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value Asset	Swap Agreements, at Value Liability
BOA	Berkshire Hathaway Finance Corp.	1.000%	03/20/2016	0.138%	$ 1,100	$ (14)	$ 26	$ 12	$ 0
	BP Capital Markets America, Inc.	1.000%	12/20/2019	0.766%	EUR 5,200	113	(39)	74	0
	Brazil Government International Bond	1.000%	09/20/2015	0.789%	$ 800	(4)	5	1	0
	China Government International Bond	1.000%	06/20/2019	0.720%	2,800	21	13	34	0
	MetLife, Inc.	1.000%	06/20/2017	0.309%	1,000	22	(5)	17	0
	Mexico Government International Bond	1.000%	09/20/2015	0.370%	800	7	(3)	4	0
	Mexico Government International Bond	1.000%	12/20/2018	0.820%	1,000	(1)	8	7	0
	Russia Government International Bond	1.000%	03/20/2019	4.827%	3,600	(250)	(250)	0	(500)
	Standard Chartered PLC	1.000%	03/20/2019	0.740%	EUR 1,000	(12)	25	13	0
BPS	BP Capital Markets America, Inc.	1.000%	12/20/2019	0.766%	1,500	34	(13)	21	0
	Comcast Corp.	1.000%	09/20/2019	0.274%	$ 700	23	1	24	0
	U.S. Treasury Notes	0.250%	09/20/2016	0.106%	EUR 6,500	(124)	145	21	0
BRC	Berkshire Hathaway, Inc.	1.000%	03/20/2019	0.424%	$ 3,700	59	29	88	0
	Berkshire Hathaway, Inc.	1.000%	12/20/2023	0.975%	1,000	(29)	31	2	0
	Brazil Government International Bond	1.000%	09/20/2015	0.789%	5,100	(39)	49	10	0
	China Government International Bond	1.000%	09/20/2015	0.165%	2,400	30	(14)	16	0
	China Government International Bond	1.000%	09/20/2016	0.283%	1,300	18	(1)	17	0
	General Motors Co.	5.000%	09/20/2016	0.773%	2,000	201	(53)	148	0
	Indonesia Government International Bond	1.000%	06/20/2019	1.341%	800	(19)	8	0	(11)
	Indonesia Government International Bond	1.000%	09/20/2019	1.434%	2,500	(50)	2	0	(48)
	Italy Government International Bond	1.000%	06/20/2019	1.114%	11,000	(198)	148	0	(50)
	MetLife, Inc.	1.000%	03/20/2019	0.525%	2,700	20	34	54	0
	Mexico Government International Bond	1.000%	09/20/2015	0.370%	5,500	(36)	63	27	0
	Mexico Government International Bond	1.000%	03/20/2018	0.703%	4,300	(7)	49	42	0
	Russia Government International Bond	1.000%	09/20/2015	5.125%	3,600	(30)	(75)	0	(105)
	Russia Government International Bond	1.000%	12/20/2019	4.779%	7,200	(463)	(666)	0	(1,129)
	Volvo Treasury AB	1.000%	12/20/2019	0.752%	EUR 1,200	10	8	18	0

Counterparty	Reference Entity	Fixed Deal Receive Rate	Maturity Date	Implied Credit Spread at December 31, 2014 (3)	Notional Amount (4)	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value Asset	Liability
CBK	BP Capital Markets America, Inc.	1.000%	12/20/2019	0.766%	EUR 1,100	$ 25	$ (9)	$ 16	$ 0
	Brazil Government International Bond	1.000%	09/20/2015	0.789%	$ 1,600	(19)	22	3	0
	Brazil Government International Bond	1.000%	06/20/2016	1.089%	27,000	(52)	25	0	(27)
	China Government International Bond	1.000%	03/20/2019	0.660%	1,900	10	17	27	0
	Gazprom OAO Via Gaz Capital S.A.	1.000%	09/20/2015	7.209%	7,900	(95)	(247)	0	(342)
	HSBC Bank PLC	1.000%	03/20/2019	0.570%	EUR 3,600	(36)	116	80	0
	Indonesia Government International Bond	1.000%	06/20/2019	1.341%	$ 300	(7)	3	0	(4)
	Italy Government International Bond	1.000%	06/20/2017	0.722%	2,700	16	3	19	0
	Italy Government International Bond	1.000%	06/20/2019	1.114%	700	(13)	9	0	(4)
	Mexico Government International Bond	1.000%	09/20/2016	0.523%	1,000	5	3	8	0
	Mexico Government International Bond	1.000%	12/20/2018	0.820%	1,700	(2)	14	12	0
	Volvo Treasury AB	1.000%	12/20/2019	0.752%	EUR 1,300	14	6	20	0
DUB	Berkshire Hathaway, Inc.	1.000%	06/20/2017	0.254%	$ 7,300	172	(36)	136	0
	Berkshire Hathaway, Inc.	1.000%	03/20/2019	0.424%	1,700	36	5	41	0
	China Government International Bond	1.000%	12/20/2018	0.622%	1,400	18	3	21	0
	China Government International Bond	1.000%	03/20/2019	0.660%	4,100	2	56	58	0
	China Government International Bond	1.000%	06/20/2019	0.720%	2,500	19	12	31	0
	Export-Import Bank of China	1.000%	12/20/2016	0.512%	2,300	(186)	209	23	0
	Export-Import Bank of Korea	1.000%	12/20/2016	0.183%	1,000	(64)	80	16	0
	General Electric Capital Corp.	1.000%	06/20/2017	0.402%	7,100	138	(31)	107	0
	General Electric Capital Corp.	1.000%	03/20/2019	0.510%	3,500	55	17	72	0
	HSBC Bank PLC	1.000%	12/20/2018	0.327%	EUR 3,400	38	73	111	0
	Indonesia Government International Bond	1.000%	06/20/2019	1.341%	$ 1,500	(34)	13	0	(21)
	Italy Government International Bond	1.000%	09/20/2016	0.574%	400	3	0	3	0
	Italy Government International Bond	1.000%	03/20/2019	1.069%	10,200	(167)	141	0	(26)
	Italy Government International Bond	1.000%	06/20/2019	1.114%	3,900	(72)	54	0	(18)
	MetLife, Inc.	1.000%	06/20/2017	0.309%	3,800	85	(19)	66	0
	MetLife, Inc.	1.000%	03/20/2019	0.525%	1,700	29	5	34	0
	Mexico Government International Bond	1.000%	03/20/2016	0.437%	3,200	(18)	41	23	0
	Mexico Government International Bond	1.000%	06/20/2016	0.487%	7,900	19	43	62	0
	Mexico Government International Bond	1.000%	09/20/2016	0.523%	700	3	3	6	0
	Prudential Financial, Inc.	1.000%	03/20/2019	0.431%	3,500	66	18	84	0
	Prudential Financial, Inc.	1.000%	06/20/2019	0.473%	16,000	326	46	372	0
FBF	BP Capital Markets America, Inc.	1.000%	12/20/2019	0.766%	EUR 200	4	(1)	3	0
	MetLife, Inc.	1.000%	06/20/2016	0.192%	$ 1,900	33	(10)	23	0
	Prudential Financial, Inc.	1.000%	09/20/2019	0.510%	3,400	69	9	78	0
	Volvo Treasury AB	1.000%	12/20/2019	0.752%	EUR 4,000	32	28	60	0
	Wendel S.A.	5.000%	12/20/2019	0.901%	300	74	(1)	73	0
GST	Italy Government International Bond	1.000%	06/20/2017	0.722%	$ 400	2	1	3	0
	MetLife, Inc.	1.000%	06/20/2016	0.192%	3,800	65	(18)	47	0
	Mexico Government International Bond	1.000%	09/20/2016	0.523%	1,900	9	7	16	0
	Wendel S.A.	5.000%	12/20/2019	0.901%	EUR 1,000	251	(7)	244	0
HUS	Brazil Government International Bond	1.000%	09/20/2015	0.789%	$ 1,000	(10)	12	2	0
	Brazil Government International Bond	1.000%	03/20/2016	0.995%	1,200	(6)	6	0	0
	Indonesia Government International Bond	1.000%	09/20/2019	1.434%	1,800	(37)	2	0	(35)
	Italy Government International Bond	1.000%	09/20/2016	0.574%	900	7	0	7	0
	Italy Government International Bond	1.000%	03/20/2019	1.069%	10,200	(171)	146	0	(25)
	Mexico Government International Bond	1.000%	09/20/2015	0.370%	1,700	13	(5)	8	0
	Mexico Government International Bond	1.000%	09/20/2016	0.523%	700	4	2	6	0
	Russia Government International Bond	1.000%	12/20/2019	4.779%	6,700	(475)	(576)	0	(1,051)
JPM	BP Capital Markets America, Inc.	1.000%	12/20/2019	0.766%	EUR 3,800	85	(31)	54	0
	Brazil Government International Bond	1.000%	09/20/2015	0.789%	$ 400	(4)	5	1	0
	China Government International Bond	1.000%	12/20/2018	0.622%	5,800	57	30	87	0
	China Government International Bond	1.000%	06/20/2019	0.720%	4,100	21	30	51	0
	HSBC Bank PLC	1.000%	12/20/2018	0.327%	EUR 2,000	28	38	66	0
	Indonesia Government International Bond	1.000%	06/20/2019	1.341%	$ 600	(14)	5	0	(9)
	Mexico Government International Bond	1.000%	09/20/2016	0.523%	800	4	2	6	0
	Prudential Financial, Inc.	1.000%	09/20/2019	0.510%	5,000	102	11	113	0
	PSEG Power LLC	1.000%	12/20/2018	0.737%	1,700	11	7	18	0
	Volvo Treasury AB	1.000%	12/20/2019	0.752%	EUR 1,100	12	5	17	0
MYC	BP Capital Markets America, Inc.	1.000%	12/20/2019	0.766%	3,400	78	(30)	48	0
	Brazil Government International Bond	1.000%	09/20/2015	0.789%	$ 400	(2)	3	1	0
	France Government Bond	0.250%	12/20/2019	0.413%	5,500	(77)	34	0	(43)
	General Electric Capital Corp.	1.000%	06/20/2016	0.339%	200	(1)	3	2	0
	Italy Government International Bond	1.000%	03/20/2019	1.069%	5,200	(86)	73	0	(13)
	Italy Government International Bond	1.000%	09/20/2019	1.155%	7,900	34	(86)	0	(52)
	Mexico Government International Bond	1.000%	12/20/2018	0.820%	1,500	(3)	14	11	0
	Standard Chartered PLC	1.000%	03/20/2019	0.740%	EUR 1,100	(13)	28	15	0
	Volvo Treasury AB	1.000%	12/20/2019	0.752%	1,100	12	5	17	0
	Wendel S.A.	5.000%	12/20/2019	0.901%	1,600	397	(7)	390	0
UAG	Brazil Government International Bond	1.000%	09/20/2015	0.789%	$ 500	(5)	6	1	0
						$ 96	$ (40)	$ 3,569	$ (3,513)

CREDIT DEFAULT SWAPS ON CREDIT INDICES - SELL PROTECTION [2]

Counterparty	Index/Tranches	Fixed Deal Receive Rate	Maturity Date	Notional Amount [4]	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value [5] Asset	Liability
BOA	CDX.HY-21 3-Year Index	5.000%	12/20/2016	$ 3,465	$ 282	$ (97)	$ 185	$ 0
BRC	CDX.EM-13 5-Year Index	5.000%	06/20/2015	8,366	969	(998)	0	(29)
FBF	CMBX.NA.AAA.1 Index	0.100%	10/12/2052	8,547	(43)	27	0	(16)
GST	CDX.EM-13 5-Year Index	5.000%	06/20/2015	376	47	(48)	0	(1)
	CDX.IG-9 10-Year Index 30-100%	0.548%	12/20/2017	193	0	3	3	0
HUS	CDX.EM-13 5-Year Index	5.000%	06/20/2015	5,734	638	(658)	0	(20)
JPM	CDX.EM-13 5-Year Index	5.000%	06/20/2015	470	53	(55)	0	(2)
	CDX.IG-9 10-Year Index 30-100%	0.553%	12/20/2017	386	0	5	5	0
MYC	CDX.EM-13 5-Year Index	5.000%	06/20/2015	7,802	907	(934)	0	(27)
					$ 2,853	$ (2,755)	$ 193	$ (95)

[1] If the Portfolio is a buyer of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Portfolio will either (i) receive from the seller of protection an amount equal to the notional amount of the swap and deliver the referenced obligation or underlying securities comprising the referenced index or (ii) receive a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index.

[2] If the Portfolio is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Portfolio will either (i) pay to the buyer of protection an amount equal to the notional amount of the swap and take delivery of the referenced obligation or underlying securities comprising the referenced index or (ii) pay a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index.

[3] Implied credit spreads, represented in absolute terms, utilized in determining the market value of credit default swap agreements on corporate, sovereign or U.S. Treasury obligation issues as of period end serve as an indicator of the current status of the payment/performance risk and represent the likelihood or risk of default for the credit derivative. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to be made to enter into the agreement. Wider credit spreads represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

[4] The maximum potential amount the Portfolio could be required to pay as a seller of credit protection or receive as a buyer of credit protection if a credit event occurs as defined under the terms of that particular swap agreement.

[5] The prices and resulting values for credit default swap agreements on credit indices serve as an indicator of the current status of the payment/performance risk and represent the likelihood of an expected liability (or profit) for the credit derivative should the notional amount of the swap agreement be closed/sold as of the period end. Increasing market values, in absolute terms when compared to the notional amount of the swap, represent a deterioration of the referenced indices' credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

INTEREST RATE SWAPS

Counterparty	Pay/Receive Floating Rate	Floating Rate Index	Fixed Rate	Maturity Date	Notional Amount	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value Asset	Liability
BPS	Pay	1-Year BRL-CDI	10.910%	01/02/2017	BRL 7,700	$ (33)	$ (20)	$ 0	$ (53)
DUB	Pay	1-Year BRL-CDI	11.470%	01/02/2017	198,000	236	(817)	0	(581)
GLM	Pay	1-Year BRL-CDI	11.320%	01/04/2016	21,200	(18)	(6)	0	(24)
	Pay	1-Year BRL-CDI	11.470%	01/02/2017	169,500	237	(733)	0	(496)
	Pay	1-Year BRL-CDI	13.000%	01/02/2018	61,700	0	179	179	0
HUS	Pay	28-Day MXN-TIIE	5.500%	06/11/2018	MXN 2,700	0	4	4	0
JPM	Pay	1-Year BRL-CDI	11.470%	01/02/2017	BRL 9,600	(2)	(26)	0	(28)
	Pay	28-Day MXN-TIIE	5.250%	06/11/2018	MXN 2,500	(1)	3	2	0
	Pay	28-Day MXN-TIIE	5.500%	06/11/2018	1,300	0	2	2	0
MYC	Pay	28-Day MXN-TIIE	5.250%	06/11/2018	3,900	(2)	5	3	0
						$ 417	$ (1,409)	$ 190	$ (1,182)
Total Swap Agreements						**$ 3,535**	**$ (4,064)**	**$ 4,261**	**$ (4,790)**

FINANCIAL DERIVATIVE INSTRUMENTS: OVER THE COUNTER SUMMARY

The following is a summary by counterparty of the market value of OTC financial derivative instruments and collateral (received)/pledged as of December 31, 2014:

(i) Securities with an aggregate market value of $3,783 have been pledged as collateral for financial derivative instruments as governed by International Swaps and Derivatives Association, Inc. master agreements as of December 31, 2014.

	Financial Derivative Assets				Financial Derivative Liabilities						
Counterparty	Forward Foreign Currency Contracts	Purchased Options	Swap Agreements	Total Over the Counter	Forward Foreign Currency Contracts	Written Options	Swap Agreements	Total Over the Counter	Net Market Value of OTC Derivatives	Collateral (Received)/ Pledged	Net Exposure (6)
BOA	$ 2,136	$ 0	$ 347	$ 2,483	$ (221)	$ (695)	$ (500)	$ (1,416)	$1,067	$ (1,050)	$ 17
BPS	4,285	0	66	4,351	(2,598)	(10)	(53)	(2,661)	1,690	(1,850)	(160)
BRC	562	0	480	1,042	(136)	(66)	(1,372)	(1,574)	(532)	529	(3)
CBK	921	0	185	1,106	(645)	(54)	(377)	(1,076)	30	273	303
DUB	4,823	0	1,266	6,089	(334)	(98)	(646)	(1,078)	5,011	(5,270)	(259)
FBF	5,424	0	237	5,661	(48)	(60)	(16)	(124)	5,537	(5,460)	77
GLM	1,864	3,262	179	5,305	(2,461)	(3,142)	(520)	(6,123)	(818)	800	(18)
GST	0	0	564	564	0	(4)	(1)	(5)	559	(520)	39
HUS	546	0	27	573	(75)	(136)	(1,131)	(1,342)	(769)	977	208
JPM	1,161	0	422	1,583	(214)	(615)	(39)	(868)	715	(22,922)	(22,207)
MSB	5,580	0	0	5,580	(356)	(10)	0	(366)	5,214	(5,370)	(156)
MYC	0	0	487	487	0	(1,265)	(135)	(1,400)	(913)	719	(194)
NGF	0	0	0	0	0	(49)	0	(49)	(49)	0	(49)
RBC	729	0	0	729	0	0	0	0	729	(460)	269
SOG	6,938	0	0	6,938	0	(34)	0	(34)	6,904	(5,690)	1,214
UAG	1,997	0	1	1,998	(55)	(72)	0	(127)	1,871	(1,640)	231
UBS	0	0	0	0	0	(1)	0	(1)	(1)	0	(1)
Total Over the Counter	**$36,966**	**$3,262**	**$4,261**	**$44,489**	**$(7,143)**	**$(6,311)**	**$(4,790)**	**$(18,244)**			

(6) Net Exposure represents the net receivable/(payable) that would be due from/to the counterparty in the event of default. Exposure from OTC financial derivative instruments can only be netted across transactions governed under the same master agreement with the same legal entity. See Note 7, Principal Risks, in the Notes to Financial Statements for more information regarding master netting arrangements.

FAIR VALUE OF FINANCIAL DERIVATIVE INSTRUMENTS

The following is a summary of the fair valuation of the Portfolio's derivative instruments categorized by risk exposure. See Note 7, Principal Risks, in the Notes to Financial Statements on risks of the Portfolio.

Fair Values of Financial Derivative Instruments on the Statement of Assets and Liabilities as of December 31, 2014:

	Derivatives not accounted for as hedging instruments					
	Commodity Contracts	Credit Contracts	Equity Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Total
Financial Derivative Instruments - Assets						
Exchange-traded or centrally cleared						
Futures	$ 0	$ 0	$ 0	$ 0	$ 191	$ 191
Swap Agreements	0	22	0	0	229	251
	$ 0	$ 22	$ 0	$ 0	$ 420	$ 442
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 36,966	$ 0	$ 36,966
Purchased Options	0	0	0	0	3,262	3,262
Swap Agreements	0	4,071	0	0	190	4,261
	$ 0	$ 4,071	$ 0	$ 36,966	$ 3,452	$ 44,489
	$ 0	$ 4,093	$ 0	$ 36,966	$ 3,872	$ 44,931
Financial Derivative Instruments - Liabilities						
Exchange-traded or centrally cleared						
Futures	$ 0	$ 0	$ 0	$ 0	$ 464	$ 464
Swap Agreements	0	0	0	0	290	290
	$ 0	$ 0	$ 0	$ 0	$ 754	$ 754
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 7,143	$ 0	$ 7,143
Written Options	0	38	0	1,455	4,818	6,311
Swap Agreements	0	3,608	0	0	1,182	4,790
	$ 0	$ 3,646	$ 0	$ 8,598	$ 6,000	$ 18,244
	$ 0	$ 3,646	$ 0	$ 8,598	$ 6,754	$ 18,998

 See Accompanying Notes

The Effect of Financial Derivative Instruments on the Statement of Operations for the Period Ended December 31, 2014:

	Derivatives not accounted for as hedging instruments					
	Commodity Contracts	Credit Contracts	Equity Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Total
Net Realized Gain (Loss) on Financial Derivative Instruments						
Exchange-traded or centrally cleared						
Written Options	$ 0	$ 33	$ 0	$ 0	$ 1,534	$ 1,567
Futures	0	0	0	0	2,060	2,060
Swap Agreements	0	3,267	0	0	(13,212)	(9,945)
	$ 0	$ 3,300	$ 0	$ 0	$ (9,618)	$ (6,318)
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 33,057	$ 0	$ 33,057
Written Options	0	2,490	0	56	1,149	3,695
Swap Agreements	0	3,104	0	0	978	4,082
	$ 0	$ 5,594	$ 0	$ 33,113	$ 2,127	$ 40,834
	$ 0	$ 8,894	$ 0	$ 33,113	$ (7,491)	$ 34,516
Net Change in Unrealized Appreciation (Depreciation) on Financial Derivative Instruments						
Exchange-traded or centrally cleared						
Written Options	$ 0	$ 0	$ 0	$ 0	$ 245	$ 245
Futures	0	0	0	0	(1,254)	(1,254)
Swap Agreements	0	(42)	0	0	(6,341)	(6,383)
	$ 0	$ (42)	$ 0	$ 0	$ (7,350)	$ (7,392)
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 33,276	$ 0	$ 33,276
Purchased Options	0	0	0	0	(661)	(661)
Written Options	0	43	0	1,123	(91)	1,075
Swap Agreements	0	(1,896)	0	0	(1,260)	(3,156)
	$ 0	$ (1,853)	$ 0	$ 34,399	$ (2,012)	$ 30,534
	$ 0	$ (1,895)	$ 0	$ 34,399	$ (9,362)	$ 23,142

FAIR VALUE MEASUREMENTS

The following is a summary of the fair valuations according to the inputs used as of December 31, 2014 in valuing the Portfolio's assets and liabilities:

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 12/31/2014
Investments in Securities, at Value				
Bank Loan Obligations	$ 0	$ 25,727	$ 0	$ 25,727
Corporate Bonds & Notes				
Banking & Finance	0	539,641	0	539,641
Industrials	0	194,636	0	194,636
Utilities	0	96,470	0	96,470
Municipal Bonds & Notes				
New Jersey	0	9,508	0	9,508
Texas	0	389	0	389
U.S. Government Agencies	0	46,631	2	46,633
U.S. Treasury Obligations	0	242,581	0	242,581
Mortgage-Backed Securities	0	160,646	2,273	162,919
Asset-Backed Securities	0	203,382	0	203,382
Sovereign Issues	0	244,410	0	244,410
Short-Term Instruments				
Certificates of Deposit	0	16,830	0	16,830
Commercial Paper	0	19,859	0	19,859
Repurchase Agreements	0	1,263	0	1,263
Mexico Treasury Bills	0	143,276	0	143,276
U.S. Treasury Bills	0	487	0	487
	$ 0	$ 1,945,736	$ 2,275	$ 1,948,011

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 12/31/2014
Investments in Affiliates, at Value				
Short-Term Instruments				
Central Funds Used for Cash Management Purposes	$ 186,362	$ 0	$ 0	$ 186,362
Total Investments	$ 186,362	$ 1,945,736	$ 2,275	$ 2,134,373
Short Sales, at Value - Liabilities				
U.S. Government Agencies	$ 0	$ (5,184)	$ 0	$ (5,184)
Financial Derivative Instruments - Assets				
Exchange-traded or centrally cleared	191	251	0	442
Over the counter	0	44,489	0	44,489
	$ 191	$ 44,740	$ 0	$ 44,931
Financial Derivative Instruments - Liabilities				
Exchange-traded or centrally cleared	(464)	(290)	0	(754)
Over the counter	0	(18,244)	0	(18,244)
	$ (464)	$ (18,534)	$ 0	$ (18,998)
Totals	$ 186,089	$ 1,966,758	$ 2,275	$ 2,155,122

There were no significant transfers between Level 1, 2, and 3 during the period ended December 31, 2014.

1. ORGANIZATION

The PIMCO Low Duration Portfolio (the "Portfolio") is a series of the PIMCO Variable Insurance Trust (the "Trust"). The Trust is registered under the Investment Company Act of 1940, as amended (the "Act"), as an open-end management investment company organized as a Delaware business trust on October 3, 1997. The Portfolio offers three classes of shares: Institutional, Administrative and Advisor. Information presented on these financial statements pertains to the Administrative Class of the Portfolio. Certain detailed financial information for the Institutional Class and Advisor Class is provided separately and is available upon request. The Trust is designed to be used as an investment vehicle by separate accounts of insurance companies that fund variable annuity contracts and variable life insurance policies and by qualified pension and retirement plans. Pacific Investment Management Company LLC ("PIMCO") serves as the investment adviser (the "Adviser") for the Portfolio.

2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies consistently followed by the Portfolio in the preparation of its financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Portfolio is treated as an investment company under the reporting requirements of U.S. GAAP. The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

(a) Securities Transactions and Investment Income Securities transactions are recorded as of the trade date for financial reporting purposes. Realized gains and losses from securities sold are recorded on the identified cost basis. Dividend income is recorded on the ex-dividend date, except certain dividends from foreign securities where the ex-dividend date may have passed, which are recorded as soon as the Portfolio is informed of the ex-dividend date. Interest income, adjusted for the accretion of discounts and amortization of premiums, is recorded on the accrual basis from settlement date. For convertible securities, premiums attributable to the conversion feature are not amortized. Estimated tax liabilities on certain foreign securities are recorded on an accrual basis and are reflected as components of interest income or net change in unrealized gain/loss on investments on the Statement of Operations, as appropriate. Tax liabilities realized as a result of such security sales are reflected as a component of net realized gain/loss on investments on the Statement of Operations. Paydown gains and losses on mortgage-related and other asset-backed securities are recorded as components of interest income on the Statement of Operations. Income or short-term capital gain distributions received from underlying funds are recorded as dividend income. Long-term capital gain distributions received from underlying funds are recorded as realized gains.

Debt obligations may be placed on non-accrual status and related interest income may be reduced by ceasing current accruals and writing off interest receivable when the collection of all or a portion of interest has become doubtful based on consistently applied procedures. A debt obligation is removed from non-accrual status when the issuer resumes interest payments or when collectability of interest is probable.

(b) Cash and Foreign Currency The functional and reporting currency for the Portfolio is the U.S. dollar. The market values of foreign securities, currency holdings and other assets and liabilities are translated into U.S. dollars based on the current exchange rates each business day. Purchases and sales of securities and income and expense items denominated in foreign currencies, if any, are translated into U.S. dollars at the exchange rate in effect on the transaction date. The Portfolio does not separately report the effects of changes in foreign exchange rates from changes in market prices on securities held. Such changes are included in net realized and net changes in unrealized gain or loss from investments on the Statement of Operations. The Portfolio may invest in foreign currency-denominated securities and may engage in foreign currency transactions either on a spot (cash) basis at the rate prevailing in the currency exchange market at the time or through a forward foreign currency contract (see financial derivative instruments). Realized foreign exchange gains or losses arising from sales of spot foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the recorded amounts of dividends, interest, and foreign withholding taxes and the U.S. dollar equivalent of the amounts actually received or paid are included in net realized gain or loss on foreign currency transactions on the Statement of Operations. Net unrealized foreign exchange gains and losses arising from changes in foreign exchange rates on foreign denominated assets and liabilities other than investments in securities held at the end of the reporting period are included in net change in unrealized appreciation or depreciation on foreign currency assets and liabilities on the Statement of Operations.

(c) Multiclass Operations Each class offered by the Portfolio has equal rights as to assets and voting privileges (except that shareholders of a class have exclusive voting rights regarding any matter relating solely to that class of shares). Income and non-class specific expenses are allocated daily to each class on the basis of the relative value of settled shares. Realized and unrealized capital gains and losses are allocated daily based on the relative net assets of each class of the Portfolio.

Class specific expenses, where applicable, currently include supervisory and administrative and distribution and servicing fees.

(d) Dividends and Distributions to Shareholders Dividends from net investment income, if any, are declared daily and distributed to shareholders monthly. Net realized capital gains earned by the Portfolio, if any, will be distributed no less frequently than once each year.

Income dividends and capital gain distributions are determined in accordance with income tax regulations which may differ from U.S. GAAP. Differences between tax regulations and U.S. GAAP may cause timing differences between income and capital gain recognition. Further, the character of investment income and capital gains may be different for certain transactions under the two methods of accounting. As a result, income dividends and capital gain distributions declared during a fiscal period may differ significantly from the net investment income and realized gains reported on the Portfolio's annual financial statements presented under U.S. GAAP.

Distributions classified as a tax basis return of capital, if any, are reflected on the accompanying Statements of Changes in Net Assets and have been recorded to paid in capital. In addition, other amounts have been reclassified between undistributed net investment income, accumulated undistributed net realized gains or losses and/or paid in capital to more appropriately conform financial accounting to tax characterizations of dividend distributions.

(e) New Accounting Pronouncements In June 2013 the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") providing updated guidance for assessing whether an entity is an investment company and for the measurement of noncontrolling ownership interests in other investment companies. This update became effective for interim or annual periods beginning on or after December 15, 2013. The Portfolio has adopted the ASU as it follows the investment company reporting requirements under U.S. GAAP and its implementation did not have an impact on the Portfolio's financial statements.

In June 2014, the FASB issued an ASU that expands secured borrowing accounting for certain repurchase agreements. The ASU also sets forth additional disclosure requirements for certain transactions accounted for as sales in order to provide financial statement users with information to compare to similar transactions accounted for as secured borrowings. The ASU is effective prospectively for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. At this time, management is evaluating the implications of these changes on the financial statements.

3. INVESTMENT VALUATION AND FAIR VALUE MEASUREMENTS

(a) Investment Valuation Policies The Net Asset Value ("NAV") of the Portfolio's shares is valued as of the close of regular trading (normally 4:00 p.m., Eastern time) (the "NYSE Close") on each day that the New York Stock Exchange ("NYSE") is open (each a "Business Day"). Information that becomes known to the Portfolio or its agents after the NAV has been calculated on a particular day will not generally be used to retroactively adjust the price of a security or the NAV determined earlier that day.

For purposes of calculating the NAV, portfolio securities and other financial derivative instruments are valued on each Business Day using valuation methods as adopted by the Board of Trustees (the "Board") of the Trust. The Board has formed a Valuation Committee whose function is to monitor the valuation of portfolio securities and other financial derivative instruments and, as required by the Trust's valuation policies, determine in good faith the fair value of portfolio holdings after consideration of all relevant factors, including recommendations provided by the Adviser. The Board has delegated responsibility for applying the valuation methods to the Adviser. The Adviser monitors the continual appropriateness of methods applied and determines if adjustments should be made in light of market factor changes and events affecting issuers.

Where market quotes are readily available, fair market value is generally determined on the basis of official closing prices or the last reported sales prices, or if no sales are reported, based on quotes obtained from a quotation reporting system, established market makers, or pricing services. Where market quotes are not readily available, portfolio securities and other financial derivative instruments are valued at fair value, as determined in good faith by the Board, its Valuation Committee, or the Adviser pursuant to instructions from the Board or its Valuation Committee. Market quotes are considered not readily available in circumstances where there is an absence of current or reliable market-based data (e.g., trade information, bid/ask information, or broker quotes), including where events occur after the close of the relevant market, but prior to the NYSE Close, that materially affect the values of the Portfolio's securities or financial derivative instruments. In addition, market quotes are considered not readily available when, due to extraordinary circumstances, the exchanges or markets on which securities trade do not open for trading for the entire day and no other market prices are available. The Board has delegated to the Adviser the responsibility for monitoring significant events that may materially affect the values of the Portfolio's securities or financial derivative instruments and for determining whether the value of the applicable securities or financial derivative instruments should be re-evaluated in light of such significant events.

The Board has adopted methods for valuing securities and other financial derivative instruments that may require fair valuation under particular circumstances. The Adviser monitors the continual appropriateness of fair valuation methods applied and determines if adjustments should be made in light of market changes, events affecting the issuer, or other factors. If the Adviser determines that a fair valuation method may no longer be appropriate, another valuation method may be selected, or the Valuation Committee will take any appropriate action in accordance with procedures set forth by the Board. The Board reviews the appropriateness of the valuation methods from time to time and these methods may be amended or supplemented from time to time by the Valuation Committee.

In circumstances in which daily market quotes are not readily available, investments may be valued pursuant to guidelines established by the Board. In the event that the security or asset cannot be valued pursuant to the established guidelines, the value of the security or other financial derivative instrument will be determined in good faith by the Valuation Committee of the Board, generally based upon recommendations provided by PIMCO. These methods may require subjective determinations about the value of a security. While the Trust's policy is intended to result in a calculation of the Portfolio's NAV that fairly reflects security values as of the time of pricing, the Trust cannot guarantee that values determined by the Board or persons acting at their direction would accurately reflect the price that the Portfolio could obtain for a security if it were to dispose of that security as of the time of pricing (for instance, in a forced or distressed sale). The prices used by the Portfolio may differ from the value that would be realized if the securities were sold.

(b) Fair Value Hierarchy U.S. GAAP describes fair market value as the price that the Portfolio would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. It establishes a fair value hierarchy that prioritizes inputs to valuation methods and requires disclosure of the fair value hierarchy, separately for each major category of assets and liabilities, that segregates fair value measurements into levels (Level 1, 2, and 3). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Levels 1, 2, and 3 of the fair value hierarchy are defined as follows:

- Level 1—Inputs using (unadjusted) quoted prices in active markets or exchanges for identical assets and liabilities.
- Level 2—Significant other observable inputs, which may include, but are not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates) or other market corroborated inputs.
- Level 3—Significant unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available, which may include assumptions made by the Board or persons acting at their direction that are used in determining the fair value of investments.

In accordance with the requirements of U.S. GAAP, the amounts of transfers between Levels 1 and 2 and transfers in and out of Level 3, if material, are disclosed in the Notes to Schedule of Investments for the Portfolio.

For fair valuations using significant unobservable inputs, U.S. GAAP requires a reconciliation of the beginning to ending balances for reported fair values that presents changes attributable to total realized and unrealized gains or losses, purchases and sales, and transfers in or out of the Level 3 category during the period. The end of period timing recognition is used for the transfers between Levels of the Portfolio's assets and liabilities. Additionally, U.S. GAAP requires quantitative information regarding the significant unobservable inputs used in the determination of fair value of assets or liabilities categorized as Level 3 in the fair value hierarchy. In accordance with the requirements of U.S. GAAP, a fair value hierarchy, and if material, a Level 3 reconciliation and details of significant unobservable inputs, have been included in the Notes to Schedule of Investments for the Portfolio.

(c) Valuation Techniques and the Fair Value Hierarchy
Level 1 and Level 2 trading assets and trading liabilities, at fair market value The valuation methods (or "techniques") and significant inputs used in determining the fair market values of portfolio securities or financial derivative instruments categorized as Level 1 and Level 2 of the fair value hierarchy are as follows:

Fixed income securities including corporate, convertible and municipal bonds and notes, U.S. government agencies, U.S. treasury obligations, sovereign issues, bank loans, convertible preferred securities and non-U.S. bonds are normally valued by pricing service providers that use broker-dealer quotations, reported trades or valuation estimates from their internal pricing models. The service providers' internal models use inputs that are observable such as issuer details, interest rates, yield curves, prepayment speeds, credit risks/spreads, default rates and quoted prices for similar assets. Securities that use similar valuation techniques and inputs as described above are categorized as Level 2 of the fair value hierarchy.

Fixed income securities purchased on a delayed-delivery basis or as a repurchase commitment in a sale-buyback transaction are marked to market daily until settlement at the forward settlement date and are categorized as Level 2 of the fair value hierarchy.

Mortgage-related and asset-backed securities are usually issued as separate tranches, or classes, of securities within each deal. These securities are also normally valued by pricing service providers that use broker-dealer quotations or valuation estimates from their internal pricing models. The pricing models for these securities usually consider tranche-level attributes, current market data, estimated cash flows and market-based yield spreads for each tranche, and incorporate deal collateral performance, as available. Mortgage-related and asset-backed securities that use similar valuation techniques and inputs as described above are categorized as Level 2 of the fair value hierarchy.

Common stocks, exchange-traded funds, exchange-traded notes and financial derivative instruments, such as futures contracts or options on futures that are traded on a national securities exchange, are stated at the last reported sale or settlement price on the day of valuation. To the extent these securities are actively traded and valuation adjustments are not applied, they are categorized as Level 1 of the fair value hierarchy.

Investments initially valued in currencies other than the U.S. dollar are converted to the U.S. dollar using exchange rates obtained from pricing service providers. As a result, the NAV of the Portfolio's shares may be affected by changes in the value of currencies in relation to the U.S. dollar. The value of securities traded in markets outside the United States or denominated in currencies other than the U.S. dollar may be affected significantly on a day that the NYSE is closed. Valuation adjustments may be applied to certain securities that are solely traded on a foreign exchange to account for the market movement between the close of the foreign market and the NYSE Close. These securities are valued using pricing service providers that consider the correlation of the trading patterns of the foreign security to the intraday trading in the U.S. markets for investments. Securities using these valuation adjustments are categorized as Level 2 of the fair value hierarchy. Preferred securities and other equities traded on inactive markets or valued by reference to similar instruments are also categorized as Level 2 of the fair value hierarchy.

Investments in registered open-end investment companies will be valued based upon the NAVs of such investments and are categorized as Level 1 of the fair value hierarchy. Investments in unregistered open-end investment companies will be calculated based upon the NAVs of such investments and are considered Level 1 provided that the NAVs are observable, calculated daily and are the value at which both purchases and sales will be conducted. Investments in privately held investment funds with significant restrictions on redemption where the inputs to the NAVs are observable will be valued based upon the NAVs of such investments and are categorized as Level 2 of the fair value hierarchy.

Short-term investments having a maturity of 60 days or less and repurchase agreements are generally valued at amortized cost which approximates fair market value. These investments are categorized as Level 2 of the fair value hierarchy.

Equity exchange-traded options and over the counter financial derivative instruments, such as foreign currency contracts, options contracts, or swap agreements, derive their value from underlying asset prices, indices, reference rates, and other inputs or a combination of these factors. These contracts are normally valued by independent pricing service providers. Depending on the product and the terms of the transaction, financial derivative instruments can be valued by a pricing service provider using a series of techniques, including simulation pricing models. The pricing models use inputs that are observed from actively quoted markets such as quoted prices, issuer details, indices, bid/ask spreads, interest rates, implied volatilities, yield curves, dividends and exchange rates. Financial derivative instruments that use similar valuation techniques and inputs as described above are categorized as Level 2 of the fair value hierarchy.

Centrally cleared swaps listed or traded on a multilateral or trade facility platform, such as a registered exchange, are valued at the daily settlement price determined by the respective exchange. For centrally cleared credit default swaps the clearing facility requires its members to provide actionable price levels across complete term structures. These levels along with external third-party prices are used to produce daily settlement prices. These securities are categorized as Level 2 of the fair value hierarchy. Centrally cleared interest rate swaps are valued using a pricing model that references the underlying rates including the overnight index swap rate and London Interbank Offered Rate ("LIBOR") forward rate to produce the daily settlement price. These securities are categorized as Level 2 of the fair value hierarchy.

Level 3 trading assets and trading liabilities, at fair value When a fair valuation method is applied by PIMCO that uses significant unobservable inputs, securities will be priced by a method that the Board or persons acting at their direction believe reflects fair value and are categorized as Level 3 of the fair value hierarchy. The valuation techniques and significant inputs used in determining the fair values of portfolio assets and liabilities categorized as Level 3 of the fair value hierarchy are as follows:

Benchmark pricing procedures set the base price of a fixed income security and subsequently adjust the price proportionally to market value changes of a pre-determined security deemed to be comparable in duration, generally a U.S. Treasury or sovereign note based on country of issuance. The base price may be a broker-dealer quote, transaction price, or an internal value as derived by analysis of market data. The base price of the security may be reset on a periodic basis based on the availability of market data and procedures approved by the Valuation Committee. Significant changes in the unobservable inputs of the benchmark pricing process (the base price) would result in direct and proportional changes in the fair value of the security. These securities are categorized as Level 3 of the fair value hierarchy. The validity of the fair value is reviewed by PIMCO on a periodic basis and may be amended as the availability of market data indicates a material change.

If third-party evaluated vendor pricing is not available or not deemed to be indicative of fair value, the Adviser may elect to obtain indicative market quotations ("broker quotes") directly from the broker-dealer or passed through from a third-party vendor. In the event that fair value is based upon a single sourced broker quote, these securities are categorized as Level 3 of the fair value hierarchy. Broker quotes are typically received from established market participants. Although independently received, the Adviser does not have the transparency to view the underlying inputs which support the market quotation. Significant changes in the broker quote would have direct and proportional changes in the fair value of the security.

4. SECURITIES AND OTHER INVESTMENTS

(a) Investments in Securities

Inflation-Indexed Bonds The Portfolio may invest in inflation-indexed bonds. Inflation-indexed bonds are fixed income securities whose principal value is periodically adjusted to the rate of inflation. The interest rate on these bonds is generally fixed at issuance at a rate lower than typical bonds. Over the life of an inflation-indexed bond, however, interest will be paid based on a principal value which is adjusted for inflation. Any increase or decrease in the principal amount of an inflation-indexed bond will be included as interest income on the Statement of Operations, even though investors do not receive their principal until maturity.

Loan Participations, Assignments and Originations The Portfolio may invest in direct debt instruments which are interests in amounts owed to lenders or lending syndicates by corporate, governmental, or other borrowers. The Portfolio's investments in loans may be in the form of participations in loans or assignments of all or a portion of loans from third parties or investments in or originations of loans by a Portfolio. A loan is often administered by a bank or other financial institution (the "lender") that acts as agent for all holders. The agent administers the terms of the loan, as specified in the loan agreement. The Portfolio may invest in multiple series or tranches of a loan, which may have varying terms and carry different associated risks. When the Portfolio purchases assignments from lenders it acquires direct rights against the borrower of the loan. These loans may include participations in bridge loans, which are loans taken out by borrowers for a short period (typically less than one year) pending arrangement of more permanent financing through, for example, the issuance of bonds, frequently high yield bonds issued for the purpose of acquisitions.

The types of loans and related investments in which the Portfolio may invest include, among others, senior loans, subordinated loans (including second lien loans, B-Notes and mezzanine loans), whole loans, commercial real estate and other commercial loans and structured loans. The Portfolio may originate loans or acquire direct interests in loans through primary loan distributions and/or in private transactions. In the case of subordinated loans, there may be significant indebtedness ranking ahead of the borrower's obligation to the holder of such a loan, including in the event of the borrower's insolvency. Mezzanine loans are typically secured by a pledge of an equity interest in the mortgage borrower that owns the real estate rather than an interest in a mortgage.

Investments in loans may include unfunded loan commitments, which are contractual obligations for funding. Unfunded loan commitments may include revolving credit facilities, which may obligate the Portfolio to supply additional cash to the borrower on demand. Unfunded loan commitments represent a future obligation in full, even though a percentage of the committed amount may not be utilized by the borrower. When investing in a loan participation, the Portfolio has the right to receive payments of principal, interest and any fees to which it is entitled only from the lender selling the loan agreement and only upon receipt of payments by the lender from the borrower. The Portfolio may receive a commitment fee based on the undrawn portion of the underlying line of credit portion of a loan. In certain circumstances, the Portfolio may receive a penalty fee upon the prepayment of a loan by a borrower. Fees earned or paid are recorded as a component of interest income or interest expense, respectively, on the Statement of Operations. As of December 31, 2014, the Portfolio had no unfunded loan commitments outstanding.

Mortgage-Related and Other Asset-Backed Securities The Portfolio may invest in mortgage-related and other asset-backed securities that directly or indirectly represent a participation in, or are secured by and payable from, loans on real property. Mortgage-related securities are created from pools of residential or commercial mortgage loans, including mortgage loans made by savings and loan institutions, mortgage bankers, commercial banks and others. These securities provide a monthly payment which consists of both interest and principal. Interest may be determined by fixed or adjustable rates. The rate of prepayments on underlying mortgages will affect the price and volatility of a mortgage-related security, and may have the effect of shortening or extending the effective duration of the security relative to what was anticipated at the time of purchase. The timely payment of principal and interest of certain mortgage-related securities is guaranteed with the full faith and credit of the U.S. Government. Pools created and guaranteed by non-governmental issuers, including government-sponsored corporations, may be supported by various forms of insurance or guarantees, but there can be no assurance that private insurers or guarantors can meet their obligations under the insurance policies or guarantee arrangements. Many of the risks of investing in mortgage-related securities secured by commercial mortgage loans reflect the effects of local and other economic conditions on real estate markets, the ability of tenants to make lease payments, and the ability of a property to attract and retain tenants. These securities may be less liquid and may exhibit greater price volatility than other types of mortgage-related or other asset-backed securities. Other asset-backed securities are created from many types of assets, including auto loans, credit card receivables, home equity loans, and student loans.

Collateralized Mortgage Obligations ("CMOs") are debt obligations of a legal entity that are collateralized by whole mortgage loans or private mortgage bonds and divided into classes. CMOs are structured into multiple classes, often referred to as "tranches," with each class bearing a different stated maturity and entitled to a different schedule for payments of principal and interest, including prepayments. CMOs may be less liquid and may exhibit greater price volatility than other types of mortgage-related or asset-backed securities.

Collateralized Debt Obligations ("CDOs") include Collateralized Bond Obligations ("CBOs"), Collateralized Loan Obligations ("CLOs") and other similarly structured securities. CBOs and CLOs are types of asset-backed securities. A CBO is a trust which is backed by a diversified pool of high risk, below investment grade fixed income securities. A CLO is a trust typically collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans, and subordinate corporate loans, including loans that may be rated below investment grade or equivalent unrated loans. The risks of an investment in a CDO depend largely on the type of the collateral securities and the class of the CDO in which the Portfolio invests. CDOs carry additional risks including, but not limited to, (i) the possibility that distributions from collateral securities will not be adequate to make interest or other payments, (ii) the collateral may decline in value or default, (iii) the Portfolio may invest in CDOs that are subordinate to other classes, and (iv) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the issuer or unexpected investment results.

U.S. Government Agencies or Government-Sponsored Enterprises The Portfolio may invest in securities of U.S. Government agencies or government-sponsored enterprises. U.S. Government securities are obligations of and, in certain cases, guaranteed by, the U.S. Government, its agencies or instrumentalities. Some U.S. Government securities, such as Treasury bills, notes and bonds, and securities guaranteed by the Government National Mortgage Association ("GNMA" or "Ginnie Mae"), are supported by the full faith and credit of the U.S. Government; others, such as those of the Federal Home Loan Banks, are supported by the right of the issuer to borrow from the U.S. Department of the Treasury (the "U.S. Treasury"); and others, such as those of the Federal National Mortgage Association ("FNMA" or "Fannie Mae"), are supported by the discretionary authority of the U.S. Government to purchase the agency's obligations. U.S. Government securities may include zero coupon securities. Zero coupon securities do not distribute interest on a current basis and tend to be subject to a greater risk than interest paying securities.

Government-related guarantors (i.e., not backed by the full faith and credit of the U.S. Government) include FNMA and the Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac"). FNMA is a government-sponsored corporation. FNMA purchases conventional (i.e., not insured or guaranteed by any government agency) residential mortgages from a list of approved seller/servicers which include state and federally chartered savings and loan associations, mutual savings banks, commercial banks and credit unions and mortgage bankers. Pass-through securities issued by FNMA are guaranteed as to timely payment of principal and interest by FNMA, but are not backed by the full faith and credit of the U.S. Government. FHLMC issues Participation Certificates ("PCs"), which are pass-through securities, each representing an undivided interest in a pool of residential mortgages. FHLMC guarantees the timely payment of interest and ultimate collection of principal, but PCs are not backed by the full faith and credit of the U.S. Government.

(b) Investments in Affiliates

The Portfolio may invest in the PIMCO Short-Term Floating NAV Portfolio and PIMCO Short-Term Floating NAV Portfolio III ("Central Funds") to the extent permitted by the Act and rules thereunder. The Central Funds are registered investment companies created for use solely by the series of the Trust and series of the PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series, PIMCO Equity Series VIT, and other series of registered investment companies advised by PIMCO, in connection with their cash management activities. The main investments of the Central Funds are money market and short maturity fixed income instruments. The Central Funds may incur expenses related to their investment activities, but do not pay Investment Advisory or Supervisory and Administrative Fees to PIMCO. The Central Funds are considered to be affiliated with the Portfolio. The table below shows the Portfolio's transactions in and earnings from investments in the Central Funds for the period ended December 31, 2014 (amounts in thousands[†]):

Investments in PIMCO Short-Term Floating NAV Portfolio

Market Value 12/31/2013	Purchases at Cost	Proceeds from Sales	Net Realized Gain/(Loss)	Change in Unrealized Appreciation/ (Depreciation)	Market Value 12/31/2014	Dividend Income	Realized Net Capital Gain Distributions
$ 1	$ 20,900	$ (20,899)	$ (2)	$ 0	$ 0	$ 0	$ 0

Investments in PIMCO Short-Term Floating NAV Portfolio III

Market Value 12/31/2013	Purchases at Cost	Proceeds from Sales	Net Realized Gain/(Loss)	Change in Unrealized Appreciation/ (Depreciation)	Market Value 12/31/2014	Dividend Income	Realized Net Capital Gain Distributions
$ 328,934	$ 1,319,534	$ (1,460,800)	$ (552)	$ (754)	$ 186,362	$ 2,716	$ 0

† A zero balance may reflect actual amounts rounding to less than one thousand.

5. BORROWINGS AND OTHER FINANCING TRANSACTIONS

The following disclosures contain information on the Portfolio's ability to lend or borrow cash or securities to the extent permitted under the Act, which may be viewed as borrowing or financing transactions by the Portfolio. The location and fair value amounts of these instruments are described below. For a detailed description of credit and counterparty risks that can be associated with borrowings and other financing transactions, please see Note 7, Principal Risks.

(a) Repurchase Agreements The Portfolio may engage in repurchase agreements. Under the terms of a typical repurchase agreement, the Portfolio takes possession of an underlying debt obligation (collateral) subject to an obligation of the seller to repurchase, and the Portfolio to resell, the obligation at an agreed-upon price and time. The underlying securities for all repurchase agreements are held in safekeeping at the Portfolio's custodian or designated subcustodians under tri-party repurchase agreements. The market value of the collateral must be equal to or exceed the total amount of the repurchase obligations, including interest. Repurchase agreements, including accrued interest, are included on the Statement of Assets and Liabilities. Interest earned is recorded as a component of interest income on the Statement of Operations. In periods of increased demand for collateral, the Portfolio may pay a fee for receipt of collateral, which may result in interest expense to the Portfolio.

(b) Reverse Repurchase Agreements The Portfolio may enter into reverse repurchase agreements. In a reverse repurchase agreement, the Portfolio delivers a security in exchange for cash to a financial institution, the counterparty, with a simultaneous agreement to repurchase the same or substantially the same security at an agreed upon price and date. The Portfolio is entitled to receive principal and interest payments, if any, made on the security delivered to the counterparty during the term of the agreement. Cash received in exchange for securities delivered plus accrued interest payments to be made by the Portfolio to counterparties are reflected as a liability on the Statement of Assets and Liabilities. Interest payments made by the Portfolio to counterparties are recorded as a component of interest expense on the Statement of Operations. In periods of increased demand for the security, the Portfolio may receive a fee for use of the security by the counterparty, which may result in interest income to the Portfolio. The Portfolio will segregate assets determined to be liquid by PIMCO or will otherwise cover its obligations under reverse repurchase agreements.

(c) Sale-Buybacks The Portfolio may enter into financing transactions referred to as 'sale-buybacks'. A sale-buyback transaction consists of a sale of a security by the Portfolio to a financial institution, the counterparty, with a simultaneous agreement to repurchase the same or substantially the same security at an agreed-upon price and date. The Portfolio is not entitled to receive principal and interest payments, if any, made on the security sold to the counterparty during the term of the agreement. The agreed-upon proceeds for securities to be repurchased by the Portfolio are reflected as a liability on the Statement of Assets and Liabilities. The Portfolio will recognize net income represented by the price differential between the price received for the transferred security and the agreed-upon repurchase price. This is commonly referred to as the 'price drop'. A price drop consists of (i) the foregone interest and inflationary income adjustments, if any, the Portfolio would have otherwise received had the security not been sold and (ii) the negotiated financing terms between the Portfolio and counterparty. Foregone interest and inflationary income adjustments, if any, are recorded as components of interest income on the Statement of Operations. Interest payments based upon negotiated financing terms made by the Portfolio to counterparties are recorded as a component of interest expense on the Statement of Operations. In periods of increased demand for the security, the Portfolio may receive a fee for use of the security by the counterparty, which may result in interest income to the Portfolio. The Portfolio will segregate assets determined to be liquid by PIMCO or will otherwise cover its obligations under sale-buyback transactions.

(d) Short Sales The Portfolio may enter into short sales transactions. A short sale is a transaction in which the Portfolio sells securities it may not own in anticipation of a decline in the fair market value of the securities. Securities sold in short sale transactions and the interest payable on such securities, if any, are reflected as a liability on the Statement of Assets and Liabilities. The Portfolio is obligated to deliver securities at the trade price at the time the short position is covered. Possible losses from short sales may be unlimited, whereas losses from purchases cannot exceed the total amount invested.

6. FINANCIAL DERIVATIVE INSTRUMENTS

The following disclosures contain information on how and why the Portfolio uses financial derivative instruments, the credit-risk-related contingent features in certain financial derivative instruments, and how financial derivative instruments affect the Portfolio's financial position, results of operations and cash flows. The location and fair value amounts of these instruments on the Statement of Assets and Liabilities and the realized and changes in unrealized gains and losses on the Statement of Operations, each categorized by type of financial derivative contract and related risk exposure, are included in a table in the Notes to Schedule of Investments. The financial derivative instruments outstanding as of period end and the amounts of realized and changes in unrealized gains and losses on financial derivative instruments during the period, as disclosed in the Notes to Schedule of Investments, serve as indicators of the volume of financial derivative activity for the Portfolio.

(a) Forward Foreign Currency Contracts The Portfolio may enter into forward foreign currency contracts in connection with settling planned purchases or sales of securities, to hedge the currency exposure associated with some or all of the Portfolio's securities or as a part of an investment strategy. A forward foreign currency contract is an agreement between two parties to buy and sell a currency at a set price on a future date. The market value of a forward foreign currency contract fluctuates with changes in foreign currency exchange rates. Forward foreign currency contracts are marked to market daily and the change in value is recorded by the Portfolio as an unrealized gain or loss. Realized gains or losses equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed are recorded upon delivery or receipt of the currency. These contracts may involve market risk in excess of the unrealized gain or loss reflected on the Statement of Assets and Liabilities. In addition, the Portfolio could be exposed to risk if the counterparties are unable to meet the terms of the contracts or if the value of the currency changes unfavorably to the U.S. dollar. In connection with these contracts, cash or securities may be identified as collateral in accordance with the terms of the respective contracts.

(b) Futures Contracts The Portfolio may enter into futures contracts. The Portfolio may use futures contracts to manage its exposure to the securities markets or to movements in interest rates and currency values. The primary risks associated with the use of futures contracts are the imperfect correlation between the change in market value of the securities held by the Portfolio and the prices of futures contracts and the possibility of an illiquid market. Futures contracts are valued based upon their quoted daily settlement prices. Upon entering into a futures contract, the Portfolio is required to deposit with its futures broker an amount of cash, U.S. Government and Agency Obligations, or select sovereign debt, in accordance with the initial margin requirements of the broker or exchange. Futures contracts are marked to market daily and an appropriate payable or receivable for the change in value ("variation margin") is recorded by the Portfolio. Gains or losses are recognized but not considered realized until the contracts expire or are closed. Futures contracts involve, to varying degrees, risk of loss in excess of variation margin disclosed within exchange traded or centrally cleared financial derivative instruments on the Statement of Assets and Liabilities.

(c) Options Contracts The Portfolio may write call and put options on securities and financial derivative instruments it owns or in which it may invest. Writing put options tends to increase the Portfolio's exposure to the underlying instrument. Writing call options tends to decrease the Portfolio's exposure to the underlying instrument. When the Portfolio writes a call or put, an amount equal to the premium received is recorded as a liability and subsequently marked to market to reflect the current value of the option written. These liabilities are included on the Statement of Assets and Liabilities. Premiums received from writing options which expire are treated as realized gains. Premiums received from writing options which are exercised or closed are added to the proceeds or offset against amounts paid on the underlying futures, swap, security or currency transaction to determine the realized gain or loss. Certain options may be written with premiums to be determined on a future date. The premiums for these options are based upon implied volatility parameters at specified terms. The Portfolio as a writer of an option has no control over whether the underlying instrument may be sold ("call") or purchased ("put") and as a result bears the market risk of an unfavorable change in the price of the instrument underlying the written option. There is the risk the Portfolio may not be able to enter into a closing transaction because of an illiquid market.

The Portfolio may also purchase put and call options. Purchasing call options tends to increase the Portfolio's exposure to the underlying instrument. Purchasing put options tends to decrease the Portfolio's exposure to the underlying instrument. The Portfolio pays a premium which is included as an asset on the Statement of Assets and Liabilities 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. Certain options may be purchased with premiums to be determined on a future date. The premiums for these options are based upon implied volatility parameters at specified terms. The risk associated with purchasing put and call options is limited to the premium paid. Premiums paid for purchasing options which are exercised or closed are added to the amounts paid or offset against the proceeds on the underlying investment transaction to determine the realized gain or loss when the underlying transaction is executed.

Credit Default Swaptions The Portfolio may write or purchase credit default swaption agreements to hedge exposure to the credit risk of an investment without making a commitment to the underlying instrument. A credit default swaption is an option to sell or buy credit protection to a specific reference by entering into a pre-defined swap agreement by some specified date in the future.

Interest Rate Swaptions The Portfolio may write or purchase interest rate swaption agreements which are options to enter into a pre-defined swap agreement by some specified date in the future. The writer of the swaption becomes the counterparty to the swap if the buyer exercises. The interest rate swaption agreement will specify whether the buyer of the swaption will be a fixed-rate receiver or a fixed-rate payer upon exercise.

Foreign Currency Options The Portfolio may write or purchase foreign currency options. Purchasing foreign currency options gives the Portfolio the right, but not the obligation to buy or sell the currency and will specify the amount of currency and a rate of exchange that may be exercised by a specified date. These options may be used as a short or long hedge against possible variations in foreign exchange rates or to gain exposure to foreign currencies.

(d) Swap Agreements The Portfolio may invest in swap agreements. Swap agreements are bilaterally negotiated agreements between the Portfolio and a counterparty to exchange or swap investment cash flows, assets, foreign currencies or market-linked returns at specified, future intervals. Swap agreements are privately negotiated in the over the counter market ("OTC swaps") or may be executed in a multilateral or other trade facility platform, such as a registered exchange ("centrally cleared swaps"). The Portfolio may enter into asset, credit default, cross-currency, interest rate, total return, variance and other forms of swap agreements to manage its exposure to credit, currency, interest rate, commodity, equity and inflation risk. In connection with these agreements, securities or cash may be identified as collateral or margin in accordance with the terms of the respective swap agreements to provide assets of value and recourse in the event of default or bankruptcy/insolvency.

Swaps are marked to market daily based upon values from third-party vendors, which may include a registered exchange, or quotations from market makers to the extent available. In the event that market quotes are not readily available and the swap cannot be valued pursuant to one of the valuation methods, the value of the swap will be determined in good faith by the Valuation Committee, generally based upon recommendations provided by PIMCO. Changes in market value, if any, are reflected as a component of net change in unrealized appreciation/(depreciation) on the Statement of Operations. Daily changes in valuation of centrally cleared swaps, if any, are recorded as a receivable or payable for the change in value as appropriate ("variation margin") on the Statement of Assets and Liabilities. OTC swap payments received or paid at the beginning of the measurement period are included on the Statement of Assets and Liabilities and represent premiums paid or received upon entering into the swap agreement to compensate for differences between the stated terms of the swap agreement and prevailing market conditions (credit spreads, currency exchange rates, interest rates, and other relevant factors). Upfront premiums received (paid) are initially recorded as liabilities (assets) and subsequently marked to market to reflect the current value of the swap. These upfront premiums are recorded as realized gains or losses on the Statement of Operations upon termination or maturity of the swap. A liquidation payment received or made at the termination of the swap is recorded as realized gain or loss on the Statement of Operations. Net periodic payments received or paid by the Portfolio are included as part of realized gains or losses on the Statement of Operations.

Entering into these agreements involves, to varying degrees, elements of interest, credit, market and documentation risk in excess of the amounts recognized on the Statement of Assets and Liabilities. Such risks involve the possibility that there will be no liquid market for these agreements, that the counterparty to the agreements may default on its obligation to perform or disagree as to the meaning of contractual terms in the agreements and that there may be unfavorable changes in interest rates.

The Portfolio's maximum risk of loss from counterparty credit risk is the discounted net value of the cash flows to be received from the counterparty over the contract's remaining life, to the extent that amount is positive. The risk is mitigated by having a master netting arrangement between the Portfolio and the counterparty and by the posting of collateral to the Portfolio to cover the Portfolio's exposure to the counterparty.

Credit Default Swap Agreements Credit default swap agreements involve one party making a stream of payments (referred to as the buyer of protection) to another party (the seller of protection) in exchange for the right to receive a specified return in the event of a default or other credit event for the referenced entity, obligation or index. As a seller of protection on credit default swap agreements, the Portfolio will generally receive from the buyer of protection a fixed rate of income throughout the term of the swap provided that there is no credit event. As the seller, the Portfolio would effectively add leverage to its portfolio because, in addition to its total net assets, the Portfolio would be subject to investment exposure on the notional amount of the swap.

If the Portfolio is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Portfolio will either (i) pay to the buyer of protection an amount equal to the notional amount of the swap and take delivery of the referenced obligation, other deliverable obligations or underlying securities comprising the referenced index or (ii) pay a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index. If the Portfolio is a buyer of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Portfolio will either (i) receive from the seller of protection an amount equal to the notional amount of the swap and deliver the referenced obligation, other deliverable obligations or underlying securities comprising the referenced index or (ii) receive a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index. Recovery values are estimated by market makers considering either industry standard recovery rates or entity specific factors and considerations until a credit event occurs. If a credit event has occurred, the recovery value is determined by a facilitated auction whereby a minimum number of allowable broker bids, together with a specified valuation method, are used to calculate the settlement value.

Credit default swap agreements on corporate, sovereign or U.S. Treasury issues involve one party making a stream of payments to another party in exchange for the right to receive a specified return in the event of a default or other credit event. If a credit event occurs and cash settlement is not elected, a variety of other deliverable obligations may be delivered in lieu of the specific referenced obligation. The ability to deliver other obligations may result in a cheapest-to-deliver option (the buyer of protection's right to choose the deliverable obligation with the lowest value following a credit event). The Portfolio may use credit default swaps on corporate, sovereign or U.S. Treasury issues to provide a measure of protection against defaults of the issuers (i.e., to reduce risk where the Portfolio owns or has exposure to the referenced obligation) or to take an active long or short position with respect to the likelihood of a particular issuer's default.

Credit default swap agreements on credit indices involve one party making a stream of payments to another party in exchange for the right to receive a specified return in the event of a write-down, principal shortfall, interest shortfall or default of all or part of the referenced entities comprising the credit index. A credit index is a basket of credit instruments or exposures designed to be representative of some part of the credit market as a whole. These indices are made up of reference credits that are judged by a poll of dealers to be the most liquid entities in the credit default swap market based on the sector of the index. Components of the indices may include, but are not limited to, investment grade securities, high yield securities, asset-backed securities, emerging markets, and/or various credit ratings within each sector. Credit indices are traded using credit default swaps with standardized terms including a fixed spread and standard maturity dates. An index credit default swap references all the names in the index, and if there is a default, the credit event is settled based on that name's weight in the index. The composition of the indices changes periodically, usually every six months, and for most indices, each name has an equal weight in the index. The Portfolio may use credit default swaps on credit indices to hedge a portfolio of credit default swaps or bonds, which is less expensive than it would be to buy many credit default swaps to achieve a similar effect. Credit default swaps on indices are instruments for protecting investors owning bonds against default, and traders use them to speculate on changes in credit quality.

Implied credit spreads, represented in absolute terms, utilized in determining the market value of credit default swap agreements on corporate, sovereign or U.S. Treasury issues as of period end are disclosed in the Notes to Schedule of Investments. They serve as an indicator of the current status of payment/performance risk and represent the likelihood or risk of default for the reference entity. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to be made to enter into the agreement. Wider credit spreads represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement. For credit default swap agreements on asset-backed securities and credit indices, the quoted market prices and resulting values serve as the indicator of the current status of the payment/performance risk. Increasing market values, in absolute terms when compared to the notional amount of the swap, represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

The maximum potential amount of future payments (undiscounted) that the Portfolio as a seller of protection could be required to make under a credit default swap agreement equals the notional amount of the agreement. Notional amounts of each individual credit default swap agreement outstanding as of period end for which the Portfolio is the seller of protection are disclosed in the Notes to Schedule of Investments. These potential amounts would be partially offset by any recovery values of the respective referenced obligations, upfront payments received upon entering into the agreement, or net amounts received from the settlement of buy protection credit default swap agreements entered into by the Portfolio for the same referenced entity or entities.

Interest Rate Swap Agreements The Portfolio is subject to interest rate risk exposure in the normal course of pursuing its investment objectives. Because the Portfolio holds fixed rate bonds, the value of these bonds may decrease if interest rates rise. To help hedge against this risk and to maintain its ability to generate income at prevailing market rates, the Portfolio may enter into interest rate swap agreements. Interest rate swap agreements involve the exchange by the Portfolio with another party for their respective commitment to pay or receive interest on the notional amount of principal. Certain forms of interest rate swap agreements may include: (i) interest rate caps, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates exceed a specified rate, or “cap”, (ii) interest rate floors, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates fall below a specified rate, or “floor”, (iii) interest rate collars, under which a party sells a cap and purchases a floor or vice versa in an attempt to protect itself against interest rate movements exceeding given minimum or maximum levels, (iv) callable interest rate swaps, under which the buyer pays an upfront fee in consideration for the right to early terminate the swap transaction in whole, at zero cost and at a predetermined date and time prior to the maturity date, (v) spreadlocks, which allow the interest rate swap users to lock in the forward differential (or spread) between the interest rate swap rate and a specified benchmark, or (vi) basis swaps, under which two parties can exchange variable interest rates based on different segments of money markets.

7. PRINCIPAL RISKS

In the normal course of business, the Portfolio trades financial instruments and enters into financial transactions where risk of potential loss exists due to such things as changes in the market (market risk) or failure or inability of the other party to a transaction to perform (credit and counterparty risk). See below for a detailed description of select principal risks. For a more comprehensive list of potential risks the Portfolio may be subject to, please see the Important Information About the Portfolio.

Market Risks The Portfolio’s investments in financial derivatives and other financial instruments expose the Portfolio to various risks such as, but not limited to, interest rate, foreign currency, equity and commodity risks.

Interest rate risk is the risk that fixed income securities will decline in value because of an increase in interest rates. As nominal interest rates rise, the value of certain fixed income securities held by the Portfolio is likely to decrease. A nominal interest rate can be described as the sum of a real interest rate and an expected inflation rate. Interest rate changes can be sudden and unpredictable, and the Portfolio may lose money if these changes are not anticipated by Portfolio management.

The Portfolio may not be able to hedge against changes in interest rates or may choose not to do so for cost or other reasons. In addition, any hedges may not work as intended. Fixed income securities with longer durations tend to be more sensitive to changes in interest rates, usually making them more volatile than securities with shorter durations. Duration is useful primarily as a measure of the sensitivity of a fixed income security’s market price to interest rate (i.e. yield) movements. A wide variety of factors can cause interest rates to rise (e.g., central bank monetary policies, inflation rates, general economic conditions). At present, the U.S. is experiencing historically low interest rates. This, combined with recent economic recovery and the end of the Fed’s quantitative easing program in October 2014, may increase the probability of an upward interest rate environment in the near future. Further, while U.S. bond markets have steadily grown over the past three decades, dealer “market making” ability has remained relatively stagnant. Given the importance of intermediary “market making” in creating a robust and active market, fixed income securities are currently facing increased volatility and liquidity risks. All of these factors, collectively and/or individually, could cause a Portfolio to lose value. If the Portfolio lost enough value, the Portfolio could face increased redemptions by shareholders, which could further impair its performance.

If the Portfolio invests directly in foreign (non-U.S.) currencies or in securities that trade in, and receive revenues in, foreign (non-U.S.) currencies, or in financial derivatives that provide exposure to foreign (non-U.S.) currencies, it will be subject to the risk that those currencies will decline in value relative to the base currency of the Portfolio, or, in the case of hedging positions, that the Portfolio’s base currency will decline in value relative to the currency being hedged. Currency rates in foreign countries may fluctuate significantly over short periods of time for a number of reasons, including changes in interest rates, intervention (or the failure to intervene) by U.S. or foreign governments, central banks or supranational entities such as the International Monetary Fund, or by the imposition of currency controls or other political developments in the United States or abroad. As a result, the Portfolio's investments in foreign currency denominated securities may reduce the Portfolio's returns.

The market values of equities, such as common stocks and preferred securities or equity related investments such as futures and options, have historically risen and fallen in periodic cycles and may decline due to general market conditions which are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors which affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Different types of equity securities may react differently to these developments. Equity securities and equity related investments generally have greater market price volatility than fixed income securities.

Credit and Counterparty Risks The Portfolio will be exposed to credit risk to parties with whom it trades and will also bear the risk of settlement default. The Portfolio minimizes concentrations of credit risk by undertaking transactions with a large number of customers and counterparties on recognized and reputable exchanges. The Portfolio could lose money if the issuer or guarantor of a fixed income security, or the counterparty to a financial derivatives contract, repurchase agreement or a loan of portfolio securities, is unable or unwilling to make timely principal and/or interest payments, or to otherwise honor its obligations. Securities are subject to varying degrees of credit risk, which are often reflected in credit ratings.

Similar to credit risk, the Portfolio may be exposed to counterparty risk, or the risk that an institution or other entity with which the Portfolio has unsettled or open transactions will default. Financial assets, which potentially expose the Portfolio to counterparty risk, consist principally of cash due from counterparties and investments. PIMCO, as the Adviser, minimizes counterparty risks to the Portfolio by performing extensive reviews of each counterparty and obtaining approval from the PIMCO Counterparty Risk Committee prior to entering into transactions with a third-party. Furthermore, to the extent that unpaid amounts owed to the Portfolio exceed a predetermined threshold agreed to with the counterparty, such counterparty shall advance collateral to the Portfolio in the form of cash or cash equivalents equal in value to the unpaid amount owed to the Portfolio. The Portfolio may invest such collateral in securities or other instruments and will typically pay interest to the counterparty on the collateral received. If the unpaid amount owed to the Portfolio subsequently decreases, the Portfolio would be required to return to the counterparty all or a portion of the collateral previously advanced to the Portfolio.

All transactions in listed securities are settled/paid for upon delivery using approved counterparties. The risk of default is considered minimal, as delivery of securities sold is only made once the Portfolio has received payment. Payment is made on a purchase once the securities have been delivered by the counterparty. The trade will fail if either party fails to meet its obligation.

Master Netting Arrangements The Portfolio may be subject to various netting arrangements with select counterparties ("Master Agreements"). Master Agreements govern the terms of certain transactions, and reduce the counterparty risk associated with relevant transactions by specifying credit protection mechanisms and providing standardization that improves legal certainty. Since different types of transactions have different mechanics and are sometimes traded out of different legal entities of a particular organization, each type of transaction may be covered by a different Master Agreement, resulting in the need for multiple agreements with a single counterparty. As the Master Agreements are specific to unique operations of different asset types, they allow the Portfolio to close out and net its total exposure to a counterparty in the event of a default with respect to all the transactions governed under a single agreement with a counterparty.

Master Agreements can also help limit counterparty risk by specifying collateral posting arrangements at pre-arranged exposure levels. Under the Master Agreements, collateral is routinely transferred if the total net exposure to certain transactions (net of existing collateral already in place) governed under the relevant Master Agreement with a counterparty in a given account exceeds a specified threshold, which typically ranges from zero to $250,000 depending on the counterparty and the type of Master Agreement. United States Treasury Bills and U.S. dollar cash are generally the preferred forms of collateral, although other forms of AAA rated paper or sovereign securities may be used. Securities and cash pledged as collateral are reflected as assets in the Statement of Assets and Liabilities as either a component of Investments at value (securities) or Deposits due from Counterparties (cash). Cash collateral received is not typically held in a segregated account and as such is reflected as a liability in the Statement of Assets and Liabilities as Deposits due to Counterparties. The market value of any securities received as collateral is not reflected as a component of net asset value. The Portfolio's overall exposure to counterparty risk can change substantially within a short period, as it is affected by each transaction subject to the relevant Master Agreement.

Master Repurchase Agreements and Global Master Repurchase Agreements (individually and collectively "Master Repo Agreements") govern repurchase, reverse repurchase, and sale-buyback transactions between the Portfolio and select counterparties. Master Repo Agreements maintain provisions for, among other things, initiation, income payments, events of default, and maintenance of collateral. The market value of transactions under the Master Repo Agreement, collateral pledged or received, and the net exposure by counterparty as of period end are disclosed in the Notes to Schedule of Investments.

Master Securities Forward Transaction Agreements ("Master Forward Agreements") govern the considerations and factors surrounding the settlement of certain forward settling transactions, such as To-Be-Announced securities, delayed-delivery or sale-buyback transactions by and between the Portfolio and select counterparties. The Master Forward Agreements maintain provisions for, among other things, initiation and confirmation, payment and transfer, events of default, termination, and maintenance of collateral. The market value of forward settling transactions, collateral pledged or received, and the net exposure by counterparty as of period end is disclosed in the Notes to Schedule of Investments.

Customer Account Agreements and related addendums govern cleared derivatives transactions such as futures, options on futures, and cleared OTC derivatives. Cleared derivative transactions require posting of initial margin as determined by each relevant clearing agency which is segregated at a broker account registered with the Commodity Futures Trading Commission (CFTC), or the applicable regulator. In the U.S., counterparty risk is significantly reduced as creditors of the futures broker do not have claim to Portfolio assets in the segregated account. Additionally, portability of exposure in the event of default further reduces risk to the Portfolio. Variation margin, or changes in market value, are exchanged daily, but may not be netted between futures and cleared OTC derivatives. The market value or accumulated unrealized appreciation or depreciation, initial margin posted, and any unsettled variation margin as of period end is disclosed in the Notes to Schedule of Investments.

Prime Broker Arrangements may be entered into to facilitate execution and/or clearing of listed equity option transactions or short sales of equity securities between the Portfolio and selected counterparties. The arrangements provide guidelines surrounding the rights, obligations, and other events, including, but not limited to, margin, execution, and settlement. These agreements maintain provisions for, among other things, payments, maintenance of collateral, events of default, and termination. Margin and other assets delivered as collateral are typically in the possession of the prime broker and would offset any obligations due to the prime broker. The market values of listed options and securities sold short and related collateral are disclosed in the Notes to Schedule of Investments.

International Swaps and Derivatives Association, Inc. Master Agreements and Credit Support Annexes ("ISDA Master Agreements") govern OTC financial derivative transactions entered into by the Portfolio and select counterparties. ISDA Master Agreements maintain provisions for general obligations, representations, agreements, collateral and events of default or termination. Events of termination include conditions that may entitle counterparties to elect to terminate early and cause settlement of all outstanding transactions under the applicable ISDA Master Agreement. Any election to terminate early could be material to the financial statements. In limited circumstances, the ISDA Master Agreement may contain additional provisions that add counterparty protection beyond coverage of existing daily exposure if the counterparty has a decline in credit quality below a predefined level. These amounts, if any, may be segregated with a third-party custodian. The market value of OTC financial derivative instruments, collateral received or pledged, and net exposure by counterparty as of period end are disclosed in the Notes to Schedule of Investments.

8. FEES AND EXPENSES

(a) Investment Advisory Fee PIMCO is a majority-owned subsidiary of Allianz Asset Management of America L.P. ("Allianz Asset Management") and serves as the Adviser to the Trust, pursuant to an investment advisory contract. The Adviser receives a monthly fee from the Portfolio at an annual rate based on average daily net assets (the "Investment Advisory Fee"). The Investment Advisory Fee for all classes is charged at an annual rate of 0.25%.

(b) Supervisory and Administrative Fee PIMCO serves as administrator (the "Administrator") and provides supervisory and administrative services to the Trust for which it receives a monthly supervisory and administrative fee based on each share class's average daily net assets (the "Supervisory and Administrative Fee"). As the Administrator, PIMCO bears the costs of various third-party services, including audit, custodial, portfolio accounting, legal, transfer agency and printing costs. The Supervisory and Administrative Fee for all classes is charged at the annual rate of 0.25%.

(c) Distribution and Servicing Fees PIMCO Investments LLC ("PI"), a wholly-owned subsidiary of PIMCO, serves as the distributor ("Distributor") of the Trust's shares. The Trust has adopted an Administrative Services Plan with respect to the Administrative Class shares of the Portfolio pursuant to Rule 12b-1 under the Act (the "Administrative Plan"). Under the terms of the Administrative Plan, the Trust is permitted to compensate the Distributor, out of the Administrative Class assets of the Portfolio, in an amount up to 0.15% on an annual basis of the average daily net assets of that class, for providing or procuring through financial intermediaries administrative, recordkeeping and investor services for Administrative Class shareholders of the Portfolio.

The Trust has adopted a separate Distribution and Servicing Plan for the Advisor Class shares of the Portfolio (the "Distribution and Servicing Plan"). The Distribution and Servicing Plan has been adopted pursuant to Rule 12b-1 under the Act. The Distribution and Servicing Plan permits the Portfolio to compensate the Distributor for providing or procuring through financial intermediaries distribution, administrative, recordkeeping, shareholder and/or related services with respect to Advisor Class shares. The Distribution and Servicing Plan permits the Portfolio to make total payments at an annual rate of up to 0.25% of its average daily net assets attributable to its Advisor Class shares.

(d) Portfolio Expenses The Trust is responsible for the following expenses: (i) salaries and other compensation of any of the Trust's executive officers and employees who are not officers, directors, stockholders or employees of PIMCO or its subsidiaries or affiliates; (ii) taxes and governmental fees; (iii) brokerage fees and commissions and other portfolio transaction expenses; (iv) the costs of borrowing money, including interest expense; (v) fees and expenses of the Trustees who are not "interested persons" of PIMCO or the Trust, and any counsel retained exclusively for their benefit; (vi) extraordinary expense, including costs of litigation and indemnification expenses; (vii) organization expenses; and (viii) any expenses allocated or allocable to a specific class of shares, which include service fees payable with respect to the Administrative Class Shares, and may include certain other expenses as permitted by the Trust's Multi-Class Plan adopted pursuant to Rule 18f-3 under the Act and subject to review and approval by the Trustees. The ratio of expenses to average net assets per share class, as disclosed on the Financial Highlights, may differ from the annual portfolio operating expenses per share class as disclosed in the Prospectus for the reasons set forth above.

Each Trustee, other than those affiliated with PIMCO or its affiliates, will receive an annual retainer of $35,000, plus $3,600 for each Board of Trustees meeting attended in person, $750 for each committee meeting attended and $750 for each Board of Trustees meeting attended telephonically, plus reimbursement of related expenses. In addition, the audit committee chair will receive an additional annual retainer of $5,000 and each other committee chair will receive an additional annual retainer of $1,500.

These expenses are allocated on a pro rata basis to the various portfolios of the Trust according to their respective net assets except PIMCO All Asset Portfolio does not bear any Trustee Fees. The Trust pays no compensation directly to any Trustee or any other officer who is affiliated with the Administrator, all of whom receive remuneration for their services to the Trust from the Administrator or its affiliates.

9. RELATED PARTY TRANSACTIONS

The Adviser, Administrator, and Distributor are related parties. Fees payable to these parties are disclosed in Note 8 and the accrued related party fee amounts are disclosed on the Statement of Assets and Liabilities.

The Portfolio is permitted to purchase or sell securities from or to certain related affiliated portfolios under specified conditions outlined in procedures adopted by the Board of Trustees of the Trust. The procedures have been designed to ensure that any purchase or sale of securities by the Portfolio from or to another portfolio that are, or could be, considered an affiliate by virtue of having a common investment adviser (or affiliated investment advisers), common Trustees and/or common officers complies with Rule 17a-7 of the Act. Further, as defined under the procedures, each transaction is effected at the current market price. During the period ended December 31, 2014, the Portfolio engaged in purchases and sales of securities pursuant to Rule 17a-7 of the Act (amounts in thousands†):

Purchases	Sales
$ 444,738	$ 124,385

† A zero balance may reflect actual amounts rounding to less than one thousand.

10. GUARANTEES AND INDEMNIFICATIONS

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

11. PURCHASES AND SALES OF SECURITIES

The length of time a Portfolio has held a particular security is not generally a consideration in investment decisions. A change in the securities held by a Portfolio is known as "portfolio turnover." The Portfolio may engage in frequent and active trading of portfolio securities to achieve its investment objective, particularly during periods of volatile market movements. High portfolio turnover involves correspondingly greater expenses to the Portfolio including brokerage commissions or dealer mark-ups and other transaction costs on the sale of securities and reinvestments in other securities. Such sales may also result in realization of taxable capital gains, including short-term capital gains (which are generally taxed at ordinary income tax rates). The trading costs and tax effects associated with portfolio turnover may adversely affect a Portfolio's performance. The portfolio turnover rates are reported in the Financial Highlights.

Purchases and sales of securities (excluding short-term investments) for the period ended December 31, 2014, were as follows (amounts in thousands):

U.S. Government/Agency		All Other	
Purchases	Sales	Purchases	Sales
$ 2,024,860	$ 2,665,584	$ 1,210,962	$ 692,860

12. SHARES OF BENEFICIAL INTEREST

The Portfolio may issue an unlimited number of shares of beneficial interest with a $0.001 par value. Changes in shares of beneficial interest were as follows (shares and amounts in thousands):

	Year Ended 12/31/2014		Year Ended 12/31/2013	
	Shares	Amount	Shares	Amount
Receipts for shares sold				
Institutional Class	115	$ 1,217	861	$ 9,229
Administrative Class	34,121	363,560	31,755	338,673
Advisor Class	13,683	145,639	19,839	211,059
Issued as reinvestment of distributions				
Institutional Class	57	607	87	930
Administrative Class	1,654	17,615	2,052	21,881
Advisor Class	626	6,660	730	7,780
Cost of shares redeemed				
Institutional Class	(4,411)	(46,929)	(452)	(4,849)
Administrative Class	(38,068)	(405,306)	(33,165)	(353,085)
Advisor Class	(11,304)	(120,374)	(11,826)	(125,522)
Net increase (decrease) resulting from Portfolio share transactions	(3,527)	$ (37,311)	9,881	$ 106,096

As of December 31, 2014, two shareholders each owned 10% or more of the total Portfolio's outstanding shares comprising 42% of the Portfolio.

13. REGULATORY AND LITIGATION MATTERS

The Trust is not engaged in any material litigation or arbitration proceedings and is not aware of any material litigation or claim pending or threatened against it.

14. FEDERAL INCOME TAX MATTERS

The Portfolio intends to qualify as a regulated investment company under Subchapter M of the Internal Revenue Code (the "Code") and distribute all of its taxable income and net realized gains, if applicable, to shareholders. Accordingly, no provision for Federal income taxes has been made.

In accordance with provisions set forth under U.S. GAAP, the Adviser has reviewed the Portfolio's tax positions for all open tax years. As of December 31, 2014, the Portfolio has recorded no liability for net unrecognized tax benefits relating to uncertain income tax positions it has taken or expects to take in future tax returns.

The Portfolio files U.S. tax returns. While the statute of limitations remains open to examine the Portfolio's U.S. tax returns filed for the fiscal years ending in 2011-2013, no examinations are in progress or anticipated at this time. The Portfolio is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months.

Shares of the Portfolio currently are sold to segregated asset accounts ("Separate Accounts") of insurance companies that fund variable annuity contracts and variable life insurance policies ("Variable Contracts"). Please refer to the prospectus for the Separate Account and Variable Contract for information regarding Federal income tax treatment of distributions to the Separate Account.

As of December 31, 2014, the components of distributable taxable earnings are as follows (amounts in thousands):

Undistributed Ordinary Income	Undistributed Long-Term Capital Gains	Net Tax Basis Unrealized Appreciation/ (Depreciation) [1]	Other Book-to-Tax Accounting Differences [2]	Accumulated Capital Losses [3]	Qualified Late-Year Loss Deferral - Capital [4]	Qualified Late-Year Loss Deferral - Ordinary [5]
$ 67,449	$ —	$ (46,076)	$ (107)	$ (25,460)	$ —	$ —

[1] Adjusted for open wash sale loss deferrals and the accelerated recognition of unrealized gain or loss on certain futures, options and forward contracts for federal income tax purposes. Also adjusted for differences between book and tax realized and unrealized gain (loss) on swap contracts, Treasury Inflation-Protected securities, and sale/buyback transactions.

[2] Represents differences in income tax regulations and financial accounting principles generally accepted in the United States of America, namely for straddle loss deferrals and distributions payable at fiscal year-end.

[3] Capital losses available to offset future net capital gains expire in varying amounts in the years shown below.

[4] Capital losses realized during the period November 1, 2014 through December 31, 2014 which the Portfolio elected to defer to the following taxable year pursuant to income tax regulations.

[5] Specified losses realized during the period November 1, 2014 through December 31, 2014, which the Portfolio elected to defer to the following taxable year pursuant to income tax regulations.

As of December 31, 2014, the Portfolio had accumulated capital losses expiring in the following years (amounts in thousands). The Portfolio will resume capital gain distributions in the future to the extent gains are realized in excess of accumulated capital losses.

Expiration of Accumulated Capital Losses			
12/31/2015	12/31/2016	12/31/2017	12/31/2018
$ —	$ —	$ 8,599	$ —

Under the Regulated Investment Company Act of 2010, a Portfolio is permitted to carry forward any new capital losses for an unlimited period. Additionally, such capital losses that are carried forward will retain their character as either short-term or long-term capital losses rather than being considered all short-term under previous law.

As of December 31, 2014, the Portfolio had the following post-effective capital losses with no expiration:

Short-Term	Long-Term
$ 14,206	$ 2,654

As of December 31, 2014, the aggregate cost and the net unrealized appreciation/(depreciation) of investments for federal income tax purposes are as follows (amounts in thousands):

Federal Tax Cost	Unrealized Appreciation	Unrealized (Depreciation)	Net Unrealized Appreciation/ (Depreciation) [6]
$ 2,179,325	$ 10,704	$ (55,655)	$ (44,951)

[6] Primary differences, if any, between book and tax net unrealized appreciation/(depreciation) on investments are attributable to open wash sale loss deferrals, Treasury Inflation-Protected securities, and sale/buyback transactions.

For the fiscal years ended December 31, 2014 and December 31, 2013, respectively, the Portfolio made the following tax basis distributions (amounts in thousands):

Fiscal Year Ended	Ordinary Income Distributions [7]	Long-Term Capital Gain Distributions	Return of Capital [8]
12/31/2014	$ 24,882	$ —	$ —
12/31/2013	$ 30,591	$ —	$ —

[7] Includes short-term capital gains, if any, distributed.

[8] A portion of the distributions made represents a tax return of capital. Return of capital distributions have been reclassified from undistributed net investment income to paid-in capital to more appropriately conform to financial accounting to tax accounting.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of PIMCO Variable Insurance Trust and Administrative Class Shareholders of PIMCO Low Duration Portfolio:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights for the Administrative Class present fairly, in all material respects, the financial position of PIMCO Low Duration Portfolio (one of the portfolios constituting PIMCO Variable Insurance Trust, hereinafter referred to as the "Portfolio") at December 31, 2014, 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 the Administrative Class for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Portfolio's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2014 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Kansas City, Missouri
February 20, 2015

Counterparty Abbreviations:

BOA	Bank of America N.A.	**GST**	Goldman Sachs International	**NGF**	Nomura Global Financial Products, Inc.
BPS	BNP Paribas S.A.	**HUS**	HSBC Bank USA N.A.	**RBC**	Royal Bank of Canada
BRC	Barclays Bank PLC	**JPM**	JPMorgan Chase Bank N.A.	**SOG**	Societe Generale
CBK	Citibank N.A.	**MSB**	Morgan Stanley Bank, N.A	**SSB**	State Street Bank and Trust Co.
DUB	Deutsche Bank AG	**MSC**	Morgan Stanley & Co., Inc.	**UAG**	UBS AG Stamford
FBF	Credit Suisse International	**MYC**	Morgan Stanley Capital Services, Inc.	**UBS**	UBS Securities LLC
GLM	Goldman Sachs Bank USA				

Currency Abbreviations:

AUD	Australian Dollar	**EUR**	Euro	**JPY**	Japanese Yen
BRL	Brazilian Real	**GBP**	British Pound	**MXN**	Mexican Peso
CAD	Canadian Dollar	**ILS**	Israeli Shekel	**USD**	United States Dollar
CHF	Swiss Franc	**INR**	Indian Rupee		

Exchange Abbreviations:

OTC	Over the Counter

Index Abbreviations:

CDX.EM	Credit Derivatives Index - Emerging Markets	**CDX.IG**	Credit Derivatives Index - Investment Grade	**CMBX**	Commercial Mortgage-Backed Index
CDX.HY	Credit Derivatives Index - High Yield				

Other Abbreviations:

ALT	Alternate Loan Trust	**CLO**	Collateralized Loan Obligation	**REMIC**	Real Estate Mortgage Investment Conduit
CDI	Brazil Interbank Deposit Rate	**FDIC**	Federal Deposit Insurance Corp.	**TIIE**	Tasa de Interés Interbancaria de Equilibrio
CDO	Collateralized Debt Obligation	**LIBOR**	London Interbank Offered Rate		

Federal Income Tax Information

(Unaudited)

As required by the Internal Revenue Code ("Code") and Treasury Regulations, if applicable, shareholders must be notified within 60 days of the Portfolio's fiscal year end regarding the status of qualified dividend income and the dividend received deduction.

Qualified Dividend Income. Under the Jobs and Growth Tax Relief Reconciliation Act of 2003 (the "Act"), the following percentage of ordinary dividends paid during the calendar year was designated as "qualified dividend income", as defined in the Act, subject to reduced tax rates in 2014:

0.52%

Dividend Received Deduction. Corporate shareholders are generally entitled to take the dividend received deduction on the portion of a Portfolio's dividend distribution that qualifies under tax law. The percentage of the following Portfolio's calendar year ordinary income dividend that qualifies for the corporate dividend received deduction is set forth below:

0.11%

Shareholders are advised to consult their own tax advisor with respect to the tax consequences of their investment in the Trust. However, income received by tax-exempt recipients need not be reported as taxable income.

The chart below identifies the Trustees and Officers of the Trust. Each "interested" Trustee as defined by the 1940 Act, is indicated by an asterisk (*). Unless otherwise indicated, the address of all persons below is 650 Newport Center Drive, Newport Beach, CA 92660.

The Portfolio's Statement of Additional Information includes more information about the Trustees and Officers. To request a free copy, call PIMCO at (888) 87-PIMCO or visit the Portfolio's website at http://pvit.pimco-funds.com.

Name, Year of Birth and Position Held with Trust	Term of Office** and Length of Time Served	Principal Occupation(s) During the Past 5 Years	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee
Interested Trustees				
Brent R. Harris* (1959) *Chairman of the Board and Trustee*	08/1997 to Present	Managing Director and member of Executive Committee, PIMCO.	170	Chairman and Trustee, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT; Director, StocksPLUS® Management, Inc.; Director, Applied Natural Gas Fuels, Inc. and member of Board of Governors, Investment Company Institute.
Douglas M. Hodge* (1957) *Trustee*	02/2010 to Present	Managing Director, Chief Executive Officer, PIMCO (since 2/14) and Chief Operating Officer, PIMCO (7/09-2/14); Member of Executive Committee and Head of PIMCO's Asia Pacific region. Member Global Executive Committee, Allianz Asset Management.	151	Trustee, PIMCO Funds and PIMCO ETF Trust.
Independent Trustees				
E. Philip Cannon (1940) *Trustee*	05/2000 to Present	Private Investor. Formerly, President, Houston Zoo.	170	Trustee, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. Formerly, Trustee Allianz Funds (formerly, PIMCO Funds: Multi-Manager Series).
J. Michael Hagan (1939) *Trustee*	05/2000 to Present	Private Investor and Business Advisor (primarily to manufacturing companies).	151	Trustee, PIMCO Funds and PIMCO ETF Trust.
Ronald C. Parker (1951) *Trustee*	07/2009 to Present	Director of Roseburg Forest Products Company. Formerly Chairman of the Board, The Ford Family Foundation. Formerly President, Chief Executive Officer, Hampton Affiliates (forestry products)	151	Trustee, PIMCO Funds and PIMCO ETF Trust.

* Mr. Harris and Mr. Hodge are "interested persons" of the Trust (as that term is defined in the 1940 Act) because of their affiliation with PIMCO.
** Trustees serve until their successors are duly elected and qualified

Executive Officers

Name, Year of Birth and Position Held with Trust	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years
Peter G. Strelow (1970) *President*	01/2015 to Present Senior Vice President 11/2013 to 01/2015	Managing Director, PIMCO.
David C. Flattum (1964) *Chief Legal Officer*	11/2006 to Present	Managing Director and General Counsel, PIMCO. Formerly, Managing Director, Chief Operating Officer and General Counsel, Allianz Asset Management of America L.P.
Jennifer E. Durham (1970) *Chief Compliance Officer*	07/2004 to Present	Managing Director, PIMCO.
Douglas M. Hodge (1957) *Senior Vice President*	05/2010 to Present	Managing Director; Chief Executive Officer, PIMCO (since 2/14) and Chief Operating Officer, PIMCO (7/09-2/14); Member of Executive Committee and Head of PIMCO's Asia Pacific region. Member Global Executive Committee, Allianz Asset Management.
Brent R. Harris (1959) *Senior Vice President*	01/2015 to Present President 03/2009 to 01/2015	Managing Director, PIMCO.
William G. Galipeau (1974) *Vice President*	11/2013 to Present	Executive Vice President, PIMCO.
Eric D. Johnson (1970) *Vice President*	05/2011 to Present	Executive Vice President, PIMCO.
Henrik P. Larsen (1970) *Vice President*	02/1999 to Present	Senior Vice President, PIMCO.
Greggory S. Wolf (1970) *Vice President*	05/2011 to Present	Senior Vice President, PIMCO.
Kevin M. Broadwater (1964) *Vice President - Senior Counsel*	05/2012 to Present	Executive Vice President and Deputy General Counsel, PIMCO.
Joshua D. Ratner (1976) *Vice President - Senior Counsel Secretary*	11/2013 to Present Assistant Secretary 10/2007 to 01/2011	Executive Vice President and Senior Counsel, PIMCO.
Ryan G. Leshaw (1980) *Assistant Secretary*	05/2012 to Present	Vice President and Counsel, PIMCO. Formerly, Associate, Willkie Farr & Gallagher LLP.
Trent W. Walker (1974) *Treasurer*	11/2013 to Present Assistant Treasurer 05/2007 to 11/2013	Senior Vice President, PIMCO.
Stacie D. Anctil (1969) *Assistant Treasurer*	11/2003 to Present	Senior Vice President, PIMCO.
Erik C. Brown (1967) *Assistant Treasurer*	02/2001 to Present	Executive Vice President, PIMCO.

Privacy Policy

The Trust[1] considers customer privacy to be a fundamental aspect of its relationships with shareholders and is committed to maintaining the confidentiality, integrity and security of its current, prospective and former shareholders' personal information. The Trust has developed policies that are designed to protect this confidentiality, while allowing shareholder needs to be served.

Obtaining Personal Information

In the course of providing shareholders with products and services, the Trust and certain service providers to the Trust, such as the Trust's investment adviser ("Adviser"), may obtain non-public personal information about shareholders, which may come from sources such as account applications and other forms, from other written, electronic or verbal correspondence, from shareholder transactions, from a shareholder's brokerage or financial advisory firm, financial advisor or consultant, and/or from information captured on the Trust's internet websites.

Respecting Your Privacy

As a matter of policy, the Trust does not disclose any personal or account information provided by shareholders or gathered by the Trust to non-affiliated third parties, except as required or permitted by law or as necessary for such third parties to perform their agreements with respect to the Trust. As is common in the industry, non-affiliated companies may from time to time be used to provide certain services, such as preparing and mailing prospectuses, reports, account statements and other information, conducting research on shareholder satisfaction and gathering shareholder proxies. The Trust's distributor may also retain non-affiliated companies to market the Trust's shares or products which use the Trust's shares and enter into joint marketing arrangements with them and other companies. These companies may have access to a shareholder's personal and account information, but are permitted to use this information solely to provide the specific service or as otherwise permitted by law. In most cases, the shareholders will be clients of a third party, but the Trust may also provide a shareholder's personal and account information to the shareholder's respective brokerage or financial advisory firm and/or financial advisor or consultant.

Sharing Information with Third Parties

The Trust reserves the right to disclose or report personal information to non-affiliated third parties in limited circumstances where the Trust believes in good faith that disclosure is required under law, to cooperate with regulators or law enforcement authorities, to protect its rights or property, or upon reasonable request by any Trust in which a shareholder has invested. In addition, the Trust may disclose information about a shareholder's accounts to a non-affiliated third party at the shareholder's request or with the consent of the shareholder.

Sharing Information with Affiliates

The Trust may share shareholder information with its affiliates in connection with servicing shareholders' accounts, and subject to applicable law may provide shareholders with information about products and services that the Trust or its Adviser, distributors or their affiliates ("Service Affiliates") believe may be of interest to such shareholders. The information that the Trust may share may include, for example, a shareholder's participation in the Trust or in other investment programs sponsored by a Service Affiliate, a shareholder's ownership of certain types of accounts (such as IRAs), information about the Trust's experiences or transactions with a shareholder, information captured on the Trust's internet website, or other data about a shareholder's accounts, subject to applicable law. The Trust's Service Affiliates, in turn, are not permitted to share shareholder information with non-affiliated entities, except as required or permitted by law.

Procedures to Safeguard Private Information

The Trust takes seriously the obligation to safeguard shareholder non-public personal information. In addition to this policy, the Trust has implemented procedures that are designed to restrict access to a shareholder's non-public personal information to internal personnel who need to know that information to perform their jobs, such as servicing shareholder accounts or notifying shareholders of new products or services. Physical, electronic and procedural safeguards are in place to guard a shareholder's non-public personal information.

[1] When distributing this Policy, the Trust may combine the distribution with any similar distribution of its investment adviser's privacy policy. The distributed, combined, policy may be written in the first person (i.e. by using "we" instead of "the Trust").

At a meeting held on August 11-12, 2014, the Board of Trustees (the "Board") of PIMCO Variable Insurance Trust (the "Trust"), including all of the independent Trustees, approved the Trust's Amended and Restated Investment Advisory Contract (the "Investment Advisory Contract") with Pacific Investment Management Company LLC ("PIMCO"), on behalf of each of the Trust's portfolios (the "Portfolios"), for an additional one-year term through August 31, 2015. The Board also considered and approved for an additional one-year term through August 31, 2015, the Supervision and Administration Agreement (together with the Investment Advisory Contract, the "Agreements") with PIMCO, on behalf of the Portfolios. The Board also considered and approved the renewal of the Amended and Restated Asset Allocation Sub Advisory Agreement (the "Asset Allocation Agreement") with Research Affiliates, LLC ("Research Affiliates"), on behalf of the PIMCO All Asset Portfolio and PIMCO All Asset All Authority Portfolio, each a series of the Trust, for an additional one-year term through August 31, 2015.

The information, material factors and conclusions that formed the basis for the Board's approvals are described below.

1. INFORMATION RECEIVED

(a) Materials Reviewed: During the course of each year, the Trustees receive a wide variety of materials relating to the services provided by PIMCO and Research Affiliates. At each of its quarterly meetings, the Board reviews the Portfolios' investment performance and a significant amount of information relating to Portfolio operations, including the Portfolios' compliance program, shareholder services, valuation, custody, distribution, and other information relating to the nature, extent and quality of services provided by PIMCO and Research Affiliates to the Trust. In considering whether to approve renewal of the Agreements and Asset Allocation Agreement, the Board also reviewed supplementary information, including, but not limited to, comparative industry data with regard to investment performance, advisory and supervisory and administrative fees and expenses, financial and profitability information regarding PIMCO and Research Affiliates, information about the personnel providing investment management services, other advisory services and supervisory and administrative services to the Portfolios, and information about the fees charged and services provided to other clients with similar investment mandates as the Portfolios (where applicable). The Board also reviewed material provided by counsel to the Trust and the independent Trustees, which included, among other things, memoranda outlining legal duties of the Board in considering the continuation of the Agreements.

(b) Review Process: In connection with the renewal of the Agreements and the Asset Allocation Agreement, the Board reviewed written materials prepared by PIMCO and Research Affiliates in response to requests from counsel to the Trust. The Board also requested and received assistance and advice regarding applicable legal standards from counsel to the Trust and the independent Trustees, and reviewed comparative fee and performance data prepared at the Board's request by Lipper, Inc. ("Lipper"), an independent provider of investment company performance and fee and expense data. The Board also heard oral presentations on matters related to the Agreements and Asset Allocation Agreement and met both as a full Board and as the independent Trustees, without management present, at the August 11-12, 2014 meeting. The independent Trustees also conducted a telephonic meeting with counsel to the Trust and the independent Trustees on August 5, 2014 to discuss the materials presented. In addition, the independent Trustees requested and received from PIMCO additional information including, but not limited to, information related to portfolio profitability and comparative performance information.

The approval determinations were made on the basis of each Trustee's business judgment after consideration of all the information presented. Individual Trustees may have given different weights to certain factors and assigned various degrees of materiality to information received in connection with the approval process. In deciding to approve the renewal of the Agreements and Asset Allocation Agreement, the Board did not identify any single factor or particular information that, in isolation, was controlling. This summary describes the most important, but not all, of the factors considered by the Board.

2. NATURE, EXTENT AND QUALITY OF SERVICES

(a) PIMCO, Research Affiliates, their Personnel, and Resources: The Board considered the depth and quality of PIMCO's investment management process, including: the experience, capability and integrity of its senior management and other personnel; the overall financial strength and stability of its organization; and the ability of its organizational structure to address changes in assets under management. The Board also considered the various services in addition to portfolio management that PIMCO provides under the Investment Advisory Contract. The Board noted that PIMCO makes available to its investment professionals a variety of resources and systems relating to investment management, compliance, trading, performance and portfolio accounting. The Board noted PIMCO's commitment to investing in information technology supporting investment management and compliance, as well as PIMCO's continuing efforts to attract and retain qualified personnel and to maintain and enhance its resources and systems. The Board considered PIMCO's policies, procedures and systems to reasonably assure compliance with applicable laws and regulations and its commitment to these programs; its oversight of matters that may involve conflicts of interest between the Portfolios' investments and those of other accounts; and its efforts to keep the Trustees informed about matters relevant to the Portfolios and their shareholders.

The Trustees considered the steps that PIMCO has taken in recent years with respect to active management of counterparty risk, such as implementing procedures requiring daily collateral adjustments and frequent communication between credit analysts and the counterparty risk committee which oversees counterparty risk on a firm-wide basis, continually evaluating requests to add or remove approved counterparties as market needs and conditions warrant. The Trustees considered that, over the last several years, PIMCO has continued to strengthen the process it uses to assess the financial stability of broker-dealers with which the Portfolios do business, to manage collateral and to protect portfolios from an unforeseen deterioration in the creditworthiness of trading counterparties. The Trustees noted that, consistent with its fiduciary duty, PIMCO executes transactions through a competitive best execution process and uses counterparties that meet its stringent and monitored criteria. The Trustees also considered that PIMCO's collateral management team utilizes the counterparty risk system to analyze portfolio level exposure and collateral being exchanged with counterparties.

The Trustees also considered new services and service enhancements that PIMCO has implemented since the Agreements were last renewed in 2013, including, but not limited to, constructing and moving into a new global headquarters in Newport Beach in May 2014; investing significant resources into developing its global portfolio management expertise; expanding PIMCO's technology team and investing in technology, with a focus on projects that increase capacity and investment management stability; engaging in detailed preparation efforts for the potential consequences of an unanticipated financial crisis or global liquidity vacuum; focusing on global business continuity program management; investing in additional personnel with fund operations expertise, including additional accounting, financial reporting, pricing and tax resources; and continuing to develop the PIMCO Accounting Yield Application (or PAY), which provides yield and income reporting, and the rollout of the Pricing Portal, which is a web-based workflow application that will automate the daily pricing review process, improve communications among stakeholders and enhance the ability to identify pricing variance and provide feedback to pricing vendors.

Similarly, the Board considered the asset-allocation services provided by Research Affiliates to the PIMCO All Asset and All Asset All Authority Portfolios. The Board noted that the PIMCO All Asset All Authority Portfolio commenced operations on April 30, 2014. The Board considered the depth and quality of Research Affiliates' investment management and research capabilities, the experience and capabilities of its portfolio management personnel, and in particular the experience and capabilities of Robert Arnott, Research Affiliates' principal, and the overall financial strength of the organization.

Ultimately, the Board concluded that the nature, extent and quality of services proposed to be provided by PIMCO under the Agreements and by Research Affiliates under the Asset Allocation Agreement are likely to benefit the Portfolios and their shareholders.

(b) Other Services: The Board considered PIMCO's policies, procedures and systems to reasonably assure compliance with applicable laws and regulations and its commitment to these programs; its oversight of matters that may involve conflicts of interest with the Trust; and its efforts to keep the Trustees informed about matters relevant to the Trust and its shareholders. The Board also considered the nature, extent, quality and cost of supervisory and administrative services provided by PIMCO to the Portfolios under both Agreements. The Board noted that the Supervision and Administration Agreement was approved at the August 2008 Board meeting to replace the Trust's previous Administration Agreement. The purpose of the change was to reflect the increased scope and complexity of supervisory and administrative services that PIMCO had been providing to the Trust pursuant to the Administration Agreement. The Board considered the terms of the Trust's Supervision and Administration Agreement, under which the Trust pays for the administrative services under that Agreement under what is essentially an all-in fee structure (the "unified fee"). In return, PIMCO provides or procures certain supervisory and administrative services and bears the costs of various third party services required by the Portfolios, including audit, custodial, portfolio accounting, legal, transfer agency and printing costs. The Board noted that the scope and complexity of the supervisory and administrative services provided by PIMCO under the Agreements continue to increase. The Board considered PIMCO's provision of these services and supervision of the Trust's third party service providers to assure that these service providers continue to provide a high level of service relative to alternatives in the market.

Ultimately, the Board concluded that the nature, extent and quality of the services provided by PIMCO has benefited and will likely continue to benefit the Portfolios and their shareholders.

3. INVESTMENT PERFORMANCE

The Board received and examined information from PIMCO concerning the Portfolios' year-to-date, one-, three-, five-, seven- and ten-year performance, as available, for the periods ended May 31, 2014 and other performance data, as available, for the period ended June 30, 2014 (the "PIMCO Report") and from Lipper concerning the Portfolios' one-, three-, five-, ten-, and fifteen-year performance, as available, for the periods ended May 31, 2014 (the "Lipper Report").

The Board considered information regarding both the short-term and long-term investment performance of each Portfolio relative to its peer group and relevant benchmark index as provided to the Board in advance of each of its quarterly meetings throughout the year, including the PIMCO Report and Lipper Report, which were provided in advance of the August 11-12, 2014 meeting. The Trustees noted that the assets of the Portfolios continued to grow and that a majority of the Portfolios outperformed the Lipper medians over the three-year and longer periods ended May 31, 2014.

The Board noted that, as of May 31, 2014, the Administrative Class of 69%, 71% and 100% of the Portfolios outperformed its Lipper category median over the three-year, five-year and ten-year periods, respectively. The Trustees considered that other classes of each Portfolio would have substantially similar performance to that of the Administrative Class of the relevant Portfolio on a relative basis because all of the classes are invested in the same portfolio of securities and that differences in performance among classes could principally be attributed to differences in the distribution and servicing expenses of each class. The Board also considered that the investment objectives of certain of the Portfolios may not always be identical to those of the other funds in their respective peer groups, that the Lipper categories do not separate funds based upon maturity or duration, do not account for the Portfolios' hedging strategies, do not distinguish between enhanced index and actively managed equity strategies, do not include as many subsets as the Portfolios offer (i.e., Portfolios may be placed in a "catch-all" Lipper category to which they do not properly belong) and do not account for certain fee waivers. The Board noted that, due to these differences, performance comparisons between certain of the Portfolios and their so-called peers may be inexact.

The Board noted that 85% or more of the assets of the Trust had outperformed their respective benchmarks on a net-of-fees basis over the three-year, five-year and ten-year periods ending May 31, 2014 (based on the performance of the Administrative Class). The Board also noted that 11 of 14 Portfolios, representing 92% of the total assets of the Trust, had outperformed their respective benchmark indexes over the five-year period ending May 31, 2014, on a net-of-fees basis. The Board also noted that, while the Lipper universe comparisons provide a valuable performance comparison reference, there are several Portfolios that do not fit well into their respective Lipper classifications. The Board also discussed actions that have been taken by PIMCO to attempt to improve performance and took note of PIMCO's plans to monitor performance going forward, as applicable. The Board also considered that the Trust's assets had increased to $22.8 billion as of May 31, 2014.

The Board considered PIMCO's discussion of the intensive nature of managing bond funds, noting that it requires the consideration of a number of factors, including: varying maturities, prepayments, collateral management, counter-party management, pay-downs, credit events, workouts, derivatives and net new issuance in the bond market. The Board noted that in addition to managing these factors, PIMCO must also balance risk controls and strategic positions in each portfolio it manages. Despite these challenges, the Board noted that PIMCO has generated "alpha" (i.e., non-market correlated excess performance) for its clients, including the Trust.

The Board ultimately determined, within the context of all of its considerations in connection with the Agreements, that the Trust's overall investment performance was strong, and concluded that PIMCO's performance record and process in managing the Portfolios indicates that its continued management is likely to benefit the Portfolios and their shareholders, and merits the approval of the continuation of the Agreements.

4. ADVISORY FEES, SUPERVISORY AND ADMINISTRATIVE FEES AND TOTAL EXPENSES

The Board considered that PIMCO seeks to price funds with total expense ratios at or below the respective Lipper median, if there is an appropriate Lipper category comparison, while providing premium investment offerings. Fees charged to or proposed for different Portfolios for advisory services and supervisory and administrative services may vary in light of these various factors. The Board also considered that PIMCO reviews the Portfolios' fee levels and carefully considers reductions where appropriate. Further, the Board noted that PIMCO believes that the growth in the Trusts' assets under management over time and long-term positive net flows are important indicators of proper and effective pricing.

The Board reviewed the advisory fees, supervisory and administrative fees and total expenses of the Portfolios (each as a percentage of average net assets) and compared such amounts with the average and median fee and expense levels of other similar funds. With respect to advisory fees, the Board reviewed data from Lipper that compared the average and median advisory fees of other funds in an "Expense Group" of comparable funds, as well as the universe of other similar funds. The Board noted that a number of Portfolios have total expense ratios that fall below the average and median expense ratios in their Lipper Expense Group and Lipper universe.

The Board also reviewed data comparing the Portfolios' advisory fees to the standard fee rate PIMCO charges to separate accounts and as sub-adviser to other investment companies with a similar investment strategy, including differences in advisory services provided. The Trustees noted that the advisory fees for the Portfolios were equal to or lower than PIMCO standard separate account fee rates in ten out of 15 strategies. In cases where the fees for other clients were lower than those charged to the Portfolios, the Trustees noted that the differences in fees were attributable to various factors, including differences in the advisory and other services provided by PIMCO to the Portfolios, the manner in which similar portfolios may be managed, different requirements with respect to liquidity management and the implementation of other regulatory requirements, and the fact that separate accounts may have other contractual arrangements that justify different levels of fees. Regarding advisory fees charged by PIMCO in its capacity as sub-adviser to third-party/unaffiliated funds, the Trustees took into account that such fees may be lower than the fees charged by PIMCO to serve as adviser to the Portfolios for various other reasons, including, but not limited to, the fact that PIMCO may be subject to varying levels of entrepreneurial risk and regulatory requirements, differing legal liabilities per contract and diverse servicing requirements when it does not serve as the sponsor of a fund and is not principally responsible for all aspects of a fund's investment program and operations than when PIMCO serves as investment adviser and sponsor.

The Board also considered the Portfolios' supervisory and administrative fees, comparing them to similar funds in the report supplied by Lipper. The Board considered that as the Portfolios' business has become increasingly complex and the number of Portfolios has grown, PIMCO has provided an increasingly broad array of fund supervisory and administrative functions. The Board considered the Trust's unified fee structure, under which the Trust pays for the supervisory and administrative services it requires for one set fee, and in return, PIMCO provides or procures supervisory and administrative services and bears the costs of various third party services required by the Portfolios, including audit, custodial, portfolio accounting, legal, transfer agency and printing costs. The Board considered that many other funds pay for these services separately, and thus it is difficult to directly compare the Portfolios' unified supervisory and administrative fees with the fees paid by other funds for administrative services alone. The Board considered that the unified supervisory and administrative fee leads to fund fees that are fixed, rather than variable. The Board concluded that the Portfolios' supervisory and administrative fees were reasonable in relation to the value of the services provided, including the services provided to different classes of shareholders, and that the expenses assumed contractually by PIMCO under the Supervision and Administration Agreement represent, in effect, a cap on overall fund fees which is beneficial to the Portfolios and their shareholders.

The Board considered the Portfolios' total expenses and discussed with PIMCO those Portfolios and/or classes of Portfolios that had above median total expenses. The Board noted that several Portfolios launched in recent years have been unique products that have few, if any peers, and cannot easily be grouped with comparable funds. Upon comparing the Portfolios' total expenses to other funds in the Expense Groups provided by Lipper, the Board found total expenses of each Portfolio to be reasonable.

The Trustees also considered the advisory fees charged to the Portfolios that operate as funds of funds (the "Funds of Funds") and the advisory services provided in exchange for such fees. The Trustees determined that such services were in addition to the advisory services provided to the underlying series in which the Funds of Funds may invest and, therefore, such services were not duplicative of the advisory services provided to the underlying series. The Board also considered the various fee waiver agreements in place for the Funds of Funds.

The Board noted that, with few exceptions, PIMCO has maintained Portfolio fees at the same level as implemented when the unified fee was adopted, and has reduced fees for a number of Portfolios in prior years. The Board further noted that, although the unified fee structure does not have breakpoints, it implicitly reflects economies of scale by fixing the absolute level of Portfolio fees at competitive levels even if the Portfolios' operating costs rise when assets remain flat or decrease.

Based on the information presented by PIMCO, Research Affiliates and Lipper, members of the Board then determined, in the exercise of their business judgment, that the level of the advisory fees and supervisory and administrative fees charged by PIMCO under the Agreements, as well as the total expenses of each Portfolio, are reasonable.

5. ADVISER COSTS, LEVEL OF PROFITS AND ECONOMIES OF SCALE

The Board reviewed information regarding PIMCO's costs of providing services to the Portfolios as a whole, as well as the resulting level of profits to PIMCO, noting that those results were slightly higher than the previous year while 2014 net income is expected to decline due to the fee impact of outflows. Additionally, the Board noted that profit margins were within the ranges, although above the median, of publicly held investment management companies reported by Lipper and Strategic Insight (an independent provider of fund industry research). The Board noted that PVIT is profitable, although less so than PIMCO Funds due to payments made by PIMCO to participating insurance companies. The Board noted that it had also received information regarding the structure and manner in which PIMCO's investment professionals were compensated, and PIMCO's view of the relationship of such compensation to the attraction and retention of quality personnel. The Board considered PIMCO's need to invest in technology, cyber security, shareholder privacy, business continuity planning, infrastructure and staff to reinforce and offer new services and to accommodate changing regulatory requirements.

With respect to potential economies of scale, the Board noted that PIMCO shares the benefits of economies of scale with the Portfolios and their shareholders in a number of ways, including through the pricing of Portfolios to scale from inception, fee reductions or waivers, and the enhancement of services provided to the Portfolios in return for fees paid. The Board reviewed the history of the Portfolios' fee structure. The Board considered that the Portfolios' unified fee rates had been set competitively and/or priced to scale from inception, had been reduced for some Portfolios over time, had been held steady at that scaled competitive rate for most Portfolios as assets grew, or as assets declined in the case of some Portfolios, and continued to be competitive compared with peers. The Board also considered that the unified fee is a transparent means of informing Portfolio shareholders of the fees associated with the Portfolios, and that the Portfolios bear certain expenses that are not covered by the advisory fee or the unified supervision and administrative fee.

The Trustees also considered that the unified fee has provided inherent economies of scale because a Portfolio maintains competitive fixed unified fees even if the particular Portfolio's assets decline and/or operating costs rise. The Trustees further considered that, in contrast, breakpoints are a proxy for charging higher fees on lower asset levels and that when a fund's assets decline, breakpoints may reverse, which causes expense ratios to increase. The Trustees also considered that, unlike the Portfolios' unified fee structure, funds with "pass through" administrative fee structures may experience increased expense ratios when fixed dollar fees are charged against declining fund assets. The Trustees noted that the benefits of the unified fee were apparent during the 2008 financial crisis, as the total expense ratios of certain funds in other fund complexes that do not have a unified fee increased due to decreases in fund assets; moreover, these benefits may reemerge in the event a particular Portfolio's assets decline in the future. The Trustees also considered that the unified fee protects shareholders from a rise in operating costs that may result from, including, among other things, PIMCO's investments in various business enhancements and infrastructure, including those described above. The Trustees noted that PIMCO's investments in these areas are extensive.

The Board concluded that the Portfolios' cost structures were reasonable and that the unified fee structure inherently involves the sharing of economies of scale between PIMCO and the Portfolios, to the benefit of Portfolio shareholders.

6. ANCILLARY BENEFITS

The Board considered other benefits received by PIMCO and its affiliates as a result of PIMCO's relationship with the Trust, including possible ancillary benefits to PIMCO's institutional investment management business due to the reputation and market penetration of the Portfolios. The Board also considered that affiliates of PIMCO provide distribution and shareholder services to the Portfolios and their shareholders, for which they may be compensated through distribution and servicing fees paid pursuant to the Portfolios' Rule 12b-1 plans or otherwise. The Board reviewed PIMCO's soft dollar policies and procedures, noting that while PIMCO has the authority to receive the benefit of research provided by broker-dealers executing portfolio transactions on behalf of the Portfolios, it has adopted a policy not to enter into contractual soft dollar arrangements.

7. CONCLUSIONS

Based on its review, including its consideration of each of the factors referred to above, the Board concluded that the nature, extent and quality of the services rendered to the Portfolios by PIMCO and Research Affiliates favored the renewal of the Agreements and the Asset Allocation Agreement. The Board concluded that the Agreements and the Asset Allocation Agreement continued to be fair and reasonable to the Portfolios and their shareholders, that the Portfolios' shareholders received reasonable value in return for the fees paid to PIMCO by the Portfolios under the Agreements and the fees paid to Research Affiliates by PIMCO under the Asset Allocation Agreement, and that the renewal of the Agreements and the Asset Allocation Agreement was in the best interests of the Portfolios and their shareholders.

General Information

Investment Adviser and Administrator

Pacific Investment Management Company LLC
650 Newport Center Drive
Newport Beach, CA 92660

Distributor

PIMCO Investments LLC
1633 Broadway
New York, NY 10019

Custodian

State Street Bank & Trust Company
801 Pennsylvania
Kansas City, MO 64105

Transfer Agent

Boston Financial Data Services
330 W. 9th Street, 5th Floor
Kansas City, MO 64105

Legal Counsel

Dechert LLP
1900 K Street, N.W.
Washington, D.C. 20006

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP
1100 Walnut Street, Suite 1300
Kansas City, MO 64106

This report is submitted for the general information of the shareholders of the PIMCO Variable Insurance Trust.

pvit.pimco-funds.com

PIMCO

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FRANKLIN TEMPLETON INVESTMENTS

Annual Report
December 31, 2014

Franklin Templeton Variable Insurance Products Trust

Franklin Templeton Variable Insurance Products Trust Annual Report

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*Not part of the annual report. Retain for your records.

Not FDIC Insured | May Lose Value | No Bank Guarantee

Important Notes to Performance Information

Performance data is historical and cannot predict or guarantee future results. Principal value and investment return will fluctuate with market conditions, and you may have a gain or loss when you withdraw your money. Inception dates of the funds may have preceded the effective dates of the subaccounts, contracts or their availability in all states.

When reviewing the index comparisons, please keep in mind that indexes have a number of inherent performance differentials over the funds. First, unlike the funds, which must hold a minimum amount of cash to maintain liquidity, indexes do not have a cash component. Second, the funds are actively managed and, thus, are subject to management fees to cover salaries of securities analysts or portfolio managers in addition to other expenses. Indexes are unmanaged and do not include any commissions or other expenses typically associated with investing in securities. Third, indexes often contain a different mix of securities than the fund to which they are compared. Additionally, please remember that indexes are simply a measure of performance and cannot be invested in directly.

SUPPLEMENT DATED SEPTEMBER 24, 2014
TO THE STATEMENT OF ADDITIONAL INFORMATION
DATED MAY 1, 2014 OF
FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST (the "Trust")

The following section is added to the Trust's Statement of Additional Information before the section "Performance" on page 100:

Calculation of Net Asset Value

The Fund's net asset value per share is generally calculated to two decimal places, but it will generally be calculated to four decimal places in connection with redemptions of two-thirds or more of the Fund's assets.

Please keep this supplement with your statement of additional information for future reference.

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Templeton Developing Markets VIP Fund

(Formerly, Templeton Developing Markets Securities Fund)

This annual report for Templeton Developing Markets VIP Fund covers the fiscal year ended December 31, 2014.

Class 2 Performance Summary as of December 31, 2014

Average annual total return of Class 2 shares* represents the average annual change in value, assuming reinvestment of dividends and capital gains. Average returns smooth out variations in returns, which can be significant; they are not the same as year-by-year results.

Periods ended 12/31/14	1-Year	5-Year	10-Year
Average Annual Total Return	-8.39%	+0.32%	+5.72%

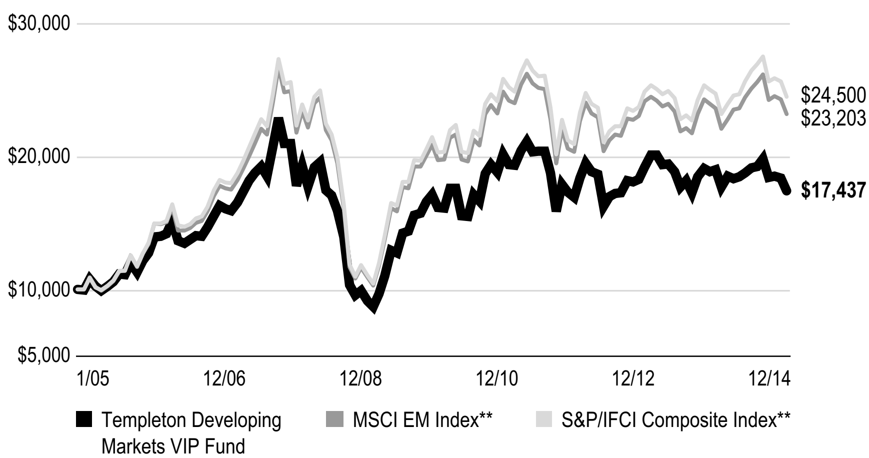
*The Fund has a fee waiver associated with its investments in a Franklin Templeton money fund, contractually guaranteed through at least its current fiscal year-end. Fund investment results reflect the fee waiver, to the extent applicable; without this reduction, the results would have been lower.

*Performance reflects the Fund's Class 2 operating expenses, but does **not** include any contract fees, expenses or sales charges. If they had been included, performance would be lower. These charges and deductions, particularly for variable life policies, can have a significant effect on contract values and insurance benefits. See the contract prospectus for a complete description of these expenses, including sales charges.*

Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown.

Total Return Index Comparison for a Hypothetical $10,000 Investment (1/1/05–12/31/14)

The graph below shows the change in value of a hypothetical $10,000 investment in the Fund over the indicated period and includes reinvestment of any income or distributions. The Fund's performance* is compared to the performance of the MSCI Emerging Markets (EM) Index and the Standard & Poor's®/International Finance Corporation Investable (S&P®/IFCI) Composite Index. One cannot invest directly in an index, and an index is not representative of the Fund's portfolio. **Please see Important Notes to Performance Information preceding the Fund Summaries.**



**Source: Morningstar. Please see Index Descriptions following the Fund Summaries.

Fund Goal and Main Investments

Templeton Developing Markets VIP Fund seeks long-term capital appreciation. Under normal market conditions, the Fund invests at least 80% of its net assets in emerging market investments.

Fund Risks

All investments involve risks, including possible loss of principal. Special risks are associated with foreign investing, including currency fluctuations, economic instability and political developments. Investments in developing markets, of which frontier markets are a subset, involve heightened risks related to the same factors, in addition to those associated with these markets' smaller size, lesser liquidity and lack of established legal, political, business and social frameworks to support securities markets. Because these frameworks are typically even less developed in frontier markets, as well as various factors including the increased potential for extreme price volatility, illiquidity, trade barriers and exchange controls, the risks associated with developing markets are magnified in frontier markets. The Fund is designed for the aggressive portion of a well-diversified portfolio. The Fund is actively managed but there is no guarantee that the manager's investment decisions will produce the desired results. The Fund's prospectus also includes a description of the main investment risks.

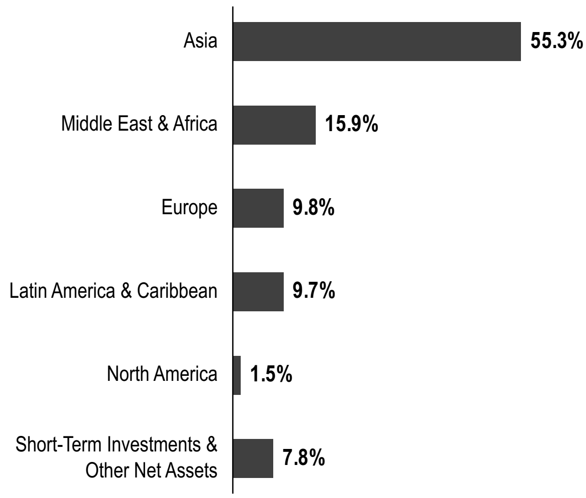
Performance Overview

You can find the Fund's one-year total return in the Performance Summary. In comparison, the MSCI EM Index had a -1.82% total return, and the S&P/IFCI Composite Index had a -1.12% total return for the same period.[1] Please note index performance numbers are for reference and we do not attempt to track an index but rather undertake investments on the basis of fundamental research.

Economic and Market Overview

The global economy grew moderately during the 12 months under review as many developed markets continued to recover and many emerging markets continued to expand. Although several emerging market countries faced headwinds such as soft domestic demand, weak exports and geopolitical crises, emerging market economies overall continued to grow faster than developed market economies. China's economy stabilized in 2014 as fiscal and monetary stimulus measures implemented in the year's second half gained traction. Strength in production and consumer spending offset weakness in fixed-asset investment. Domestic demand continued to account for a greater portion of China's gross domestic product, as the government's market friendly policies supported new economic drivers. Emerging market countries showing signs of economic improvement included India, Poland and Mexico, while others, including Russia, South Africa and South Korea, showed signs of moderation. Although Brazil exited recession as government spending drove third-quarter economic growth, it continued to face headwinds such as lower commodity prices.

Geographic Breakdown
Based on Total Net Assets as of 12/31/14



Central bank actions varied across emerging markets. Several central banks, including those of Russia, Brazil and South Africa, raised interest rates in response to rising inflation and weakening currencies. In contrast, the central banks of Chile, Mexico and South Korea lowered interest rates to promote economic growth. After raising interest rates early in the year to support the Turkish lira, Turkey's central bank began easing monetary policy to boost economic growth. The People's Bank of China cut its benchmark interest rate for the first time since July 2012.

Emerging markets experienced volatility in 2014 amid concerns about the U.S. Federal Reserve Board's (Fed's) timing of interest rate increases, moderating global economic growth and geopolitical tensions in several regions. Also weighing on investor sentiment was a sharp decline in crude oil prices,

1. Source: Morningstar.
One cannot invest directly in an index, and an index is not representative of the Fund's portfolio. Please see Index Descriptions following the Fund Summaries.

which pressured several oil-producing countries' financial positions and currencies. However, India's and Indonesia's announced economic reforms following their national elections, China's fiscal and monetary stimulus measures, the European Central Bank's monetary easing and the Fed's accommodative policy provided investors with some optimism.

For the 12 months ended December 31, 2014, emerging market stocks, as measured by the MSCI EM Index, rose 5.57% in local currency terms, as many investors seemed to focus on the relatively attractive valuations of many emerging market stocks.[1] However, weak local currencies led to a 1.82% decline in U.S. dollar terms.[1] European emerging markets overall underperformed, as did Latin America. Asia generally performed well, as many countries in the region delivered double-digit gains. In addition, the Middle East and Africa region produced solid returns.

Investment Strategy

We employ a fundamental research, value-oriented, long-term investment approach. We focus on the market price of a company's securities relative to our evaluation of its long-term earnings, asset value and cash flow potential. We also consider a company's profit and loss outlook, balance sheet strength, cash flow trends and asset value in relation to the current price. Our analysis considers the company's corporate governance behavior as well as its position in its sector, the economic framework and political environment. We invest in securities without regard to benchmark comparisons.

Manager's Discussion

During the year under review, key contributors to the Fund's absolute performance included Emaar Properties, Remgro and TSMC (Taiwan Semiconductor Manufacturing Co.).

Emaar Properties is a major property developer and manager with operations throughout the Middle East, notably in Dubai, United Arab Emirates (UAE). Dubai's rising tourism boosted Emaar's hotel and retail operations, and a property sector recovery in the earlier part of the year also supported the company's operations. The UAE's inclusion in the MSCI EM Index in June further boosted Emaar's share price. However, signs of a property price decline in the emirate during the final months of 2014 led to a share price correction.

Remgro is a South African conglomerate with a diversified portfolio of financial and industrial assets that we believe provides an attractive means to address growth in the South African and broader African economies. The share price appreciation during the year, in our view, reflected investors'

Top 10 Countries
12/31/14

	% of Total Net Assets
China	20.4%
South Africa	11.5%
Thailand	10.9%
India	10.9%
Brazil	8.0%
Belgium	3.6%
U.K.	3.5%
Indonesia	3.4%
Taiwan	3.1%
South Korea	2.9%

confidence in Africa's financials and industrials sectors, while sentiment in the commodity sector remained relatively weaker.

TSMC, the world's largest independent integrated circuit foundry, showed strong growth in the past few years, resulting from increased demand for chips used in mobile devices such as smartphones and tablets. Strong corporate results, management updates suggesting rising market share and progress in the commercialization of the most advanced technology supported the company's share price performance.

In contrast, key detractors from the Fund's absolute performance included Petrobras (Petroleo Brasileiro), Avon Products and SJM Holdings.

Petrobras, a new holding this period, is Brazil's main oil and gas producer, refiner and distributor. The company's links with government and political figures were scrutinized in the final quarter of 2014 amid accusations of bribery and corrupt practices. Delays in the release of third-quarter results and the sharp decline in oil and gas prices also weighed on sentiment. The decision of the Organization of the Petroleum Exporting Countries to maintain oil production levels despite a global oversupply led prices to fall more than 40% in 2014's fourth quarter.

Avon Products is a U.S.-listed global cosmetics company with substantial operations in various emerging market countries, most notably Brazil. Its third-quarter corporate results, impacted by Brazil's sluggish economy, disappointed investors. Concerns about the company's ability to service its substantial debts in a weak market environment led two major rating agencies to downgrade the company's debt rating to below investment grade, further weighing on investor sentiment. Also pressuring shares were the economic and currency crises in Russia, another substantial market for the company.

SJM Holdings, a Hong Kong-listed, Macau-based gaming and entertainment company, lost ground in 2014 after strong stock performance in 2013, as the Chinese government's anti-corruption and anti-extravagance policies negatively affected casino revenues. Macau's annual gambling revenues declined in 2014 for the first time since China liberalized the administrative region's casinos in 2001.

It is important to recognize the effect of currency movements on the Fund's performance. In general, if the value of the U.S. dollar goes up compared with a foreign currency, an investment traded in that foreign currency will go down in value because it will be worth fewer U.S. dollars. This can have a negative effect on Fund performance. Conversely, when the U.S. dollar weakens in relation to a foreign currency, an investment traded in that foreign currency will increase in value, which can contribute to Fund performance. For the 12 months ended December 31, 2014, the U.S. dollar rose in value relative to most currencies. As a result, the Fund's performance was negatively affected by the portfolio's investment predominantly in securities with non-U.S. currency exposure.

In the past 12 months, we increased the Fund's holdings largely in Thailand, South Africa, India, Indonesia and China via China H, Red Chip and P Chip shares as we continued to search for investment opportunities we considered to be attractive.[2] We initiated investments in several markets, including Greece and Peru, and made some purchases in other emerging markets, including Turkey and Taiwan. Additionally, we made some purchases in developed market countries, such as the U.S. and Belgium, where we identified select companies with significant emerging market operations. In sector terms, we increased the Fund's holdings mainly in materials, energy, financials and health care.[3] Key purchases included new positions in Itau Unibanco Holding, a leading Brazilian commercial bank; Brilliance China Automotive Holdings, a major Chinese automobile manufacturer with a joint venture with BMW; and Naspers, a South Africa-based multinational media group.

Conversely, we reduced the Fund's investments in Hong Kong, the UAE, Macau and Brazil to focus on stocks we considered to be more attractively valued within our investment universe. We also eliminated exposures to several countries, including Nigeria and Singapore. In sector terms, some of the largest sales were in consumer staples and consumer discretionary.[4] Key sales included a reduction of the Fund's holding in Emaar Properties. We closed the Fund's positions in Ambev, a Brazil-based global beer and soft drink producer, and British American Tobacco, a U.K.-listed global tobacco company. Additionally, we closed the Fund's positions in a number of Macau casino resort operators, including Sands China, Melco Crown Entertainment and SJM Holdings, mentioned earlier.

Thank you for your participation in Templeton Developing Markets VIP Fund. We look forward to serving your future investment needs.

Top 10 Holdings

12/31/14

Company ***Sector/Industry, Country***	**% of Total Net Assets**
Remgro Ltd. *Diversified Financial Services, South Africa*	5.0%
Tata Consultancy Services Ltd. *IT Services, India*	4.7%
Siam Commercial Bank PCL, fgn. *Banks, Thailand*	4.2%
Naspers Ltd., N *Media, South Africa*	4.2%
Brilliance China Automotive Holdings Ltd. *Automobiles, China*	4.2%
Itau Unibanco Holding SA, ADR *Banks, Brazil*	3.8%
Anheuser-Busch InBev NV *Beverages, Belgium*	3.6%
Unilever PLC *Food Products, U.K.*	3.5%
TSMC (Taiwan Semiconductor Manufacturing Co.) Ltd. *Semiconductors & Semiconductor Equipment, Taiwan*	3.1%
China Construction Bank Corp., H *Banks, China*	3.0%

The dollar value, number of shares or principal amount, and names of all portfolio holdings are listed in the Fund's Statement of Investments (SOI).

2. "China H" denotes shares of China-incorporated, Hong Kong Stock Exchange-listed companies with most businesses in China. "Red Chip" denotes shares of Hong Kong Stock Exchange-listed companies substantially owned by Chinese mainland state entities, with significant exposure to China. "P Chip" denotes shares of Hong Kong Stock Exchange-listed companies controlled by Chinese mainland individuals and incorporated outside of China, with a majority of their business in China.

3. The materials sector comprises chemicals, construction materials, and metals and mining in the SOI. The energy sector comprises oil, gas and consumable fuels in the SOI. The financials sector comprises banks, diversified financial services, insurance, and real estate management and development in the SOI. The health care sector comprises biotechnology and pharmaceuticals in the SOI.

4. The consumer staples sector comprises beverages, food products, food and staples retailing, personal products and tobacco in the SOI. The consumer discretionary sector comprises automobiles; hotels, restaurants and leisure; media; specialty retail; and textiles, apparel and luxury goods in the SOI.

The foregoing information reflects our analysis, opinions and portfolio holdings as of December 31, 2014, the end of the reporting period. The way we implement our main investment strategies and the resulting portfolio holdings may change depending on factors such as market and economic conditions. These opinions may not be relied upon as investment advice or 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 the investment manager 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.

Class 2 Fund Expenses

As an investor in a variable insurance contract (Contract) that indirectly provides for investment in an underlying mutual fund, you can incur transaction and/or ongoing expenses at both the Fund level and the Contract level.

- Transaction expenses can include sales charges (loads) on purchases, redemption fees, surrender fees, transfer fees and premium taxes.
- Ongoing expenses can include management fees, distribution and service (12b-1) fees, contract fees, annual maintenance fees, mortality and expense risk fees and other fees and expenses. All mutual funds and Contracts have some types of ongoing expenses.

The expenses shown in the table are meant to highlight ongoing expenses at the Fund level only and do not include ongoing expenses at the Contract level, or transaction expenses at either the Fund or Contract level. While the Fund does not have transaction expenses, if the transaction and ongoing expenses at the Contract level were included, the expenses shown below would be higher. You should consult your Contract prospectus or disclosure document for more information.

The table shows Fund-level ongoing expenses and can help you understand these expenses and compare them with those of other mutual funds offered through the Contract. The table assumes a $1,000 investment held for the six months indicated. Please refer to the Fund prospectus for additional information on operating expenses.

Actual Fund Expenses

The first line (Actual) of the table provides actual account values and expenses. The "Ending Account Value" is derived from the Fund's actual return, which includes the effect of ongoing Fund expenses, but does not include the effect of ongoing Contract expenses.

You can estimate the Fund-level expenses you incurred during the period by following these steps. *Of course, your account value and expenses will differ from those in this illustration:*

1. Divide your account value by $1,000.
   If an account had an $8,600 value, then $8,600 ÷ $1,000 = 8.6.
2. Multiply the result by the number under the heading "Fund-Level Expenses Incurred During Period."
   If Fund-Level Expenses Incurred During Period were $7.50, then 8.6 × $7.50 = $64.50.

In this illustration, the estimated expenses incurred this period at the Fund level are $64.50.

Hypothetical Example for Comparison with Other Mutual Funds

Information in the second line (Hypothetical) of the table can help you compare ongoing expenses of the Fund with those of other mutual funds offered through the Contract. This information may not be used to estimate the actual ending account balance or expenses you incurred during the period. The hypothetical "Ending Account Value" is based on the Fund's actual expense ratio and an assumed 5% annual rate of return before expenses, which does not represent the Fund's actual return. The figure under the heading "Fund-Level Expenses Incurred During Period" shows the hypothetical expenses your account would have incurred under this scenario. You can compare this figure with the 5% hypothetical examples that appear in shareholder reports of other funds offered through a Contract.

Class 2	Beginning Account Value 7/1/14	Ending Account Value 12/31/14	Fund-Level Expenses Incurred During Period* 7/1/14–12/31/14
Actual	$1,000	$ 909.10	$7.70
Hypothetical (5% return before expenses)	$1,000	$1,017.14	$8.13

*Expenses are calculated using the most recent six-month annualized expense ratio, net of expense waivers, for the Fund's Class 2 shares (1.60%), which does not include any ongoing expenses of the Contract for which the Fund is an investment option, multiplied by the average account value over the period, multiplied by 184/365 to reflect the one-half year period.

Financial Highlights

Templeton Developing Markets VIP Fund

	Year Ended December 31,				
	2014	2013	2012	2011	2010
Class 1					
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	$10.26	$10.58	$9.50	$11.40	$9.86
Income from investment operations[a]:					
Net investment income[b]	0.15[c]	0.13	0.19	0.17	0.09
Net realized and unrealized gains (losses)	(0.97)	(0.22)	1.06	(1.94)	1.63
Total from investment operations	(0.82)	(0.09)	1.25	(1.77)	1.72
Less distributions from net investment income	(0.17)	(0.23)	(0.17)	(0.13)	(0.18)
Redemption fees[d]	—	—	—	—	—
Net asset value, end of year	$9.27	$10.26	$10.58	$9.50	$11.40
Total return[e]	(8.09)%	(0.73)%	13.40%	(15.67)%	17.83%
Ratios to average net assets					
Expenses	1.36%[f]	1.35%	1.35%	1.40%	1.49%[g]
Net investment income	1.51%[c]	1.25%	1.93%	1.57%	0.87%
Supplemental data					
Net assets, end of year (000's)	$114,487	$145,707	$203,568	$232,544	$347,242
Portfolio turnover rate	82.87%	44.59%	24.45%	14.90%	24.41%

[a]The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating fair value of the investments of the Fund.

[b]Based on average daily shares outstanding.

[c]Net investment income per share includes approximately $0.04 per share received in the form of special dividends. Excluding these amounts, the ratio of net investment income to average net assets would have been 1.11%.

[d]Amount rounds to less than $0.01 per share.

[e]Total return does not include fees, charges or expenses imposed by the variable annuity and life insurance contracts for which the Franklin Templeton Variable Insurance Products Trust serves as an underlying investment vehicle.

[f]Benefit of waiver and payments by affiliates rounds to less than 0.01%.

[g]Benefit of expense reduction rounds to less than 0.01%.

Templeton Developing Markets VIP Fund (continued)

	Year Ended December 31,				
	2014	2013	2012	2011	2010
Class 2					
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	$10.19	$10.50	$9.42	$11.30	$9.78
Income from investment operations[a]:					
Net investment income[b]	0.12[c]	0.10	0.17	0.14	0.06
Net realized and unrealized gains (losses)	(0.96)	(0.21)	1.05	(1.92)	1.62
Total from investment operations	(0.84)	(0.11)	1.22	(1.78)	1.68
Less distributions from net investment income	(0.15)	(0.20)	(0.14)	(0.10)	(0.16)
Redemption fees[d]	—	—	—	—	—
Net asset value, end of year	$9.20	$10.19	$10.50	$9.42	$11.30
Total return[e]	(8.39)%	(0.92)%	13.16%	(15.86)%	17.58%
Ratios to average net assets					
Expenses	1.61%[f]	1.60%	1.60%	1.65%	1.74%[g]
Net investment income	1.26%[c]	1.00%	1.68%	1.32%	0.62%
Supplemental data					
Net assets, end of year (000's)	$250,813	$274,683	$291,638	$295,223	$392,546
Portfolio turnover rate	82.87%	44.59%	24.45%	14.90%	24.41%

[a]The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating fair value of the investments of the Fund.

[b]Based on average daily shares outstanding.

[c]Net investment income per share includes approximately $0.04 per share received in the form of special dividends. Excluding these amounts, the ratio of net investment income to average net assets would have been 0.86%.

[d]Amount rounds to less than $0.01 per share.

[e]Total return does not include fees, charges or expenses imposed by the variable annuity and life insurance contracts for which the Franklin Templeton Variable Insurance Products Trust serves as an underlying investment vehicle.

[f]Benefit of waiver and payments by affiliates rounds to less than 0.01%.

[g]Benefit of expense reduction rounds to less than 0.01%.

Templeton Developing Markets VIP Fund (continued)

	Year Ended December 31,				
	2014	**2013**	**2012**	**2011**	**2010**
Class 4					
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	$10.20	$10.50	$9.42	$11.30	$9.80
Income from investment operations[a]:					
Net investment income[b]	0.12[c]	0.10	0.16	0.13	0.05
Net realized and unrealized gains (losses)	(0.97)	(0.21)	1.04	(1.91)	1.61
Total from investment operations	(0.85)	(0.11)	1.20	(1.78)	1.66
Less distributions from net investment income	(0.13)	(0.19)	(0.12)	(0.10)	(0.16)
Redemption fees[d]	—	—	—	—	—
Net asset value, end of year	$9.22	$10.20	$10.50	$9.42	$11.30
Total return[e]	(8.48)%	(1.07)%	13.06%	(15.88)%	17.41%
Ratios to average net assets					
Expenses	1.71%[f]	1.70%	1.70%	1.75%	1.84%[g]
Net investment income	1.16%[c]	0.90%	1.58%	1.22%	0.52%
Supplemental data					
Net assets, end of year (000's)	$11,106	$15,225	$23,341	$24,380	$37,198
Portfolio turnover rate	82.87%	44.59%	24.45%	14.90%	24.41%

[a]The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating fair value of the investments of the Fund.

[b]Based on average daily shares outstanding.

[c]Net investment income per share includes approximately $0.04 per share received in the form of special dividends. Excluding these amounts, the ratio of net investment income to average net assets would have been 0.76%.

[d]Amount rounds to less than $0.01 per share.

[e]Total return does not include fees, charges or expenses imposed by the variable annuity and life insurance contracts for which Franklin Templeton Variable Insurance Products Trust serves as an underlying investment vehicle.

[f]Benefit of waiver and payments by affiliates rounds to less than 0.01%.

[g]Benefit of expense reduction rounds to less than 0.01%.

Statement of Investments, December 31, 2014

Templeton Developing Markets VIP Fund

	Industry	Shares	Value
Common Stocks 88.1%			
Argentina 0.2%			
[a] Grupo Clarin SA, B, GDR, Reg S	Media	70,355	$ 668,373
Austria 0.2%			
OMV AG	Oil, Gas & Consumable Fuels	21,610	575,520
Belgium 3.6%			
Anheuser-Busch InBev NV	Beverages	120,577	13,694,002
Brazil 5.5%			
Itau Unibanco Holding SA, ADR	Banks	1,090,710	14,190,137
M Dias Branco SA	Food Products	115,900	3,968,730
Souza Cruz SA	Tobacco	369,828	2,688,646
			20,847,513
Chile 0.6%			
Sociedad Quimica Y Minera de Chile SA Soquimich, ADR	Chemicals	94,287	2,251,574
China 20.4%			
[b] Aluminum Corp. of China Ltd., H	Metals & Mining	3,864,400	1,779,210
[b,c] BAIC Motor Corp. Ltd., 144A	Automobiles	1,325,500	1,529,959
Brilliance China Automotive Holdings Ltd.	Automobiles	9,805,700	15,681,128
China Construction Bank Corp., H	Banks	13,887,300	11,372,830
China Life Insurance Co. Ltd., H	Insurance	1,543,000	6,029,559
China Mobile Ltd.	Wireless Telecommunication Services	440,000	5,146,796
China Petroleum and Chemical Corp., H	Oil, Gas & Consumable Fuels	7,360,000	5,932,460
[b] China Shipping Development Co. Ltd., H	Marine	7,704,500	5,276,136
Industrial and Commercial Bank of China Ltd., H	Banks	7,018,300	5,123,012
NetEase Inc., ADR	Internet Software & Services	31,003	3,073,637
PetroChina Co. Ltd., H	Oil, Gas & Consumable Fuels	6,970,600	7,713,197
Tencent Holdings Ltd.	Internet Software & Services	250,000	3,627,184
Yanzhou Coal Mining Co. Ltd., H	Oil, Gas & Consumable Fuels	5,152,200	4,372,156
			76,657,264
Greece 0.3%			
[b] National Bank of Greece SA	Banks	647,599	1,151,884
Hong Kong 0.7%			
Dairy Farm International Holdings Ltd.	Food & Staples Retailing	187,433	1,686,897
Giordano International Ltd.	Specialty Retail	315,900	140,555
MGM China Holdings Ltd.	Hotels, Restaurants & Leisure	326,400	830,107
			2,657,559
India 10.9%			
Biocon Ltd.	Biotechnology	545,046	3,679,612
Dr. Reddy's Laboratories Ltd.	Pharmaceuticals	68,010	3,502,404
Infosys Ltd.	IT Services	130,000	4,068,081
Reliance Industries Ltd.	Oil, Gas & Consumable Fuels	138,200	1,953,786
Tata Consultancy Services Ltd.	IT Services	438,340	17,789,852
Tata Motors Ltd.	Automobiles	1,285,800	10,108,324
			41,102,059
Indonesia 3.4%			
Astra International Tbk PT	Automobiles	12,653,700	7,586,090
Bank Danamon Indonesia Tbk PT	Banks	4,004,800	1,463,199
Semen Indonesia (Persero) Tbk PT	Construction Materials	3,016,000	3,945,030
			12,994,319

Templeton Developing Markets VIP Fund (continued)

	Industry	Shares	Value
Common Stocks (continued)			
Kenya 0.7%			
Equity Bank Ltd.	Banks	937,377	$ 517,602
Kenya Commercial Bank Ltd.	Banks	3,217,000	2,007,294
			2,524,896
Pakistan 0.7%			
United Bank Ltd.	Banks	1,465,400	2,540,317
Peru 0.4%			
Compania de Minas Buenaventura SA, ADR	Metals & Mining	153,850	1,470,806
Philippines 2.3%			
Ayala Corp.	Diversified Financial Services	252,530	3,913,270
[b] Bloomberry Resorts Corp.	Hotels, Restaurants & Leisure	13,485,300	3,733,789
[b] Melco Crown Philippines Resorts Corp.	Hotels, Restaurants & Leisure	3,445,200	1,044,676
			8,691,735
Qatar 2.1%			
Industries Qatar QSC	Industrial Conglomerates	170,907	7,884,333
South Africa 11.5%			
Kumba Iron Ore Ltd.	Metals & Mining	30,769	638,288
MTN Group Ltd.	Wireless Telecommunication Services	373,611	7,153,030
Naspers Ltd., N	Media	121,196	15,878,463
Remgro Ltd.	Diversified Financial Services	857,524	18,833,717
Truworths International Ltd.	Specialty Retail	139,837	934,463
			43,437,961
South Korea 2.9%			
Hyundai Development Co.	Construction & Engineering	86,880	3,074,035
Samsung Electronics Co. Ltd.	Technology Hardware, Storage & Peripherals	3,498	4,243,935
SK Innovation Co. Ltd.	Oil, Gas & Consumable Fuels	46,511	3,618,788
			10,936,758
Switzerland 0.5%			
Compagnie Financiere Richemont SA	Textiles, Apparel & Luxury Goods	21,519	1,922,035
Taiwan 3.1%			
Taiwan Semiconductor Manufacturing Co. Ltd.	Semiconductors & Semiconductor Equipment	2,654,000	11,823,134
Thailand 10.9%			
Kasikornbank PCL, fgn.	Banks	619,000	4,311,162
Land and Houses PCL, fgn.	Real Estate Management & Development	16,698,900	4,596,260
PTT Exploration and Production PCL, fgn.	Oil, Gas & Consumable Fuels	642,000	2,186,861
PTT PCL, fgn.	Oil, Gas & Consumable Fuels	593,300	5,846,387
Quality Houses PCL, fgn.	Real Estate Management & Development	5,037,800	560,777
Siam Commercial Bank PCL, fgn.	Banks	2,869,800	15,885,146
Thai Beverage PCL, fgn.	Beverages	14,863,200	7,741,250
			41,127,843
Turkey 1.7%			
Akbank TAS	Banks	1,089,000	4,041,111
Tupras-Turkiye Petrol Rafinerileri AS	Oil, Gas & Consumable Fuels	91,900	2,177,688
			6,218,799
United Arab Emirates 0.5%			
Emaar Properties PJSC	Real Estate Management & Development	943,742	1,865,362

Templeton Developing Markets VIP Fund (continued)

	Industry	Shares	Value
Common Stocks (continued)			
United Kingdom 3.5%			
Unilever PLC	Food Products	318,597	$ 13,050,572
United States 1.5%			
Avon Products Inc.	Personal Products	582,973	5,474,116
Total Common Stocks (Cost $295,275,017)			331,568,734
[d] **Participatory Notes 1.1%**			
Saudi Arabia 1.1%			
[c] Deutsche Bank AG/London,			
Etihad Etisalat Co., 144A, 9/27/16	Wireless Telecommunication Services	66,819	787,059
Saudi Basic Industries Corp., 144A, 9/27/16	Chemicals	103,105	2,308,044
[c] HSBC Bank PLC, Etihad Etisalat Co., 144A, 11/20/17	Wireless Telecommunication Services	102,495	1,207,286
Total Participatory Notes (Cost $4,985,543)			4,302,389
Preferred Stocks 3.0%			
Brazil 2.5%			
Petroleo Brasileiro SA, ADR, pfd.	Oil, Gas & Consumable Fuels	572,800	4,341,824
Vale SA, ADR, pfd., A	Metals & Mining	675,050	4,900,863
			9,242,687
Chile 0.5%			
Embotelladora Andina SA, pfd., A	Beverages	818,017	1,984,052
Total Preferred Stocks (Cost $19,598,511)			11,226,739
Total Investments before Short Term Investments (Cost $319,859,071)			347,097,862
Short Term Investments (Cost $29,018,398) 7.7%			
Money Market Funds 7.7%			
United States 7.7%			
[b,e] Institutional Fiduciary Trust Money Market Portfolio		29,018,398	29,018,398
Total Investments (Cost $348,877,469) 99.9%			376,116,260
Other Assets, less Liabilities 0.1%			289,349
Net Assets 100.0%			$ 376,405,609

See Abbreviations on page TD-24.

[a]Security was purchased pursuant to Regulation S under the Securities Act of 1933, which exempts from registration securities offered and sold outside of the United States. Such a security cannot be sold in the United States without either an effective registration statement filed pursuant to the Securities Act of 1933, or pursuant to an exemption from registration. This security has been deemed liquid under guidelines approved by the Trust's Board of Trustees.

[b]Non-income producing.

[c]Security was purchased pursuant to Rule 144A under the Securities Act of 1933 and may be sold in transactions exempt from registration only to qualified institutional buyers or in a public offering registered under the Securities Act of 1933. These securities have been deemed liquid under guidelines approved by the Trust's Board of Trustees. At December 31, 2014, the aggregate value of these securities was $5,832,348, representing 1.55% of net assets.

[d]See Note 1(c) regarding Participatory Notes.

[e]See Note 3(e) regarding investments in Institutional Fiduciary Trust Money Market Portfolio.

Financial Statements

Statement of Assets and Liabilities

December 31, 2014

	Templeton Developing Markets VIP Fund
Assets:	
Investments in securities:	
Cost - Unaffiliated issuers	$319,859,071
Cost - Sweep Money Fund (Note 3e)	29,018,398
Total cost of investments	$348,877,469
Value - Unaffiliated issuers	$347,097,862
Value - Sweep Money Fund (Note 3e)	29,018,398
Total value of investments	376,116,260
Receivables:	
Investment securities sold	1,217,085
Capital shares sold	223,222
Dividends	222,166
Foreign tax	24,667
Other assets	39
Total assets	377,803,439
Liabilities:	
Payables:	
Investment securities purchased	441,229
Capital shares redeemed	115,178
Management fees	394,346
Distribution fees	113,662
Custodian fees	72,176
Reports to shareholders	175,890
Deferred tax	29,402
Accrued expenses and other liabilities	55,947
Total liabilities	1,397,830
Net assets, at value	$376,405,609
Net assets consist of:	
Paid-in capital	$311,018,669
Distributions in excess of net investment income	(531,967)
Net unrealized appreciation (depreciation)	27,174,090
Accumulated net realized gain (loss)	38,744,817
Net assets, at value	$376,405,609

Statement of Assets and Liabilities (continued)
December 31, 2014

	Templeton Developing Markets VIP Fund
Class 1:	
Net assets, at value	$114,486,612
Shares outstanding	12,348,636
Net asset value and maximum offering price per share	$ 9.27
Class 2:	
Net assets, at value	$250,812,576
Shares outstanding	27,259,704
Net asset value and maximum offering price per share	$ 9.20
Class 4:	
Net assets, at value	$ 11,106,421
Shares outstanding	1,204,443
Net asset value and maximum offering price per share	$ 9.22

Statement of Operations
for the year ended December 31, 2014

	Templeton Developing Markets VIP Fund
Investment income:	
Dividends (net of foreign taxes of $971,948)	$ 12,394,221
Income from securities loaned	41,171
Total investment income	12,435,392
Expenses:	
Management fees (Note 3a)	5,180,805
Administrative fees (Note 3b)	207,590
Distribution fees: (Note 3c)	
Class 2	692,996
Class 3	27,045
Class 4	46,875
Custodian fees (Note 4)	202,906
Reports to shareholders	219,662
Professional fees	74,491
Trustees' fees and expenses	1,792
Other	28,261
Total expenses	6,682,423
Expenses waived/paid by affiliates (Note 3e)	(15,026)
Net expenses	6,667,397
Net investment income	5,767,995
Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments	66,730,564
Foreign currency transactions	2,076
Net realized gain (loss)	66,732,640
Net change in unrealized appreciation (depreciation) on:	
Investments	(106,603,657)
Translation of other assets and liabilities denominated in foreign currencies	(12,588)
Change in deferred taxes on unrealized appreciation	(29,402)
Net change in unrealized appreciation (depreciation)	(106,645,647)
Net realized and unrealized gain (loss)	(39,913,007)
Net increase (decrease) in net assets resulting from operations	$ (34,145,012)

Statements of Changes in Net Assets

	Templeton Developing Markets VIP Fund	
	Year Ended December 31,	
	2014	2013
Increase (decrease) in net assets:		
Operations:		
Net investment income	$ 5,767,995	$ 5,556,147
Net realized gain (loss) from investments and foreign currency transactions	66,732,640	67,962,625
Net change in unrealized appreciation (depreciation) on investments, translation of other assets and liabilities denominated in foreign currencies and deferred taxes	(106,645,647)	(79,189,158)
Net increase (decrease) in net assets resulting from operations	(34,145,012)	(5,670,386)
Distributions to shareholders from:		
Net investment income:		
Class 1	(2,319,775)	(3,816,779)
Class 2	(4,358,800)	(5,449,449)
Class 3	—	(777,644)
Class 4	(173,399)	(373,848)
Total distributions to shareholders	(6,851,974)	(10,417,720)
Capital share transactions: (Note 2)		
Class 1	(18,560,195)	(52,075,044)
Class 2	2,280,393	(8,867,643)
Class 3	(33,674,042)	(12,240,084)
Class 4	(2,909,339)	(7,287,727)
Total capital share transactions	(52,863,183)	(80,470,498)
Redemption fees	68	1,204
Net increase (decrease) in net assets	(93,860,101)	(96,557,400)
Net assets:		
Beginning of year	470,265,710	566,823,110
End of year	$ 376,405,609	$470,265,710
Distributions in excess of net investment income, end of year	$ (531,967)	$ (481,395)

Notes to Financial Statements

Templeton Developing Markets VIP Fund

1. Organization and Significant Accounting Policies

Franklin Templeton Variable Insurance Products Trust (Trust) is registered under the Investment Company Act of 1940, as amended, (1940 Act) as an open-end management investment company, consisting of nineteen separate funds and applies the specialized accounting and reporting guidance in U.S. Generally Accepted Accounting Principles (U.S. GAAP). Templeton Developing Markets VIP Fund (Fund) is included in this report. The financial statements of the remaining funds in the Trust are presented separately. Shares of the Fund are generally sold only to insurance company separate accounts to fund the benefits of variable life insurance policies or variable annuity contracts. The Fund offers three classes of shares: Class 1, Class 2, and Class 4. Effective May 1, 2014, all Class 3 shares were converted to Class 2. Each class of shares differs by its distribution fees, voting rights on matters affecting a single class and its exchange privilege.

Effective May 1, 2014, Templeton Developing Markets Securities Fund was renamed Templeton Developing Markets VIP Fund.

The following summarizes the Fund's significant accounting policies.

a. Financial Instrument Valuation

The Fund's investments in financial instruments are carried at fair value daily. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The Fund calculates the net asset value (NAV) per share at the close of the New York Stock Exchange (NYSE), generally at 4 p.m. Eastern time (NYSE close) on each day the NYSE is open for trading. Under compliance policies and procedures approved by the Trust's Board of Trustees (the Board), the Fund's administrator has responsibility for oversight of valuation, including leading the cross-functional Valuation and Liquidity Oversight Committee (VLOC). The VLOC provides administration and oversight of the Fund's valuation policies and procedures, which are approved annually by the Board. Among other things, these procedures allow the Fund to utilize independent pricing services, quotations from securities and financial instrument dealers, and other market sources to determine fair value.

Equity securities listed on an exchange or on the NASDAQ National Market System are valued at the last quoted sale price or the official closing price of the day, respectively. Foreign equity securities are valued as of the close of trading on the foreign stock exchange on which the security is primarily traded or as of the NYSE close, whichever is earlier. The value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect at the NYSE close on the day that the value of the security is determined. Over-the-counter (OTC) securities are valued within the range of the most recent quoted bid and ask prices. Securities that trade in multiple markets or on multiple exchanges are valued according to the broadest and most representative market. Certain equity securities are valued based upon fundamental characteristics or relationships to similar securities. Investments in open-end mutual funds are valued at the closing NAV.

The Fund has procedures to determine the fair value of financial instruments for which market prices are not reliable or readily available. Under these procedures, the VLOC convenes on a regular basis to review such financial instruments and considers a number of factors, including significant unobservable valuation inputs, when arriving at fair value. The VLOC primarily employs a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values, and other relevant information for the investment to determine the fair value of the investment. An income-based valuation approach may also be used in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed. The VLOC employs various methods for calibrating these valuation approaches including a regular review of key inputs and assumptions, transactional back-testing or disposition analysis, and reviews of any related market activity.

Trading in securities on foreign securities stock exchanges and OTC markets may be completed before the daily NYSE close. In addition, trading in certain foreign markets may not take place on every NYSE business day. Occasionally, events occur between the time at which trading in a foreign security is completed and the close of the NYSE that might call into question the reliability of the value of a portfolio security held by the Fund. As a result, differences may arise between the value of the Fund's portfolio securities as determined at the foreign market close and the latest indications of value at the close of the NYSE. In order to minimize the potential for these

Templeton Developing Markets VIP Fund (continued)

1. Organization and Significant Accounting Policies (continued)

a. Financial Instrument Valuation *(continued)*

differences, the VLOC monitors price movements following the close of trading in foreign stock markets through a series of country specific market proxies (such as baskets of American Depositary Receipts, futures contracts and exchange traded funds). These price movements are measured against established trigger thresholds for each specific market proxy to assist in determining if an event has occurred that may call into question the reliability of the values of the foreign securities held by the Fund. If such an event occurs, the securities may be valued using fair value procedures, which may include the use of independent pricing services.

Also, when the last day of the reporting period is a non-business day, certain foreign markets may be open on those days that the NYSE is closed, which could result in differences between the value of the Fund's portfolio securities on the last business day and the last calendar day of the reporting period. Any significant security valuation changes due to an open foreign market are adjusted and reflected by the Fund for financial reporting purposes.

b. Foreign Currency Translation

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the exchange rate of such currencies against U.S. dollars on the date of valuation. The Fund may enter into foreign currency exchange contracts to facilitate transactions denominated in a foreign currency. Purchases and sales of securities, income and expense items denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect on the transaction date. Portfolio securities and assets and liabilities denominated in foreign currencies contain risks that those currencies will decline in value relative to the U.S. dollar. Occasionally, events may impact the availability or reliability of foreign exchange rates used to convert the U.S. dollar equivalent value. If such an event occurs, the foreign exchange rate will be valued at fair value using procedures established and approved by the Board.

The Fund does not separately report the effect of changes in foreign exchange rates from changes in market prices on securities held. Such changes are included in net realized and unrealized gain or loss from investments on the Statement of Operations.

Realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the recorded amounts of dividends, interest, and foreign withholding taxes and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in foreign exchange rates on foreign denominated assets and liabilities other than investments in securities held at the end of the reporting period.

c. Participatory Notes

The Fund invests in Participatory Notes (P-Notes). P-notes are promissory notes that are 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 common stocks in markets where direct investment is not allowed. Income received from P-Notes is recorded as dividend income in the Statement of Operations. P-Notes may contain various risks including the potential inability of the counterparty to fulfill their obligations under the terms of the contract. These securities may be more volatile and less liquid than other investments held by the Fund.

d. Securities Lending

The Fund participates in an agency based securities lending program. The Fund receives cash collateral against the loaned securities in an amount equal to at least 102% of the fair value of the loaned securities. Collateral is maintained over the life of the loan in an amount not less than 100% of the fair value of loaned securities, as determined at the close of fund business each day; any additional collateral required due to changes in security values is delivered to the Fund on the next business day. The collateral is invested in a non-registered money fund. The Fund receives income from the investment of cash collateral, in addition to lending fees and rebates paid by the borrower. The Fund bears the market risk with respect to the collateral investment, securities loaned, and the risk that the agent may default on its obligations to the Fund. The securities lending agent has agreed to indemnify the Fund in the event of default by a third party borrower. At December 31, 2014, the Fund had no securities on loan.

e. Income and Deferred Taxes

It is the Fund's policy to qualify as a regulated investment company under the Internal Revenue Code. The Fund intends to distribute to shareholders substantially all of its taxable income

Templeton Developing Markets VIP Fund (continued)

and net realized gains to relieve it from federal income and if applicable, excise taxes. As a result, no provision for U.S. federal income taxes is required.

The Fund may be subject to foreign taxation related to income received, capital gains on the sale of securities and certain foreign currency transactions in the foreign jurisdictions in which it invests. Foreign taxes, if any, are recorded based on the tax regulations and rates that exist in the foreign markets in which the Fund invests. When a capital gain tax is determined to apply the Fund records an estimated deferred tax liability in an amount that would be payable if the securities were disposed of on the valuation date.

The Fund recognizes the tax benefits of uncertain tax positions only when the position is "more likely than not" to be sustained upon examination by the tax authorities based on the technical merits of the tax position. As of December 31, 2014, and for all open tax years, the Fund has determined that no liability for unrecognized tax benefits is required in the Fund's financial statements related to uncertain tax positions taken on a tax return (or expected to be taken on future tax returns). Open tax years are those that remain subject to examination and are based on each tax jurisdiction statute of limitation.

f. Security Transactions, Investment Income, Expenses and Distributions

Security transactions are accounted for on trade date. Realized gains and losses on security transactions are determined on a specific identification basis. Estimated expenses are accrued daily. Dividend income is recorded on the ex-dividend date except for certain foreign securities where the dividend rate is not available. In such cases, the dividend is recorded as soon as the information is received by the Fund. Distributions to shareholders are recorded on the ex-dividend date and are determined according to income tax regulations (tax basis). Distributable earnings determined on a tax basis may differ from earnings recorded in accordance with U.S. GAAP. These differences may be permanent or temporary. Permanent differences are reclassified among capital accounts to reflect their tax character. These reclassifications have no impact on net assets or the results of operations. Temporary differences are not reclassified, as they may reverse in subsequent periods.

Common expenses incurred by the Trust are allocated among the funds based on the ratio of net assets of each fund to the combined net assets of the Trust. Fund specific expenses are charged directly to the fund that incurred the expense.

Realized and unrealized gains and losses and net investment income, not including class specific expenses, are allocated daily to each class of shares based upon the relative proportion of net assets of each class. Differences in per share distributions, by class, are generally due to differences in class specific expenses.

g. Accounting Estimates

The preparation of financial statements in accordance with U.S. 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 amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

h. Redemption Fees

Redemptions and exchanges of interests in an insurance company subaccount that invests in Class 3 shares of the Fund were subject to a 1.0% short term trading fee if the interest in the subaccount had been held for less than 60 days. Such fees were retained by the Fund and accounted for as an addition to paid-in capital, allocated to each class of shares based upon the relative proportion of net assets of each class.

i. Guarantees and Indemnifications

Under the Trust's organizational documents, its officers and trustees are indemnified by the Trust against certain liabilities arising out of the performance of their duties to the Trust. Additionally, in the normal course of business, the Trust, on behalf of the Fund, enters into contracts with service providers that contain general indemnification clauses. The Trust's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Trust that have not yet occurred. Currently, the Trust expects the risk of loss to be remote.

Templeton Developing Markets VIP Fund (continued)

2. Shares of Beneficial Interest

At December 31, 2014, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

	Year Ended December 31,			
	2014		2013	
	Shares	Amount	Shares	Amount
Class 1 Shares:				
Shares sold	1,624,952	$ 16,226,245	1,118,729	$ 11,636,774
Shares issued in reinvestment of distributions	229,681	2,319,775	392,673	3,816,779
Shares redeemed	(3,701,849)	(37,106,215)	(6,552,381)	(67,528,597)
Net increase (decrease)	(1,847,216)	$(18,560,195)	(5,040,979)	$(52,075,044)
Class 2 Shares:				
Shares sold	7,755,421	$ 76,467,757	5,110,513	$ 51,867,557
Shares issued in reinvestment of distributions	434,143	4,358,800	564,125	5,449,449
Shares redeemed	(7,896,683)	(78,546,164)	(6,483,017)	(66,184,649)
Net increase (decrease)	292,881	$ 2,280,393	(808,379)	$ (8,867,643)
Class 3 Shares[a]:				
Shares sold	171,371	$ 1,697,483	410,783	$ 4,328,836
Shares issued in reinvestment of distributions	—	—	81,005	777,644
Shares redeemed	(3,593,907)	(35,371,525)	(1,696,602)	(17,346,564)
Net increase (decrease)	(3,422,536)	$(33,674,042)	(1,204,814)	$(12,240,084)
Class 4 Shares:				
Shares sold	89,395	$ 875,146	206,201	$ 2,099,934
Shares issued on reinvestment of distributions	17,219	173,399	38,661	373,848
Shares redeemed	(395,412)	(3,957,884)	(973,500)	(9,761,509)
Net increase (decrease)	(288,798)	$ (2,909,339)	(728,638)	$ (7,287,727)

[a]Effective May 1, 2014, all Class 3 shares were converted to Class 2.

3. Transactions With Affiliates

Franklin Resources, Inc. is the holding company for various subsidiaries that together are referred to as Franklin Templeton Investments. Certain officers and trustees of the Fund are also officers and/or trustees of the following subsidiaries:

Subsidiary	Affiliation
Templeton Asset Management Ltd. (TAML)	Investment manager
Franklin Templeton Services, LLC (FT Services)	Administrative manager
Franklin Templeton Distributors, Inc. (Distributors)	Principal underwriter
Franklin Templeton Investor Services, LLC (Investor Services)	Transfer agent

Templeton Developing Markets VIP Fund (continued)

a. Management Fees

The Fund pays an investment management fee to TAML based on the average daily net assets of the Fund as follows:

Annualized Fee Rate	Net Assets
1.250%	Up to and including $200 million
1.235%	Over $200 million, up to and including $700 million
1.200%	Over $700 million, up to and including $1 billion
1.150%	Over $1 billion, up to and including $1.2 billion
1.125%	Over $1.2 billion, up to and including $5 billion
1.075%	Over $5 billion, up to and including $10 billion
1.025%	Over $10 billion, up to and including $15 billion
0.975%	Over $15 billion, up to and including $20 billion
0.925%	In excess of $20 billion

Effective May 1, 2014, the Fund combined its investment management and administration agreements as approved by the Board. The fees paid under the combined agreement do not exceed the aggregate fees that were paid under the separate agreements.

Prior to May 1, 2014, the Fund paid fees to TAML based on the average daily net assets of the Fund as follows:

Annualized Fee Rate	Net Assets
1.100%	Up to and including $1 billion
1.050%	Over $1 billion, up to and including $5 billion
1.000%	Over $5 billion, up to and including $10 billion
0.950%	Over $10 billion, up to and including $15 billion
0.900%	Over $15 billion, up to and including $20 billion
0.850%	In excess of $20 billion

b. Administrative Fees

Effective May 1, 2014, under an agreement with TAML, FT Services provides administrative services to the Fund. The fee is paid by TAML based on the Fund's average daily net assets, and is not an additional expense of the Fund.

Prior to May 1, 2014, the Fund paid administrative fees to FT Services based on the average daily net assets of the Fund as follows:

Annualized Fee Rate	Net Assets
0.150%	Up to and including $200 million
0.135%	Over $200 million, up to and including $700 million
0.100%	Over $700 million, up to and including $1.2 billion
0.075%	In excess of $1.2 billion

c. Distribution Fees

The Board has adopted distribution plans for Class 2, Class 3, and Class 4 shares pursuant to Rule 12b-1 under the 1940 Act. Under the Fund's compensation distribution plans, the Fund pays Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to 0.25%, 0.35%, and 0.35% per year of its average daily net assets of Class 2, Class 3, and Class 4, respectively. Some distribution fees are not charged on shares held by affiliates. The Board has agreed to limit the current rate to 0.25% per year for Class 3. The plan year, for purposes of monitoring compliance with the maximum annual plan rates, is February 1 through January 31.

Templeton Developing Markets VIP Fund (continued)

3. Transactions With Affiliates (continued)

d. Transfer Agent Fees

Investor Services, under terms of an agreement, performs shareholder servicing for the Fund and is not paid by the Fund for the services.

e. Investments in Institutional Fiduciary Trust Money Market Portfolio

The Fund invests in Institutional Fiduciary Trust Money Market Portfolio (Sweep Money Fund), an affiliated open-end management investment company. Management fees paid by the Fund are waived on assets invested in the Sweep Money Fund, as noted on the Statement of Operations, in an amount not to exceed the management and administrative fees paid directly or indirectly by the Sweep Money Fund. Prior to January 1, 2014, the waiver was accounted for as a reduction to management fees.

4. Expense Offset Arrangement

The Fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Fund's custodian expenses. During the year ended December 31, 2014, there were no credits earned.

5. Income Taxes

For tax purposes, capital losses may be carried over to offset future capital gains. Capital loss carryforwards with no expiration, if any, must be fully utilized before those losses with expiration dates.

During the year ended December 31, 2014, the Fund utilized $21,512,788 of capital loss carryforwards.

The tax character of distributions paid during the years ended December 31, 2014 and 2013, was as follows:

	2014	2013
Distributions paid from ordinary income	$6,851,974	$10,417,720

At December 31, 2014, the cost of investments, net unrealized appreciation (depreciation), undistributed ordinary income and undistributed long term capital gains for income tax purposes were as follows:

Cost of investments	$360,855,731
Unrealized appreciation	$ 43,958,141
Unrealized depreciation	(28,697,612)
Net unrealized appreciation (depreciation)	$ 15,260,529
Undistributed ordinary income	$ 7,063,937
Undistributed long term capital gains	43,127,174
Distributable earnings	$ 50,191,111

Differences between income and/or capital gains as determined on a book basis and a tax basis are primarily due to differing treatments of foreign currency transactions, passive foreign investment company shares, corporate actions and wash sales.

6. Investment Transactions

Purchases and sales of investments (excluding short term securities) for the year ended December 31, 2014, aggregated $342,813,364 and $413,007,437, respectively.

Templeton Developing Markets VIP Fund (continued)

7. Concentration of Risk

Investing in foreign securities may include certain risks and considerations not typically associated with investing in U.S. securities, such as fluctuating currency values and changing local and regional economic, political and social conditions, which may result in greater market volatility. In addition, certain foreign securities may not be as liquid as U.S. securities.

8. Credit Facility

The Fund, together with other U.S. registered and foreign investment funds (collectively, Borrowers), managed by Franklin Templeton Investments, are borrowers in a joint syndicated senior unsecured credit facility totaling $1.5 billion (Global Credit Facility) which matured on February 13, 2015. This Global Credit Facility provides a source of funds to the Borrowers for temporary and emergency purposes, including the ability to meet future unanticipated or unusually large redemption requests. The Borrowers expect to renew the Global Credit Facility for a total of $2 billion effective February 13, 2015, which matures on February 12, 2016.

Under the terms of the Global Credit Facility, the Fund shall, in addition to interest charged on any borrowings made by the Fund and other costs incurred by the Fund, pay its share of fees and expenses incurred in connection with the implementation and maintenance of the Global Credit Facility, based upon its relative share of the aggregate net assets of all of the Borrowers, including an annual commitment fee of 0.07% based upon the unused portion of the Global Credit Facility. These fees are reflected in other expenses on the Statement of Operations. During the year ended December 31, 2014, the Fund did not use the Global Credit Facility.

9. Fair Value Measurements

The Fund follows a fair value hierarchy that distinguishes between market data obtained from independent sources (observable inputs) and the Fund's own market assumptions (unobservable inputs). These inputs are used in determining the value of the Fund's financial instruments and are summarized in the following fair value hierarchy:

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

The input levels are not necessarily an indication of the risk or liquidity associated with financial instruments at that level.

For movements between the levels within the fair value hierarchy, the Fund has adopted a policy of recognizing the transfers as of the date of the underlying event which caused the movement.

A summary of inputs used as of December 31, 2014, in valuing the Fund's assets carried at fair value, is as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments in Securities:				
Equity Investments[a,b]	$342,795,473	$ —	$ —	$342,795,473
Participatory Notes	—	4,302,389	—	4,302,389
Short Term Investments	29,018,398	—	—	29,018,398
Total Investments in Securities	$371,813,871	$4,302,389	$ —	$376,116,260

[a]Includes common and preferred stocks.
[b]For detailed categories, see the accompanying Statement of Investments.

Templeton Developing Markets VIP Fund (continued)

10. New Accounting Pronouncements

In June 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-11, Transfers and Servicing (Topic 860), Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The ASU changes the accounting for certain repurchase agreements and expands disclosure requirements related to repurchase agreements, securities lending, repurchase-to-maturity and similar transactions. The ASU is effective for interim and annual reporting periods beginning after December 15, 2014. Management has reviewed the requirements and believes the adoption of this ASU will not have a material impact on the financial statements.

11. Subsequent Events

The Fund has evaluated subsequent events through the issuance of the financial statements and determined that no events have occurred that require disclosure other than those already disclosed in the financial statements.

Abbreviations

Selected Portfolio	
ADR	American Depositary Receipt
GDR	Global Depositary Receipt

Report of Independent Registered Public Accounting Firm

Templeton Developing Markets VIP Fund

To the Board of Trustees and Shareholders of Franklin Templeton Variable Insurance Products Trust

In our opinion, the accompanying statement of assets and liabilities, including the statement 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 Templeton Developing Markets VIP Fund (the “Fund”) at December 31, 2014, 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 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, 2014 by correspondence with the custodian, transfer agent and brokers, provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California
February 13, 2015

Tax Information (unaudited)

Templeton Developing Markets VIP Fund

Under Section 854(b)(1)(A) of the Internal Revenue Code (Code), the Fund hereby reports 1.71% of the ordinary income dividends as income qualifying for the dividends received deduction for the fiscal year ended December 31, 2014.

At December 31, 2014, more than 50% of the Fund's total assets were invested in securities of foreign issuers. In most instances, foreign taxes were withheld from income paid to the Fund on these investments. The Fund elects to treat foreign taxes paid as allowed under Section 853 of the Code. This election will allow shareholders of record as of the 2015 distribution date, to treat their proportionate share of foreign taxes paid by the Fund as having been paid directly by them. The shareholder shall consider these amounts as foreign taxes paid in the tax year in which they receive the Fund distribution.

Index Descriptions

The indexes are unmanaged and include reinvested distributions.

For Russell Indexes: Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Russell Investment Group.

See www.franklintempletondatasources.com for additional data provider information.

Barclays U.S. Aggregate Index is a market capitalization-weighted index representing the U.S. investment-grade, fixed-rate, taxable bond market with index components for government and corporate, mortgage pass-through and asset-backed securities. All issues included are SEC registered, taxable, dollar denominated and nonconvertible, must have at least one year to final maturity and must be rated investment grade (Baa3/BBB-/BBB- or higher) using the middle rating of Moody's, Standard & Poor's and Fitch, respectively.

Barclays U.S. Government Index: Intermediate Component is the intermediate component of the Barclays U.S. Government Index, which includes public obligations of the U.S. Treasury with at least one year to final maturity and publicly issued debt of U.S. government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. government.

Bloomberg Commodity Index consists of exchanged-traded futures on physical commodities weighted to account for economic significance and market liquidity. Prior to 7/1/14, the index was known as the Dow Jones-UBS Commodity Index.

Citigroup World Government Bond Index is a market capitalization-weighted index consisting of investment-grade world government bond markets.

Consumer Price Index (CPI) is a commonly used measure of the inflation rate.

Credit Suisse (CS) High Yield Index is designed to mirror the investable universe of the U.S. dollar-denominated high yield debt market.

Dow Jones Industrial Average is a price-weighted average of blue-chip stocks that are generally the leaders in their industry.

FTSE® EPRA®/NAREIT® Developed Index is a free float-adjusted index designed to measure the performance of publicly traded real estate securities in the North American, European and Asian real estate markets.

J.P. Morgan (JPM) Global Government Bond Index (GGBI) tracks total returns for liquid, fixed-rate, domestic government bonds with maturities greater than one year issued by developed countries globally.

Lipper Multi-Sector Income Funds Classification Average is calculated by averaging the total returns of all funds within the Lipper Multi-Sector Income Funds classification in the Lipper Open-End underlying funds universe. Lipper Multi-Sector Income Funds are defined as funds that seek current income by allocating assets among different fixed income securities sectors (not primarily in one sector except for defensive purposes), including U.S. and foreign governments, with a significant portion rated below investment grade. For the 12-month period ended 12/31/14, there were 246 funds in this category. Lipper calculations do not include contract fees, expenses or sales charges, and may have been different if such charges had been considered.

Lipper VIP Equity Income Funds Classification Average is an equally weighted average calculation of performance figures for all funds within the Lipper Equity Income Funds classification in the Lipper VIP underlying funds universe. Lipper Equity Income Funds seek relatively high current income and growth of income through investing 60% or more of their portfolios in equities. For the 12-month period ended 12/31/14, there were 64 funds in this category. Lipper calculations do not include contract fees, expenses or sales charges, and may have been different if such charges had been considered.

Lipper VIP General U.S. Government Funds Classification Average is an equally weighted average calculation of performance figures for all funds within the Lipper General U.S. Government Funds classification in the Lipper VIP underlying funds universe. Lipper General U.S. Government Funds invest primarily in U.S. government and agency issues. For the 12-month period ended 12/31/14, there were 50 funds in this category. Lipper calculations do not include contract fees, expenses or sales charges, and may have been different if such charges had been considered.

Lipper VIP High Yield Funds Classification Average is an equally weighted average calculation of performance figures for all funds within the Lipper High Yield Funds Classification in the Lipper VIP underlying funds universe. Lipper High Yield Funds aim at high (relative) current yield from fixed income securities, have no quality or maturity restrictions, and tend to invest in lower grade debt issues. For the 12-month period ended 12/31/14, there were 112 funds in this category. Lipper calculations do not include contract fees, expenses or sales charges, and may have been different if such charges had been considered.

MSCI All Country World Index (ACWI) is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in global developed and emerging markets.

MSCI Emerging Markets (EM) Index is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in global emerging markets.

MSCI Europe, Australasia, Far East (EAFE) Index is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in global developed markets excluding the U.S. and Canada.

MSCI World Index is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in global developed markets.

Russell 1000® Growth Index is market capitalization weighted and measures performance of those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000® Index is market capitalization weighted and measures performance of the largest companies in the Russell 3000® Index, which represents the majority of the U.S. market's total capitalization.

Russell 2500™ Index is market capitalization weighted and measures performance of the smallest companies in the Russell 3000® Index, which represent a modest amount of the Russell 3000® Index's total market capitalization.

Russell 2500™ Value Index is market capitalization weighted and measures performance of those Russell 2500 ™ Index companies with lower price-to-book ratios and lower forecasted growth values.

Russell 3000® Growth Index is market capitalization weighted and measures performance of those Russell 3000® Index companies with higher price-to-book ratios and higher forecasted growth values.

Russell 3000® Index is market capitalization weighted and measures performance of the largest U.S. companies based on total market capitalization and represents the majority of the investable U.S. equity market.

Russell Midcap® Growth Index is market capitalization weighted and measures performance of those Russell Midcap® Index companies with higher price-to-book ratios and higher forecasted growth values.

Russell Midcap® Index is market capitalization weighted and measures performance of the smallest companies in the Russell 1000® Index, which represent a modest amount of the Russell 1000® Index's total market capitalization.

Standard & Poor's® 500 Index (S&P 500®) is a market capitalization-weighted index of 500 stocks designed to measure total U.S. equity market performance.

Standard & Poor's®/International Finance Corporation Investable (S&P/IFCI) Composite Index is a free float-adjusted, market capitalization-weighted index designed to measure equity performance in global emerging markets.

Board Members and Officers

The name, year of birth and address of the officers and board members, as well as their affiliations, positions held with the Trust, principal occupation during at least the past five years and number of portfolios overseen in the Franklin Templeton Investments fund complex are shown below. Generally, each board member serves until that person's successor is elected and qualified.

Independent Board Members

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Harris J. Ashton (1932) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 1988	137	Bar-S Foods (meat packing company) (1981-2010).

Principal Occupation During at Least the Past 5 Years:
Director of various companies; and **formerly**, Director, RBC Holdings, Inc. (bank holding company) (until 2002); and President, Chief Executive Officer and Chairman of the Board, General Host Corporation (nursery and craft centers) (until 1998).

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Mary C. Choksi (1950) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since October 2014	111	Avis Budget Group Inc. (car rental), Omnicom Group Inc. (advertising and marketing communications services) and H.J. Heinz Company (processed foods and allied products) (1998-2006).

Principal Occupation During at Least the Past 5 Years:
Founding Partner and Senior Managing Director, Strategic Investment Group (investment management group) (1987-present); director of various companies; and **formerly**, Founding Partner and Managing Director, Emerging Markets Management LLC (investment management firm) (1987-2011); Loan Officer/Senior Loan Officer/Senior Pension Investment Officer, World Bank Group (international financial institution) (1977-1987).

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Sam Ginn (1937) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2007	111	ICO Global Communications (Holdings) Limited (satellite company) (2006-2010), Chevron Corporation (global energy company) (1989-2009), Hewlett-Packard Company (technology company) (1996-2002), Safeway, Inc. (grocery retailer) (1991-1998) and TransAmerica Corporation (insurance company) (1989-1999).

Principal Occupation During at Least the Past 5 Years:
Private investor; and **formerly**, Chairman, First Responder Network Authority (FirstNet) (interoperable wireless broadband network) (2012-2014); Chairman of the Board, Vodafone AirTouch, PLC (wireless company) (1999-2000); Chairman of the Board and Chief Executive Officer, AirTouch Communications (cellular communications) (1993-1998) and Pacific Telesis Group (telephone holding company) (1988-1994).

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Edith E. Holiday (1952) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2005	137	Hess Corporation (exploration and refining of oil and gas), H.J. Heinz Company (processed foods and allied products) (1994-2013), RTI International Metals, Inc. (manufacture and distribution of titanium), Canadian National Railway (railroad) and White Mountains Insurance Group, Ltd. (holding company).

Principal Occupation During at Least the Past 5 Years:
Director or Trustee of various companies and trusts; and **formerly**, Assistant to the President of the United States and Secretary of the Cabinet (1990-1993); General Counsel to the United States Treasury Department (1989-1990); and Counselor to the Secretary and Assistant Secretary for Public Affairs and Public Liaison-United States Treasury Department (1988-1989).

Independent Board Members (continued)

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
J. Michael Luttig (1954) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2009	137	Boeing Capital Corporation (aircraft financing) (2006-2013).

Principal Occupation During at Least the Past 5 Years:
Executive Vice President, General Counsel and member of the Executive Council, The Boeing Company (aerospace company); and **formerly**, Federal Appeals Court Judge, U.S. Court of Appeals for the Fourth Circuit (1991-2006).

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Frank A. Olson (1932) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2005	137	Hess Corporation (exploration and refining of oil and gas) (1998-2013).

Principal Occupation During at Least the Past 5 Years:
Director of various companies; and **formerly**, Chairman of the Board, The Hertz Corporation (car rental) (1980-2000) and Chief Executive Officer (1977-1999); and Chairman of the Board, President and Chief Executive Officer, UAL Corporation (airlines) (June-December 1987).

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Larry D. Thompson (1945) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2007	137	Cbeyond, Inc. (business communications provider) (2010-2012), The Southern Company (energy company) (December 2014; previously 2010-2012) and Graham Holdings Company (education and media organization) (2011-present).

Principal Occupation During at Least the Past 5 Years:
Executive Vice President – Government Affairs, General Counsel and Corporate Secretary, PepsiCo, Inc. (consumer products) (2012-present); and **formerly**, John A. Sibley Professor of Corporate and Business Law, University of Georgia School of Law (2011-2012); Senior Vice President – Government Affairs, General Counsel and Secretary, PepsiCo, Inc. (2004-2011); Senior Fellow of The Brookings Institution (2003-2004); Visiting Professor, University of Georgia School of Law (2004); and Deputy Attorney General, U.S. Department of Justice (2001-2003).

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
John B. Wilson (1959) One Franklin Parkway San Mateo, CA 94403-1906	Lead Independent Trustee	Trustee since 2007 and Lead Independent Trustee since 2008	111	None

Principal Occupation During at Least the Past 5 Years:
President, Staples Europe (office supplies) (2012-present); President and Founder, Hyannis Port Capital, Inc. (real estate and private equity investing); serves on private and non-profit boards; and **formerly**, Chief Operating Officer and Executive Vice President, Gap, Inc. (retail) (1996-2000); Chief Financial Officer and Executive Vice President – Finance and Strategy, Staples, Inc. (1992-1996); Senior Vice President – Corporate Planning, Northwest Airlines, Inc. (airlines) (1990-1992); and Vice President and Partner, Bain & Company (consulting firm) (1986-1990).

Interested Board Members and Officers

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
****Gregory E. Johnson (1961)** One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2013	147	None

Principal Occupation During at Least the Past 5 Years:
Chairman of the Board, Member – Office of the Chairman, Director, President and Chief Executive Officer, Franklin Resources, Inc.; officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 44 of the investment companies in Franklin Templeton Investments; and Vice Chairman, Investment Company Institute.

****Rupert H. Johnson, Jr. (1940)** One Franklin Parkway San Mateo, CA 94403-1906	Chairman of the Board and Trustee	Chairman of the Board since 2013 and Trustee since 1988	137	None

Principal Occupation During at Least the Past 5 Years:
Vice Chairman, Member – Office of the Chairman and Director, Franklin Resources, Inc.; Director, Franklin Advisers, Inc.; Senior Vice President, Franklin Advisory Services, LLC; and officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 41 of the investment companies in Franklin Templeton Investments.

Alison E. Baur (1964) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2012	Not Applicable	Not Applicable

Principal Occupation During at Least the Past 5 Years:
Deputy General Counsel, Franklin Templeton Investments; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 46 of the investment companies in Franklin Templeton Investments.

Laura F. Fergerson (1962) One Franklin Parkway San Mateo, CA 94403-1906	Chief Executive Officer – Finance and Administration	Since 2009	Not Applicable	Not Applicable

Principal Occupation During at Least the Past 5 Years:
Senior Vice President, Franklin Templeton Services, LLC; and officer of 46 of the investment companies in Franklin Templeton Investments.

Gaston Gardey (1967) One Franklin Parkway San Mateo, CA 94403-1906	Treasurer, Chief Financial Officer and Chief Accounting Officer	Since 2009	Not Applicable	Not Applicable

Principal Occupation During at Least the Past 5 Years:
Director, Fund Accounting, Franklin Templeton Investments; and officer of 27 of the investment companies in Franklin Templeton Investments.

Aliya S. Gordon (1973) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2009	Not Applicable	Not Applicable

Principal Occupation During at Least the Past 5 Years:
Senior Associate General Counsel, Franklin Templeton Investments; officer of 46 of the investment companies in Franklin Templeton Investments; and **formerly**, Litigation Associate, Steefel, Levitt & Weiss, LLP (2000-2004).

Interested Board Members and Officers (continued)

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Steven J. Gray (1955) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2009	Not Applicable	Not Applicable

Principal Occupation During at Least the Past 5 Years:
Senior Associate General Counsel, Franklin Templeton Investments; Vice President, Franklin Templeton Distributors, Inc. and Franklin Alternative Strategies Advisers, LLC; and officer of 46 of the investment companies in Franklin Templeton Investments.

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Selena L. Holmes (1965) 100 Fountain Parkway St. Petersburg, FL 33716-1205	Vice President – AML Compliance	Since 2012	Not Applicable	Not Applicable

Principal Occupation During at Least the Past 5 Years:
Director, Global Compliance Monitoring; Chief Compliance Officer, Franklin Alternative Strategies Advisers, LLC; Vice President, Franklin Templeton Companies, LLC; and officer of 46 of the investment companies in Franklin Templeton Investments.

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Edward B. Jamieson (1948) One Franklin Parkway San Mateo, CA 94403-1906	President and Chief Executive Officer – Investment Management	Since 2010	Not Applicable	Not Applicable

Principal Occupation During at Least the Past 5 Years:
President, Chief Investment Officer and Director, Franklin Advisers, Inc.; Executive Vice President, Franklin Templeton Institutional, LLC; and officer and/or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 10 of the investment companies in Franklin Templeton Investments.

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Kimberly H. Novotny (1972) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Vice President	Since 2013	Not Applicable	Not Applicable

Principal Occupation During at Least the Past 5 Years:
Associate General Counsel, Franklin Templeton Investments; Vice President and Secretary, Fiduciary Trust International of the South; Vice President, Templeton Investment Counsel, LLC; Assistant Secretary, Franklin Resources, Inc.; and officer of 46 of the investment companies in Franklin Templeton Investments.

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Robert C. Rosselot (1960) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Chief Compliance Officer	Since 2013	Not Applicable	Not Applicable

Principal Occupation During at Least the Past 5 Years:
Director, Global Compliance, Franklin Templeton Investments; Vice President, Franklin Templeton Companies, LLC; officer of 46 of the investment companies in Franklin Templeton Investments; and **formerly**, Senior Associate General Counsel, Franklin Templeton Investments (2007-2013); and Secretary and Vice President, Templeton Group of Funds (2004-2013).

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Karen L. Skidmore (1952) One Franklin Parkway San Mateo, CA 94403-1906	Vice President and Secretary	Since 2006	Not Applicable	Not Applicable

Principal Occupation During at Least the Past 5 Years:
Senior Associate General Counsel, Franklin Templeton Investments; and officer of 46 of the investment companies in Franklin Templeton Investments.

Interested Board Members and Officers (continued)

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Craig S. Tyle (1960) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2005	Not Applicable	Not Applicable

Principal Occupation During at Least the Past 5 Years:
General Counsel and Executive Vice President, Franklin Resources, Inc.; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 46 of the investment companies in Franklin Templeton Investments.

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Lori A. Weber (1964) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Vice President	Since 2011	Not Applicable	Not Applicable

Principal Occupation During at Least the Past 5 Years:
Senior Associate General Counsel, Franklin Templeton Investments; Assistant Secretary, Franklin Resources, Inc.; Vice President and Secretary, Templeton Investment Counsel, LLC; Vice President, Fiduciary Trust International of the South; and officer of 46 of the investment companies in Franklin Templeton Investments.

*We base the number of portfolios on each separate series of the U.S. registered investment companies within the Franklin Templeton Investments fund complex. These portfolios have a common investment manager or affiliated investment managers.

**Gregory E. Johnson is considered to be an interested person of the Fund under the federal securities laws due to his position as an officer and director of Franklin Resources, Inc. (Resources), which is the parent company of the Fund's investment manager and distributor. Rupert H. Johnson, Jr. is considered to be an interested person of the Fund under the federal securities laws due to his position as officer and director and major shareholder of Resources.

Note 1: Rupert H. Johnson, Jr. is the uncle of Gregory E. Johnson.

Note 2: Officer information is current as of the date of this report. It is possible that after this date, information about officers may change.

The Sarbanes-Oxley Act of 2002 and Rules adopted by the Securities and Exchange Commission require the Fund to disclose whether the Fund's Audit Committee includes at least one member who is an audit committee financial expert within the meaning of such Act and Rules. The Fund's Board has determined that there is at least one such financial expert on the Audit Committee and has designated John B. Wilson as its audit committee financial expert. The Board believes that Mr. Wilson qualifies as such an expert in view of his extensive business background and experience, including service as chief financial officer of Staples, Inc. from 1992 to 1996. Mr. Wilson has been a Member and Chairman of the Fund's Audit Committee since 2007. As a result of such background and experience, the Board believes that Mr. Wilson has acquired an understanding of generally accepted accounting principles and financial statements, the general application of such principles in connection with the accounting estimates, accruals and reserves, and analyzing and evaluating financial statements that present a breadth and level of complexity of accounting issues generally comparable to those of the Fund, as well as an understanding of internal controls and procedures for financial reporting and an understanding of audit committee functions. Mr. Wilson is an independent Board member as that term is defined under the relevant Securities and Exchange Commission Rules and Releases.

The Statement of Additional Information (SAI) includes additional information about the board members and is available, without charge, upon request. Shareholders may call (800) 321-8563 or their insurance companies to request the SAI.

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Shareholder Information

Proxy Voting Policies and Procedures

The Trust's investment manager has established Proxy Voting Policies and Procedures (Policies) that the Trust uses to determine how to vote proxies relating to portfolio securities. Shareholders may view the Trust's complete Policies online at franklintempleton.com. Alternatively, shareholders may request copies of the Policies free of charge by calling the Proxy Group collect at (954) 527-7678 or by sending a written request to: Franklin Templeton Companies, LLC, 300 S.E. 2nd Street, Fort Lauderdale, FL 33301, Attention: Proxy Group. Copies of the Trust's proxy voting records are also made available online at franklintempleton.com and posted on the U.S. Securities and Exchange Commission's website at sec.gov and reflect the most recent 12-month period ended June 30.

Quarterly Statement of Investments

The Trust files a complete statement of investments with the U.S. Securities and Exchange Commission for the first and third quarters for each fiscal year on Form N-Q. Shareholders may view the filed Form N-Q by visiting the Commission's website at sec.gov. The filed form may also be viewed and copied at the Commission's Public Reference Room in Washington, DC. Information regarding the operations of the Public Reference Room may be obtained by calling (800) SEC-0330.

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FRANKLIN TEMPLETON INVESTMENTS

Annual Report
Franklin Templeton
Variable Insurance Products Trust

Investment Managers
Franklin Advisers, Inc.
Franklin Advisory Services, LLC
Franklin Mutual Advisers, LLC
Franklin Templeton Institutional, LLC
Templeton Asset Management Ltd.
Templeton Global Advisors Limited
Templeton Investment Counsel, LLC

Fund Administrator
Franklin Templeton Services, LLC

Distributor
Franklin Templeton Distributors, Inc.

Franklin Templeton Variable Insurance Products Trust (FTVIP) shares are not offered to the public; they are offered and sold only to: (1) insurance company separate accounts (Separate Account) to serve as the underlying investment vehicle for variable contracts; (2) certain qualified plans; and (3) other mutual funds (funds of funds).

Authorized for distribution to investors in Separate Accounts only when accompanied or preceded by the current prospectus for the applicable contract, which includes the Separate Account and the FTVIP prospectuses. Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. The prospectus contains this and other information; please read it carefully before investing.

To help ensure we provide you with quality service, all calls to and from our service areas are monitored and/or recorded.

VIP A 02/15