ZURICH®

February 26, 2016

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, 2015. 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 1-866-315-0729

ZURICHAMERICANLIFEINSURANCE.COM

SUPPLEMENT TO THE CURRENTLY EFFECTIVE SUMMARY PROSPECTUS

Deutsche Global Equity VIP

Effective January 1, 2016, the following information replaces the existing disclosure contained under the "Portfolio Manager(s)" sub-heading of the "MANAGEMENT" section of the summary section of the fund's prospectus.

Brendan O'Neill, CFA, Director. Portfolio Manager of the fund. Began managing the fund in 2016.

Mark Schumann, CFA, Director. Portfolio Manager of the fund. Began managing the fund in 2016.

Sebastian P. Werner, PhD, Vice President. Portfolio Manager of the fund. Began managing the fund in 2013.

Please Retain This Supplement for Future Reference

November 17, 2015
PROSTKR-537

Deutsche Asset & Wealth Management

Summary Prospectus Supplement dated January 12, 2016

The purpose of this mailing is to provide you with changes to the current Summary Prospectuses for Series I and Series II shares of the Fund listed below:

Invesco V.I. Managed Volatility Fund

Effective on or about January 25, 2016, the following information replaces the table in its entirety appearing under the heading "**Management of the Fund"** in the prospectuses:

"Portfolio Managers	Title	Length of Service on the Fund
Thomas Bastian	Portfolio Manager	2014
Chuck Burge	Portfolio Manager	2014
Brian Jurkash	Portfolio Manager	2015
Mary Jayne Maly	Portfolio Manager	2014
Sergio Marcheli	Portfolio Manager	2014
Duy Nguyen	Portfolio Manager	2014
James Roeder	Portfolio Manager	2014
Matthew Titus	Portfolio Manager	2016

Effective on or about March 1, 2016, Mary Jayne Maly will no longer serve as Portfolio Manager to the Fund."

Janus Aspen Series

Forty Portfolio
Janus Portfolio
Global Technology Portfolio

Supplement dated January 12, 2016
to Currently Effective Prospectuses

Effective immediately, the following replaces the corresponding information for each of **Forty Portfolio, Janus Portfolio,** and **Global Technology Portfolio** (each, a "Portfolio") as noted below.

1. The following replaces in its entirety the corresponding information found under "**Management**" in the **Portfolio Summary** section of **Forty Portfolio's** Prospectuses:

   Portfolio Managers: A. Douglas Rao is Executive Vice President and Co-Portfolio Manager of the Portfolio, which he has managed or co-managed since June 2013. **Nick Schommer,** CFA, is Co-Portfolio Manager of the Portfolio, which he has co-managed since January 2016.

2. The following replaces in its entirety the corresponding information found under "**Management**" in the **Portfolio Summary** section of **Janus Portfolio's** Prospectuses:

   Portfolio Managers: Jean G. Barnard, CFA, is Co-Portfolio Manager of the Portfolio, which she has co-managed since January 2016. **Burton H. Wilson** is Executive Vice President and Co-Portfolio Manager of the Portfolio, which he has managed or co-managed since May 2011.

3. The following replaces in its entirety the corresponding information found under "**Management**" in the **Portfolio Summary** section of **Global Technology Portfolio's** Prospectuses:

   Portfolio Managers: Denny Fish is Co-Portfolio Manager of the Portfolio, which he has co-managed since January 2016. **Brinton Johns** is Executive Vice President and Co-Portfolio Manager of the Portfolio, which he has co-managed since January 2014. **J. Bradley Slingerlend**, CFA, is Executive Vice President and Co-Portfolio Manager of the Portfolio, which he has managed or co-managed since May 2011.

4. The following replaces in its entirety the corresponding information in the "**Investment Personnel**" section of the Prospectuses related to the portfolio management of each Portfolio:

   Forty Portfolio

   Co-Portfolio Managers A. Douglas Rao and Nick Schommer jointly share responsibility for the day-to-day management of the Portfolio, with no limitation on the authority of one co-portfolio manager in relation to the other.

   A. Douglas Rao is Executive Vice President and Co-Portfolio Manager of Forty Portfolio, which he has managed or co-managed since June 2013. Mr. Rao is also Portfolio Manager of other Janus accounts. He joined Janus Capital in May 2013. Prior to joining Janus Capital, Mr. Rao was a partner and portfolio manager with Chautauqua Capital Management from 2012 to May 2013, and a portfolio manager with Marsico Capital Management, LLC from 2007 to 2012. Mr. Rao holds a Bachelor's degree in History from the University of Virginia and a Master of Business Administration degree from the University of California, Los Angeles.

Nick Schommer, CFA, is Co-Portfolio Manager of Forty Portfolio, which he has co-managed since January 2016. Mr. Schommer is also Portfolio Manager of other Janus accounts and performs duties as a research analyst. He joined Janus Capital in June 2013. Prior to joining Janus Capital, Mr. Schommer was a research analyst at Marsico Capital Management, LLC from 2009 to 2013. Mr. Schommer holds a Bachelor of Science degree in Chemistry from the United States Military Academy, where he was recognized as a Distinguished Cadet and Phi Kappa Phi, and a Master of Business Administration in Finance from the UCLA Anderson School of Management. Mr. Schommer holds the Chartered Financial Analyst designation.

Janus Portfolio

Co-Portfolio Managers Jean G. Barnard and Burton H. Wilson jointly share responsibility for the day-to-day management of the Portfolio, with no limitation on the authority of one co-portfolio manager in relation to the other.

Jean G. Barnard, CFA, is Co-Portfolio Manager of Janus Portfolio, which she has co-managed since January 2016. Ms. Barnard is also Portfolio Manager of other Janus accounts and performs duties as a research analyst. She joined Janus Capital in 1992. Ms. Barnard holds a Bachelor of Arts degree in Economics and Political Science from Yale University, where she graduated with distinction. Ms. Barnard holds the Chartered Financial Analyst designation.

Burton H. Wilson is Executive Vice President and Co-Portfolio Manager of Janus Portfolio, which he has managed or co-managed since May 2011. Mr. Wilson is also Portfolio Manager of other Janus accounts. He joined Janus Capital in 2005 as a research analyst. Mr. Wilson holds a Bachelor of Arts degree in Mathematics from the University of Virginia, a Juris Doctorate from the University of Virginia School of Law, and a Master of Business Administration degree from the University of California at Berkeley's Haas School of Business.

Global Technology Portfolio

Co-Portfolio Managers Denny Fish, Brinton Johns, and J. Bradley Slingerlend are responsible for the day-to-day management of the Portfolio. Mr. Slingerlend, as lead Portfolio Manager, has the authority to exercise final decision-making on all investment decisions.

Denny Fish is Co-Portfolio Manager of Global Technology Portfolio, which he has co-managed since January 2016. Mr. Fish is also Portfolio Manager of other Janus accounts and performs duties as a research analyst. He initially joined Janus Capital in 2007 as a research analyst and left in 2014. Mr. Fish re-joined Janus Capital in January 2016. Mr. Fish holds a Bachelor of Science degree in Civil Engineering from the University of Illinois and a Master of Arts degree from the University of Southern California Marshall School.

Brinton Johns is Executive Vice President and Co-Portfolio Manager of Global Technology Portfolio, which he has co-managed since January 2014. Mr. Johns is also Portfolio Manager of other Janus accounts and performs duties as a research analyst. He joined Janus Capital in 2000. Mr. Johns holds a Bachelor of Business Administration degree in Business Management from the University of Texas at Arlington and a Master of Arts degree in Biblical/Christian Studies from Denver Seminary.

J. Bradley Slingerlend, CFA, is Executive Vice President and Co-Portfolio Manager of Global Technology Portfolio, which he has managed or co-managed since May 2011. Mr. Slingerlend is also Portfolio Manager of other Janus accounts. He initially joined Janus Capital in 2000 as a research analyst and left in 2007. Mr. Slingerlend re-joined Janus Capital in November 2007 as a research analyst. Mr. Slingerlend holds Bachelor of Arts degrees in Economics and Astrophysics from Williams College. Mr. Slingerlend holds the Chartered Financial Analyst designation.

Please retain this Supplement with your records.

109-31-69547 01-16
109-31-69548 01-16

SUPPLEMENT TO THE CURRENTLY EFFECTIVE SUMMARY PROSPECTUSES

Deutsche High Income VIP

The following information replaces the existing disclosure contained under the "Portfolio Manager(s)" sub-heading of the "MANAGEMENT" section of the fund's summary prospectuses.

Gary Russell, CFA, Managing Director. Portfolio Manager of the fund. Began managing the fund in 2006.

Thomas R. Bouchard, Vice President. Portfolio Manager of the fund. Began managing the fund in 2016.

Please Retain This Supplement for Future Reference

February 1, 2016
PROSTKR-569

SUPPLEMENT TO THE CURRENTLY EFFECTIVE SUMMARY PROSPECTUSES OF EACH OF THE LISTED FUNDS

Deutsche Core Plus Income Fund
Deutsche Bond VIP

The following information replaces the existing disclosure contained under the "Portfolio Manager(s)" sub-heading of the "MANAGEMENT" section of each of the fund's summary prospectuses.

Gary Russell, CFA, Managing Director. Portfolio Manager of the fund. Began managing the fund in 2012.

John D. Ryan, Managing Director. Portfolio Manager of the fund. Began managing the fund in 2012.

Thomas M. Farina, CFA, Managing Director. Portfolio Manager of the fund. Began managing the fund in 2016.

Gregory M. Staples, CFA, Managing Director. Portfolio Manager of the fund. Began managing the fund in 2016.

Please Retain This Supplement for Future Reference

February 1, 2016
PROSTKR-571

SUPPLEMENT TO THE CURRENTLY EFFECTIVE SUMMARY PROSPECTUSES

Deutsche Government & Agency Securities VIP

The following information replaces the existing disclosure contained under the "Portfolio Manager(s)" sub-heading of the "MANAGEMENT" section of the fund's summary prospectuses.

Scott Agi, CFA, Director. Portfolio Manager of the fund. Began managing the fund in 2014.

Sergey Losyev, CFA, Assistant Vice President. Portfolio Manager of the fund. Began managing the fund in 2016.

Please Retain This Supplement for Future Reference

February 1, 2016
PROSTKR-573

SUPPLEMENT TO THE CURRENTLY EFFECTIVE SUMMARY PROSPECTUS

Deutsche Global Income Builder VIP

The following information replaces the existing disclosure contained under the "Portfolio Manager(s)" sub-heading of the "MANAGEMENT" section of the fund's summary prospectus.

Di Kumble, CFA, Managing Director. Portfolio Manager of the fund. Began managing the fund in 2014.

Gary Russell, CFA, Managing Director. Portfolio Manager of the fund. Began managing the fund in 2013.

John D. Ryan, Managing Director. Portfolio Manager of the fund. Began managing the fund in 2012.

Darwei Kung, Director. Portfolio Manager of the fund. Began managing the fund in 2013.

Please Retain This Supplement for Future Reference

February 1, 2016
PROSTKR-579

SUPPLEMENT TO THE CURRENTLY EFFECTIVE SUMMARY PROSPECTUS

Deutsche Unconstrained Income VIP

The following information replaces the existing disclosure contained under the "Portfolio Manager(s)" sub-heading of the "MANAGEMENT" section of the fund's summary prospectus.

Gary Russell, CFA, Managing Director. Portfolio Manager of the fund. Began managing the fund in 2006.

John D. Ryan, Managing Director. Portfolio Manager of the fund. Began managing the fund in 2010.

Darwei Kung, Director. Portfolio Manager of the fund. Began managing the fund in 2011.

Please Retain This Supplement for Future Reference

February 1, 2016
PROSTKR-601

ALGER

THE ALGER FUNDS

Alger Balanced Portfolio

ANNUAL REPORT

DECEMBER 31, 2015

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ALGER BALANCED PORTFOLIO

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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,

The Importance of a Differentiated Perspective when Investing

In the aftermath of the market lows of early 2009, commentators have frequently warned that U.S. equities were overdue for a catastrophic correction. In contrast, based on Alger analysts' and portfolio managers' fundamental analysis of industries globally, we concluded that U.S. equities had strong potential for generating gains. U.S. equities have, in fact, been one of the strongest performing asset classes, with the S&P 500 index generating a 237.17% cumulative return from March of 2009 to the end of 2015. While the year continued with periods of doubts and consequent volatility, we continue to have an optimistic view for U.S. equities. As in the past, pundits today with overly negative views have, we feel, a distorted view of the fundamental strength of the U.S. economy in particular and, more broadly, of the opportunities for investors globally.

From a more recent perspective, 2015 was challenging with the S&P 500 gaining only 1.38%, although U.S. large-cap growth stocks generated stronger gains. The Russell 1000 Growth Index, for example, produced a 5.67% return while its value counterpart declined 3.83%. In this letter, I explain why events in the U.S. and abroad haven't caused us to change our outlook and how our in-depth research of industries and individual companies supports our differentiated view of equities.

Navigating Market Risk

Alger analysts focus on fundamental, research-driven stock selection and they specialize in covering specific industries. Alger's specialist structure results in deep fundamental research and insight from analysts that have broad historical views and market experience within sectors. We are, as they say, close to the companies we follow and the stocks we invest in for our clients.

Our perspective on declining energy prices is an example of how we assess rapid and large-scale changes that frequently reshape the business landscape. The U.S. oil and gas industry has experienced a revolutionary change in the past decade through the advance of fracking and other technologies in the exploration and production of domestic land-based resources. But that success has had its natural result: increased production, which, when coupled with production from non-U.S. suppliers, has led to supply exceeding current demand and, thus, a dramatic decline in oil and natural gas prices. While the U.S. Energy sector has and will continue to struggle to adjust to this new energy market (i.e., to find a new equilibrium of supply and demand), many investors have gone further and concluded that overall U.S. economic growth will stall as a result of weakness in the industry and, specifically, through the loss of jobs and a decline in capital expenditures in the sector.

Our research, however, leads the Alger team to conclude that while the Energy sector certainly is in a significant retrenchment, low fuel prices will provide an overall benefit to the U.S. economy. More importantly, our fundamental stock selection process has determined that cheap energy will have a positive impact on many specific subsectors and companies. Heavy users of transportation fuel clearly benefit—the airline and cruise ship industries are obvious examples—but many industrial companies for which oil or oil-based commodity chemicals are significant cost inputs to products can also benefit. Ink producers, paint manufacturers, and specialty chemical providers are some of the industries that benefit from lower costs in this way. And, of course, the enormous energy cost savings are a boon to American consumers and will strengthen individuals' finances, especially for lower income Americans, thereby allowing them to increase their spending.

The country is already experiencing the benefits of cheap energy. In 2015, personal consumption expenditures for gasoline and other fuels declined 23.8%, according to data from the Bureau of Economic Analysis (BEA). With a big drop in energy costs, consumers ramped up their spending on other products and services, with personal consumption expenditures excluding energy climbing 4.5% in 2015.

The Web of Global Economics, the Federal Reserve, and Corporate Earnings

From a broader perspective, a mishmash of global and domestic developments drove market volatility. As concerns that corporate earnings would be hurt by declining oil prices strengthened, investors grew fearful that both a strengthening U.S. dollar (USD) and a slowdown in economic growth in various countries, including China and Brazil, would curtail our country's exports and create a tightening of credit availability abroad. In addition, the value of U.S. multinationals' foreign earnings could be crimped when repatriated, thanks to the strong U.S. dollar. At the same time, economic growth in the U.S. drove speculation that the Federal Reserve would raise interest rates, thereby providing a headwind for both the economy and corporate earnings. The speculation regarding a change in monetary policy proved correct with the Federal Reserve deciding in December to increase the target interest rate of its fed funds benchmark to a range of 0.25% to 0.50%, up from the prior target of 0% to 0.25%. Investors' reaction to the news was muted, however, because the change was anticipated. Yet the decision to tighten at a time when Sweden, Japan, the U.K., and the European Central Bank are engaged in quantitative easing supported a strong USD. With quantitative easing, countries print money to buy securities with the goal of keeping interest rates low and pumping money into local economies. With the exception of the strong USD, the longer-term potential impact on the U.S. economy of the Fed normalizing its monetary policy appears minimal with economists expecting real GDP to reach 2.6% in 2016, which would be an increase from the 2.4% rate for both 2015 and 2014.

Our Optimistic Perspective

For Alger, our best thinking comes not from listening to pundits, but instead from the collective efforts of our more than 40-person investment team. We focus our efforts on developing our research, improving our analysis, and understanding how change will impact businesses. During the reporting period, we continued to serve our clients by searching for companies across the globe with attractive potential for growing their earnings. We reasoned that certain fears that fueled negative views of U.S. equities, including declining oil prices, also created potential opportunities and that "headline" developments were not as bad as some believed.

We have also maintained that volatility in equities across the globe resulted from investors overreacting to the potential for the Federal Reserve to raise interest rates. We maintained that with low and sometimes negative debt yields in certain countries, foreign investors were flocking to U.S. bonds, which could help keep interest rates down even as the Fed increases its benchmark rate. In our opinion, Fed rate increases, furthermore, are likely to be gradual and modest as the central bank seeks to balance the need to manage economic growth with the global impact of a strong U.S. dollar.

The U.S. Economy and Corporate Fundamentals

Our optimism is based, in part, on corporate fundamentals and the steady, although not spectacular, growth of the U.S. economy. Americans' finances have been improving, with personal disposable income increasing 3.3% in the fourth quarter and 5.1% in the third quarter, according to the BEA. The personal savings rate, or savings as a percentage of disposable income, climbed to 5.4% in the fourth quarter, compared to 5.2% in the third quarter and the approximately 3% pace that existed prior to the global financial crisis. At the same time, Americans' debt service burden is relatively low at approximately 10% of disposable personal income compared to a peak of more than 13% at the end of 2007. While job growth has been slow, the country has added jobs every month since October of 2010 and the unemployment rate has fallen from a post-financial crisis high of 10.0% to only 5%.

Strength in the real estate market has also continued. Monthly readings for the National Association of Home Builders/Wells Fargo Housing Market Index, which measures sentiment toward the real estate market among builders, stayed at or above 60 during the second half of 2015. Readings above 50 indicate that builders view sales conditions as good rather than poor. At the same time, housing prices have climbed, with the S&P/Case-Shiller 20-City Composite Home Price Index reaching 182.86, up from a post-financial crisis low of 134.07 in March of 2012. The volume of permits for new construction, meanwhile, is running at slightly less than half the peak volume of 2005, which suggests that the real estate recovery has considerable potential for strengthening. In addition to the real estate recovery creating new construction jobs and supporting industries that provide trucks, equipment, and home building materials, the resulting higher home prices can help make Americans feel richer and thereby support consumer spending.

Finally, S&P 500 earnings are expected to grow 5% in 2016, according to consensus estimates. Ex-energy earnings, furthermore, are likely to grow at a high single-digit rate. In the meantime, corporations are continuing to grow their cash balances. At the end of the third quarter, S&P 500 companies (not including financials) held $1.45 trillion in cash, up 5.8% year over year, according to FactSet. Corporations are also returning capital to investors at near record levels. Dividends plus gross share buybacks in the third quarter reached $259.8 billion, the highest quarterly level in almost 10 years, according to FactSet. Mergers and acquisitions are also continuing at a brisk pace. We also believe that valuations are reasonable. At the beginning of 2016, the S&P 500 index had a forward price-to-earnings ratio of 15.7 compared with the 20-year median P/E ratio of 16.

The Road Ahead

We have learned in our 51 years of history that "good" television and "good" press are fueled most easily by talking heads who forecast doom and gloom for financial markets. Fortunately, we have also learned that the best research is done not by reading the newspaper or watching television, but instead by doing the hard work of talking to company management, reading voluminous company filings, understanding how a company drives revenue and profit growth, and most importantly, by believing what our research and analysis indicate. It is also important to have conviction that allows us to look through the next three months and to predict what the future truly holds for a company, industry, or sector. We maintain that well-managed companies that can capture market share with compelling products and services have potential over the long run for generating attractive returns and are best suited for weathering periods of market volatility. At Alger, we will continue to use our time-tested and research-driven investment strategy to find companies, whether in the U.S. or not, that we believe have the most potential for generating strong returns over time for our clients.

Portfolio Matters

The Alger Balanced Portfolio returned 1.47% for the fiscal 12-month period ended December 31, 2015. The equity portion of the Portfolio underperformed the 5.67% return of the Russell 1000 Growth Index, and the fixed-income portion outperformed the 0.15% 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 Industrials sector was the most important contributor to performance, while Information Technology and Energy were among sectors that detracted from results.

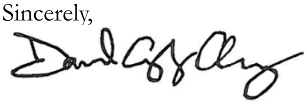
Among the most important relative contributors were General Electric Co.; Eli Lilly and Co.; Royal Caribbean Cruises Ltd.; and Delphi Automotive PLC. Also during the reporting period, Avago Technologies Ltd. performed strongly and contributed to performance. The company designs semiconductor chips for communications products, systems, and storage, and is well positioned to benefit from growing demand for smartphones. The company reported a positive earnings surprise in the fourth quarter that was highlighted by operating expense controls and strong demand for its storage products. Additionally, investors reacted positively to potential synergies from Avago's acquisition of wireless chip manufacturer Broadcom Corp.

Conversely, detracting from overall results on a relative basis were ConocoPhillips; CSX Corp.; Royal Dutch Shell PLC., Cl. A; and Morgan Stanley. Shares of Seagate Technology PLC. also detracted from results. The company is a leading provider of hard disk drives for enterprise computers and consumer electronics, including desktops and notebooks. It has been acquiring companies to consolidate market share and improve its profitability. Declining demand for personal computers, growing use of the cloud for data storage, and the increasing adoption of solid state devices, however, are creating a headwind for Seagate and have dampened enthusiasm for the stock.

Regarding the fixed-income portion of the Portfolio, as of December 31, 2015, 95.77% was in corporate securities and 4.23% was in U.S. Treasuries. During the year, the number of securities held was reduced from 16 to 14. Last year saw the investment grade credit market underperform after spreads widened overall especially in the third quarter when the average options adjusted spread of the Broad Market Index (BMI) hit 62 basis points. It seemed that any and all negative credit headlines fueled the push wider as the year went on, and while the fourth quarter did see some tightening in the run-up to the fed funds rate increase, spreads were 11 basis points wider on a year-over-year basis. With the Fed liftoff finally occurring in mid-December the credit market heads into 2016 on the heels of the first rate hike since 2006. With slow, albeit constant, economic growth coupled with the possibility of further Fed hikes and ever present geopolitical concerns putting pressure on credit markets, the return environment in 2016 may be very similar to late 2015.

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

Sincerely,



Daniel C. Chung, CFA
Chief Investment Officer

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

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

The performance data quoted in these materials represent 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 the 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 Portfolio's management in this report are as of the date of the Shareholders' Letter and are subject to change at any time subsequent to this date. There is no guarantee that any of the assumptions that formed the basis for the opinions stated herein are accurate or that they will materialize. Moreover, the information forming the basis for such assumptions is from sources believed to be reliable; however, there is no guarantee that such information is accurate. Any securities mentioned, whether owned in the 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 the 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 the Portfolio. Please refer to the Schedule of Investments for the Portfolio which is included in this report for a complete list of Portfolio holdings as of December 31, 2015. Securities mentioned in the Shareholders' Letter, if not found in the Schedule of Investments, may have been held by the Portfolio 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. Investing in emerging markets involves higher levels of risk, including increased information, market, and valuation risks, and may not be suitable for all investors. Portfolios that invest in fixed-income securities, such as the Alger Balanced Portfolio, are subject to fixed income securities' sensitivity to interest rate movements; their market values tend to fall when interest rates rise and to rise when interest rates fall. They are also subject to the risk of a decline in the value of the Portfolio's securities in the event of an issuer's falling credit rating or actual default. Portfolios that invest in mortgage- and asset-backed securities are subject to prepayment risk; thus the average life of the security may be less than maturity. For a more detailed discussion of the risks associated with the Portfolio, please see the Portfolio's Prospectus.

Before investing, carefully consider the Portfolio's investment objective, risks, charges, and expenses. For a 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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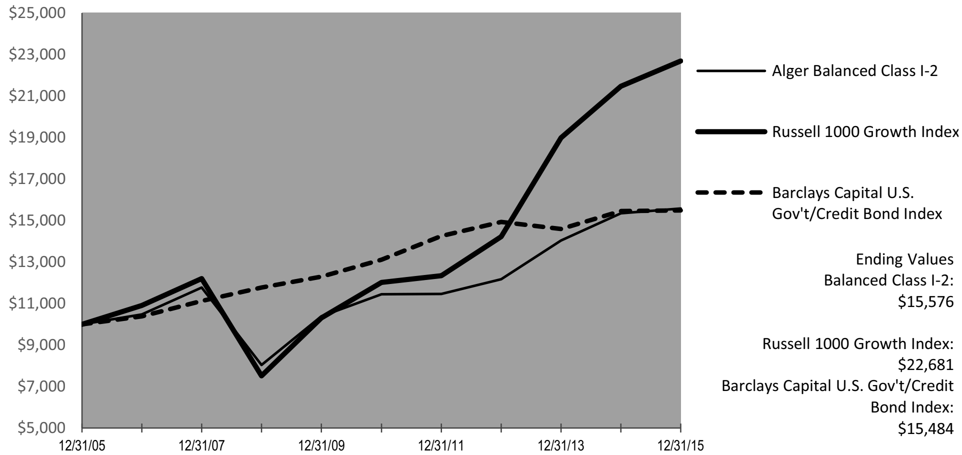
NOT FDIC INSURED. NOT BANK GUARANTEED. MAY LOSE VALUE.

Definitions:

- Russell 1000 Growth Index: An index of common stocks designed to track performance of large-capitalization companies with greater than average growth orientation.
- Russell 1000 Value Index measures the performance of the Russell 1000 Value segment which includes firms whose share prices have lower price to book ratios and lower expected long-term mean earnings growth rates.
- S&P 500 index: an index of large company stocks considered representative of the U.S. stock market.
- The Barclays U.S. Government/Credit Bond Index is an index designed 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.

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

— 10 years ended 12/31/15



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, 2015. 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 12/31/15

AVERAGE ANNUAL TOTAL RETURNS

	1 YEAR	5 YEARS	10 YEARS	Since 9/5/1989
Class I-2 (Inception 9/5/89)	1.47%	6.35%	4.53%	7.41%
Russell 1000 Growth Index	5.67%	13.53%	8.53%	8.97%
Barclays Capital U.S. Gov't/Credit Bond Index	0.15%	3.39%	4.47%	6.34%

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, 2015 (Unaudited)

SECTORS/SECURITY TYPES	Alger Balanced Portfolio
Consumer Discretionary	9.6%
Consumer Staples	8.3
Energy	4.4
Financials	12.4
Health Care	10.5
Industrials	7.3
Information Technology	12.9
Materials	0.8
Telecommunication Services	2.2
Utilities	0.5
Total Equity Securities	68.9
Corporate Bonds	28.3
U.S. Government & Agency Obligations (excluding Mortgage Backed)	1.3
Total Debt Securities	29.6
Short-Term Investments and Net Other Assets	1.5
	100.0%

† *Based on net assets for the Portfolio.*

COMMON STOCKS—64.4%	SHARES	VALUE
AEROSPACE & DEFENSE—3.4%		
General Dynamics Corp.	3,800	$ 521,968
Honeywell International, Inc.	10,700	1,108,199
The Boeing Co.	6,500	939,835
		2,570,002
AIR FREIGHT & LOGISTICS—0.5%		
United Parcel Service, Inc., Cl. B	3,900	**375,297**
AIRPORT SERVICES—0.5%		
Macquarie Infrastructure Corp.	5,400	**392,040**
APPAREL RETAIL—0.9%		
L Brands, Inc.	3,400	325,788
VF Corp.	6,100	379,725
		705,513
ASSET MANAGEMENT & CUSTODY BANKS—1.3%		
Ameriprise Financial, Inc.	2,300	244,766
BlackRock, Inc.	2,200	749,144
		993,910
AUTO PARTS & EQUIPMENT—1.2%		
Delphi Automotive PLC.	8,300	711,559
Johnson Controls, Inc.	5,200	205,348
		916,907
BIOTECHNOLOGY—1.2%		
Amgen, Inc.	2,200	357,126
Gilead Sciences, Inc.	5,200	526,188
		883,314
BREWERS—0.8%		
Anheuser-Busch InBev SA#	1,900	237,500
Molson Coors Brewing Co., Cl. B	3,500	328,720
		566,220
CABLE & SATELLITE—1.1%		
Comcast Corporation, Cl. A	14,803	**835,333**
CASINOS & GAMING—0.3%		
Las Vegas Sands Corp.	5,000	**219,200**
COMMUNICATIONS EQUIPMENT—1.2%		
Cisco Systems, Inc.	21,500	583,832
QUALCOMM, Inc.	6,300	314,906
		898,738
CONSUMER ELECTRONICS—0.3%		
Garmin Ltd.	5,700	**211,869**
CONSUMER FINANCE—0.7%		
Discover Financial Services	6,100	327,082
Synchrony Financial*	7,571	230,234
		557,316
DATA PROCESSING & OUTSOURCED SERVICES—0.5%		
Xerox Corp.	31,900	**339,097**
DIVERSIFIED BANKS—3.5%		
JPMorgan Chase & Co.	22,000	1,452,660
Wells Fargo & Co.	21,700	1,179,612
		2,632,272

COMMON STOCKS—(CONT.)	SHARES	VALUE
DIVERSIFIED CHEMICALS—0.6%		
The Dow Chemical Co.	9,000	**$ 463,320**
DRUG RETAIL—1.5%		
CVS Caremark Corp.	8,300	811,491
Walgreens Boots Alliance, Inc.	3,400	289,527
		1,101,018
FERTILIZERS & AGRICULTURAL CHEMICALS—0.2%		
Potash Corporation of Saskatchewan, Inc.	8,200	**140,384**
HEALTH CARE EQUIPMENT—0.9%		
Becton Dickinson and Co.	2,800	431,452
St. Jude Medical, Inc.	4,200	259,434
		690,886
HOME IMPROVEMENT RETAIL—1.7%		
The Home Depot, Inc.	9,900	**1,309,275**
HOTELS RESORTS & CRUISE LINES—0.8%		
Royal Caribbean Cruises Ltd.	5,900	**597,139**
HOUSEHOLD PRODUCTS—1.0%		
The Procter & Gamble Co.	9,800	**778,218**
HYPERMARKETS & SUPER CENTERS—0.6%		
Wal-Mart Stores, Inc.	7,900	**484,270**
INDUSTRIAL CONGLOMERATES—1.5%		
General Electric Co.	36,707	**1,143,423**
INTEGRATED OIL & GAS—2.4%		
Exxon Mobil Corp.	16,800	1,309,560
TOTAL SA#	11,800	530,410
		1,839,970
INTEGRATED TELECOMMUNICATION SERVICES—2.2%		
AT&T, Inc.	15,800	543,678
Verizon Communications, Inc.	24,008	1,109,650
		1,653,328
INTERNET SOFTWARE & SERVICES—2.9%		
Alphabet, Inc., Cl. A*	1,000	778,010
Alphabet, Inc., Cl. C*	1,103	837,045
Facebook, Inc., Cl. A*	5,800	607,028
		2,222,083
INVESTMENT BANKING & BROKERAGE—1.6%		
Morgan Stanley	27,200	865,232
TD Ameritrade Holding Corp.	9,700	336,687
		1,201,919
LEISURE FACILITIES—0.5%		
Six Flags Entertainment Corp.	7,300	**401,062**
LEISURE PRODUCTS—0.4%		
Coach, Inc.	8,400	**274,932**
MANAGED HEALTH CARE—1.4%		
Aetna, Inc.	4,900	529,788
UnitedHealth Group, Inc.	4,500	529,380
		1,059,168
MOVIES & ENTERTAINMENT—0.8%		
The Walt Disney Co.	5,400	**567,432**

COMMON STOCKS—(CONT.)	SHARES	VALUE
MULTI-LINE INSURANCE—0.5%		
Hartford Financial Services Group, Inc.	8,700	**$ 378,102**
MULTI-UTILITIES—0.5%		
Sempra Energy	3,600	**338,436**
OIL & GAS EQUIPMENT & SERVICES—0.5%		
Halliburton Company	10,700	**364,228**
OIL & GAS EXPLORATION & PRODUCTION—0.7%		
ConocoPhillips	11,500	**536,935**
OTHER DIVERSIFIED FINANCIAL SERVICES—0.8%		
Bank of America Corp.	36,400	**612,612**
PACKAGED FOODS & MEATS—0.5%		
The Kraft Heinz Co.	4,700	**341,972**
PHARMACEUTICALS—6.4%		
Bristol-Myers Squibb Co.	14,700	1,011,213
Eli Lilly & Co.	11,100	935,286
GlaxoSmithKline PLC.#	9,300	375,255
Johnson & Johnson	10,300	1,058,016
Pfizer, Inc.	31,589	1,019,693
Roche Holding AG#	13,100	451,557
		4,851,020
RAILROADS—0.8%		
CSX Corp.	22,100	**573,495**
RESTAURANTS—1.6%		
Darden Restaurants, Inc.	5,100	324,564
McDonald's Corp.	7,500	886,050
		1,210,614
SECURITY & ALARM SERVICES—0.6%		
Tyco International PLC.	13,800	**440,082**
SEMICONDUCTOR EQUIPMENT—0.4%		
Kla-Tencor Corp.	4,700	**325,945**
SEMICONDUCTORS—2.1%		
Avago Technologies Ltd.	5,800	841,870
Intel Corp.	22,400	771,680
		1,613,550
SOFT DRINKS—2.3%		
PepsiCo, Inc.	10,600	1,059,152
The Coca-Cola Co.	15,900	683,064
		1,742,216
SPECIALIZED FINANCE—0.9%		
CME Group, Inc.	7,100	**643,260**
SYSTEMS SOFTWARE—2.5%		
Microsoft Corp.	33,400	**1,853,032**
TECHNOLOGY HARDWARE STORAGE & PERIPHERALS—3.3%		
Apple, Inc.	20,100	2,115,726
Seagate Technology PLC.	10,200	373,932
		2,489,658

COMMON STOCKS—(CONT.)	SHARES	VALUE
TOBACCO—1.6%		
Altria Group, Inc.	20,300	**$ 1,181,663**
TOTAL COMMON STOCKS (Cost $38,292,245)		**48,521,675**

CONVERTIBLE PREFERRED STOCKS—0.6%	SHARES	VALUE
PHARMACEUTICALS—0.6%		
Allergan PLC., 5.50%, 3/1/2018*	420	**432,675**
(Cost $420,000)		**432,675**

MASTER LIMITED PARTNERSHIP—1.8%	SHARES	VALUE
ASSET MANAGEMENT & CUSTODY BANKS—1.0%		
The Blackstone Group LP.	26,600	**777,784**
OIL & GAS STORAGE & TRANSPORTATION—0.8%		
Cheniere Energy Partners LP.	12,700	331,089
Williams Partners LP.	8,200	228,370
		559,459
TOTAL MASTER LIMITED PARTNERSHIP (Cost $1,323,822)		**1,337,243**

REAL ESTATE INVESTMENT TRUST—2.1%	SHARES	VALUE
HEALTH CARE—0.6%		
Welltower, Inc.	7,100	**483,013**
MORTGAGE—0.4%		
Blackstone Mortgage Trust, Inc., Cl. A	11,800	**315,768**
SPECIALIZED—1.1%		
Crown Castle International Corp.	4,400	380,380
Lamar Advertising Co., Cl. A	6,900	413,862
		794,242
TOTAL REAL ESTATE INVESTMENT TRUST (Cost $1,521,048)		**1,593,023**

CORPORATE BONDS—28.3%	PRINCIPAL AMOUNT	VALUE
AGRICULTURAL PRODUCTS—1.5%		
Cargill, Inc., 7.35%, 3/6/2019*(a)	$1,000,000	**1,150,682**
COMPUTER HARDWARE—4.0%		
Dell, Inc., 3.10%, 4/1/2016*	1,000,000	1,003,750
Hewlett-Packard Co., 4.38%, 9/15/2021*	2,000,000	1,970,342
		2,974,092
CONSTRUCTION & FARM MACHINERY & HEAVY TRUCKS—2.3%		
John Deere Capital Corp., 2.75%, 3/15/2022*	1,750,000	**1,741,593**
DIVERSIFIED BANKS—2.6%		
Wells Fargo & Co., 3.30%, 9/9/2024*	2,000,000	**1,991,876**
INDUSTRIAL CONGLOMERATES—3.0%		
General Electric Capital Corp., 6.00%, 8/7/2019*	2,000,000	**2,266,790**
INTEGRATED OIL & GAS—1.4%		
Total Capital SA, 4.45%, 6/24/2020*	1,000,000	**1,077,400**
INTEGRATED TELECOMMUNICATION SERVICES—1.9%		
Verizon Communications, Inc., 5.15%, 9/15/2023*	1,300,000	**1,431,413**

CORPORATE BONDS—(CONT.)	PRINCIPAL AMOUNT		VALUE
INVESTMENT BANKING & BROKERAGE—2.3%			
The Goldman Sachs Group, Inc., 5.75%, 1/24/2022*	$1,500,000	**$**	**1,708,040**
IT CONSULTING & OTHER SERVICES—2.6%			
International Business Machines Corp., 7.00%, 10/30/2025*	1,525,000		**1,958,195**
OTHER DIVERSIFIED FINANCIAL SERVICES—2.1%			
JPMorgan Chase & Co., 4.35%, 8/15/2021*	1,500,000		**1,597,542**
PACKAGED FOODS & MEATS—2.5%			
Campbell Soup Co., 2.50%, 8/2/2022*	2,000,000		**1,900,210**
SEMICONDUCTORS—2.1%			
Altera Corp., 4.10%, 11/15/2023*	1,500,000		**1,564,609**
TOTAL CORPORATE BONDS			
(Cost $21,571,914)			**21,362,442**

U.S. TREASURY OBLIGATIONS—1.3%	PRINCIPAL AMOUNT		VALUE
U.S. Treasury Note,			
4.50%, 2/15/16	940,000		944,474
(Cost $942,953)			**944,474**
Total Investments			
(Cost $64,071,982)(b)	98.5%		**74,191,532**
Other Assets in Excess of Liabilities	1.5%		**1,158,533**
NET ASSETS	100.0%	**$**	**75,350,065**

\# *American Depositary Receipts.*
* *Non-income producing security.*
(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 1.5% of the net assets of the Portfolio.*
(b) *At December 31, 2015, the net unrealized appreciation on investments, based on cost for federal income tax purposes of $63,910,035, amounted to $10,281,498 which consisted of aggregate gross unrealized appreciation of $12,056,018 and aggregate gross unrealized depreciation of $1,774,520.*

Industry classifications are unaudited.
See Notes to Financial Statements.

ALGER BALANCED PORTFOLIO
Statement of Assets and Liabilities December 31, 2015

		Alger Balanced Portfolio
ASSETS:		
Investments in securities, at value (Identified cost below)* see accompanying schedule of investments	$	74,191,532
Receivable for investment securities sold		1,096,016
Receivable for shares of beneficial interest sold		80,713
Dividends and interest receivable		387,114
Prepaid expenses		15,695
Total Assets		75,771,070
LIABILITIES:		
Payable for shares of beneficial interest redeemed		24,130
Bank overdraft		294,893
Accrued investment advisory fees		46,699
Accrued transfer agent fees		6,934
Accrued administrative fees		1,809
Accrued shareholder administrative fees		658
Accrued other expenses		45,882
Total Liabilities		421,005
NET ASSETS	**$**	**75,350,065**
NET ASSETS CONSIST OF:		
Paid in capital (par value of $.001 per share)		71,214,989
Undistributed net investment income		1,376,121
Undistributed net realized gain (accumulated realized loss)		(7,360,596)
Net unrealized appreciation on investments		10,119,551
NET ASSETS	**$**	**75,350,065**
* Identified cost	$	64,071,982

See Notes to Financial Statements.

		Alger Balanced Portfolio
NET ASSETS BY CLASS:		
Class I-2	$	75,350,065
SHARES OF BENEFICIAL INTEREST OUTSTANDING — NOTE 6:		
Class I-2		5,234,828
NET ASSET VALUE PER SHARE:		
Class I-2 — Net Asset Value Per Share Class I-2	$	14.39

See Notes to Financial Statements.

ALGER BALANCED PORTFOLIO
Statement of Operations for the year ended December 31, 2015

		Alger Balanced Portfolio
INCOME:		
Dividends (net of foreign withholding taxes*)	$	1,755,850
Interest		860,667
Total Income		2,616,517
EXPENSES:		
Advisory fees — Note 3(a)		644,855
Shareholder administrative fees — Note 3(f)		9,082
Administration fees — Note 3(b)		24,977
Custodian fees		28,666
Interest expenses		1,164
Transfer agent fees and expenses — Note 3(f)		22,725
Printing fees		23,375
Professional fees		36,540
Registration fees		17,736
Trustee fees — Note 3(g)		3,210
Fund accounting fees		10,990
Miscellaneous		7,970
Total Expenses		831,290
NET INVESTMENT INCOME		1,785,227
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY:		
Net realized gain on investments		4,063,646
Net change in unrealized (depreciation) on investments		(4,357,230)
Net realized and unrealized (loss) on investments		(293,584)
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$**	**1,491,643**
* Foreign withholding taxes	$	15,157

See Notes to Financial Statements.

ALGER BALANCED PORTFOLIO
Statements of Changes in Net Assets

		Alger Balanced Portfolio		
		For the Year Ended December 31, 2015		For the Year Ended December 31, 2014
Net investment income	$	1,785,227	$	1,988,958
Net realized gain on investments, options and foreign currency		4,063,646		1,872,668
Net change in unrealized appreciation (depreciation) on investments, options and foreign currency		(4,357,230)		4,670,548
Net increase in net assets resulting from operations		1,491,643		8,532,174
Dividends and distributions to shareholders from:				
Net investment income:				
Class I-2		(1,581,487)		(1,846,710)
Total dividends and distributions to shareholders		(1,581,487)		(1,846,710)
Increase (decrease) from shares of beneficial interest transactions:				
Class I-2		(21,122,958)		(5,699,198)
Net decrease from shares of beneficial interest transactions — Note 6		(21,122,958)		(5,699,198)
Total increase (decrease)		(21,212,802)		986,266
Net Assets:				
Beginning of period		96,562,867		95,576,601
END OF PERIOD	**$**	**75,350,065**	**$**	**96,562,867**
Undistributed net investment income	$	1,376,121	$	1,325,193

See Notes to Financial Statements.

ALGER BALANCED PORTFOLIO
Financial Highlights for a share outstanding throughout the period

Alger Balanced Portfolio	Class I-2				
	Year ended 12/31/2015	Year ended 12/31/2014	Year ended 12/31/2013	Year ended 12/31/2012	Year ended 12/31/2011
Net asset value, beginning of period	$ 14.48	$ 13.49	$ 11.84	$ 11.31	$ 11.61
INCOME FROM INVESTMENT OPERATIONS:					
Net investment income[(i)]	0.29	0.29	0.20	0.13	0.14
Net realized and unrealized gain (loss) on investments	(0.08)	0.98	1.61	0.56	(0.12)
Total from investment operations	0.21	1.27	1.81	0.69	0.02
Dividends from net investment income	(0.30)	(0.28)	(0.16)	(0.16)	(0.32)
Net asset value, end of period	$ 14.39	$ 14.48	$ 13.49	$ 11.84	$ 11.31
Total return	1.47%	9.43%	15.28%	6.23%	0.03%
RATIOS/SUPPLEMENTAL DATA:					
Net assets, end of period (000's omitted)	$ 75,350	$ 96,563	$ 95,577	$ 93,129	$ 101,811
Ratio of gross expenses to average net assets	0.92%	0.92%	0.95%	0.95%	0.93%
Ratio of expense reimbursements to average net assets	–	–	–	–	(0.04)%
Ratio of net expenses to average net assets	0.92%	0.92%	0.95%	0.95%	0.89%
Ratio of net investment income (loss) to average net assets	1.97%	2.09%	1.56%	1.13%	1.20%
Portfolio turnover rate	9.64%	24.89%	71.66%	122.50%	102.79%

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 offering 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 values its financial instruments at fair value using independent dealers or pricing services under policies approved by the Fund's Board of Trustees ("Board"). 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.

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 advisor, pursuant to policies established by the Board, 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 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 Portfolio’s 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, 2 and 3 are recognized at the end of 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 accompanying Statement of Operations.

(e) Option Contracts: When the 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 accompanying 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.

(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.

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 year end and have no impact on the net asset value of the Portfolio and are designed to present the Portfolio's capital accounts on a tax basis.

(h) Federal Income Taxes: It is the Portfolio's policy to comply with the requirements of the Internal Revenue Code 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 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 2012-2015. 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 the 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. ("Alger Management" or the "Manager"), 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, 2015, 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, 2015, the Portfolio paid Fred Alger & Company, Incorporated, the Fund's distributor (the "Distributor or Alger Inc.") and an affiliate of Alger Management, $4,962, in connection with securities transactions.

(d) Interfund Loans: The Portfolio and 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 Portfolio. There were no interfund loans outstanding as of December 31, 2015.

During the year ended December 31, 2015, the Portfolio incurred interest expense of $1,031 in connection with interfund loans which is included in interest expense in the accompanying Statement of Operations. During the year ended December 31, 2015, the Portfolio earned interfund loan interest income of $182 which is included in interest income in the accompanying Statement of Operations.

(e) Other Transactions With Affiliates: Certain 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, 2015 through February 28, 2015, the Portfolio paid 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 received an additional annual fee of $24,300 which was paid, pro rata, by all U.S.-registered funds managed by Alger Management. Additionally, each member of the Fund's audit committee received $81 from the Portfolio for each audit committee meeting attended, to a maximum of $324 per annum.

Effective March 1, 2015, each Independent Trustee who is not affiliated with Alger Management or its affiliates receives a fee of $25,875 for each meeting attended, to a maximum of $103,500 per annum, paid pro rata by each fund in the Alger Fund Complex, plus travel expenses incurred for attending the meeting . The Portfolios' pro rata allocation was $2,973. The Independent Trustee appointed as Chairman of the Board of Trustees receives an additional compensation of $24,300 per annum paid pro rata by each fund in the Alger Fund Complex. The Portfolios' pro rata allocation was $138. Additionally, each member of the Audit Committee receives a fee of $2,500 for each meeting attended to a maximum of $10,000 per annum, paid pro rata by each fund in the Alger Fund Complex. The Portfolios' pro rata allocation was $170.

(h) Interfund Trades: The Portfolio may engage in purchase and sale transactions with funds that have a common investment advisor. For the year ended December 31, 2015, the Portfolio had no such purchases and sales.

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, 2015, were as follows:

	PURCHASES	SALES
Alger Balanced Portfolio	$8,380,733	$21,813,581

Transactions in foreign securities may involve certain considerations and risks not typically associated with those of U.S. companies because of, among other factors, the level of governmental supervision and regulation of foreign security markets, and the possibility of political or economic instability. Additional risks associated with investing in the emerging markets include increased volatility, limited liquidity, and less stringent regulatory and legal system.

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 funds advised by Alger Management, as discussed in Note 3(d). For the year ended December 31, 2015, the Portfolio had the following borrowings from its custodian and other funds.

	AVERAGE DAILY BORROWING	WEIGHTED AVERAGE INTEREST RATE
Alger Balanced Portfolio	$ 96,245	1.28%

The highest amount borrowed from its custodian and other funds during the year ended December 31, 2015, for the Portfolio was as follows:

	HIGHEST BORROWING
Alger Balanced Portfolio	$ 1,772,867

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, 2015 and the year ended December 31, 2014, transactions of shares of beneficial interest were as follows:

	FOR THE YEAR ENDED DECEMBER 31, 2015		FOR THE YEAR ENDED DECEMBER 31, 2014	
	SHARES	AMOUNT	SHARES	AMOUNT
Alger Balanced Portfolio				
Class I-2:				
Shares sold	453,159	$ 6,646,901	499,342	$ 6,978,317
Dividends reinvested	109,219	1,581,486	127,447	1,846,710
Shares redeemed	(1,998,342)	(29,351,345)	(1,039,539)	(14,524,225)
Net decrease	**(1,435,964)**	**$ (21,122,958)**	**(412,750)**	**$ (5,699,198)**

NOTE 7 — Income Tax Information:

The tax character of distributions paid during the year ended December 31, 2015 and the year ended December 31, 2014 were as follows:

	FOR THE YEAR ENDED DECEMBER 31, 2015	FOR THE YEAR ENDED DECEMBER 31, 2014
Alger Balanced Portfolio		
Distributions paid from:		
Ordinary Income	$ 1,581,487	$ 1,846,710
Long-term capital gain	—	—
Total distributions paid	**$ 1,581,487**	**$ 1,846,710**

As of December 31, 2015 the components of accumulated gains (losses) on a tax basis were as follows:

Alger Balanced Portfolio	
Undistributed ordinary income	$ 1,376,121
Undistributed long-term gains	—
Net accumulated earnings	$ 1,376,121
Capital loss carryforwards	(7,522,543)
Net unrealized appreciation	10,281,498
Total accumulated earnings	$ 4,135,076

At December 31, 2015, 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	$ 7,522,543
Total	7,522,543

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, 2015 the Portfolio utilized $3,864,971 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 partnership 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 and real estate investment trusts and partnership investments sold by the Portfolio, resulted in the following reclassifications among the Portfolio's components of net assets at December 31, 2015:

Alger Balanced Portfolio

Accumulated undistributed net investment income (accumulated loss)	$	(152,812)
Accumulated net realized gain (accumulated realized loss)	$	152,813
Paid-in Capital	$	(1)

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, 2015, 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	$ 7,249,276	$ 7,249,276	—	—
Consumer Staples	6,195,577	6,195,577	—	—
Energy	2,741,133	2,741,133	—	—
Financials	7,019,391	7,019,391	—	—
Health Care	7,484,388	7,484,388	—	—
Industrials	5,494,339	5,494,339	—	—
Information Technology	9,742,103	9,742,103	—	—
Materials	603,704	603,704	—	—
Telecommunication Services	1,653,328	1,653,328	—	—
Utilities	338,436	338,436	—	—
TOTAL COMMON STOCKS	**$ 48,521,675**	**$ 48,521,675**	**—**	**—**

Alger Balanced Portfolio	TOTAL FUND	LEVEL 1	LEVEL 2	LEVEL 3
CONVERTIBLE PREFERRED STOCKS				
Health Care	432,675	432,675	—	—
CORPORATE BONDS				
Consumer Staples	3,050,892	—	3,050,892	—
Energy	1,077,400	—	1,077,400	—
Financials	5,297,458	—	5,297,458	—
Industrials	4,008,383	—	4,008,383	—
Information Technology	6,496,896	—	6,496,896	—
Telecommunication Services	1,431,413	—	1,431,413	—
TOTAL CORPORATE BONDS	**$ 21,362,442**	**—**	**$ 21,362,442**	**—**
MASTER LIMITED PARTNERSHIP				
Energy	559,459	559,459	—	—
Financials	777,784	777,784	—	—
TOTAL MASTER LIMITED PARTNERSHIP	**$ 1,337,243**	**$ 1,337,243**	**—**	**—**
REAL ESTATE INVESTMENT TRUST				
Financials	1,593,023	1,593,023	—	—
U.S. TREASURY OBLIGATIONS				
U.S. Government & Agency	944,474	—	944,474	—
TOTAL INVESTMENTS IN SECURITIES	**$ 74,191,532**	**$ 51,884,616**	**$ 22,306,916**	**—**

On December 31, 2015 there were no transfers of securities between Level 1, Level 2 and Level 3.

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, 2015, such assets are categorized within the disclosure hierarchy as follows:

Bank Overdraft	TOTAL FUND	LEVEL 1	LEVEL 2	LEVEL 3
Alger Balanced Portfolio	$ (294,893)	$ (294,893)	—	—

NOTE 9 — Derivatives:

Financial Accounting Standards Board Accounting Standards Codification 815 – Derivatives and Hedging 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 and 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 the stock market 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, 2015.

NOTE 10 — Principal Risks:

In the normal course of business, the Portfolio invests in securities and enters into transactions where risks exist due to fluctuations in the market (market risk) or failure of the issuer of a security to meet all its obligations (issuer credit risk). The value of securities held by the Portfolio may decline in response to certain events, including those directly involving the issuers whose securities are owned by the Portfolio; conditions affecting the general economy; overall market changes; local, regional or global political, social or economic instability; and currency and interest rate and price fluctuations. Similar to issuer credit risk, the Portfolio may be exposed to counterparty credit risk, or the risk that an entity with which the Portfolio has unsettled or open transactions may fail to or be unable to perform on its commitments. The Portfolio manages counterparty credit risk by entering into transactions only with counterparties that it believes have the financial resources to honor their obligations and by monitoring the financial stability of those counterparties. Financial assets, which potentially expose the Portfolio to market, issuer and counterparty credit risks, consist principally of financial instruments and receivables due from counterparties. The extent of the Portfolio's exposure to market, issuer and counterparty credit risks with respect to these financial assets is generally approximated by its value recorded in the Statement of Assets and Liabilities, less any collateral held by the Portfolio.

NOTE 11 — Subsequent Events:

Management of the Portfolio has evaluated events that have occurred subsequent to December 31, 2015 through the issuance date of the financial statements. No such events have been identified which require recognition and/or disclosure.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees of The Alger Portfolios and the 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, one of the portfolios included in The Alger Portfolios (the "Fund") as of December 31, 2015, 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, 2015, by correspondence with the custodian. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above, present fairly, in all material respects, the financial position of the Alger Balanced Portfolio of The Alger Portfolios as of December 31, 2015, 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 26, 2016

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, 2015 and ending December 31, 2015.

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, 2015	Ending Account Value December 31, 2015	Expenses Paid During the Six Months Ended December 31, 2015[(a)]	Annualized Expense Ratio For the Six Months Ended December 31, 2015[(b)]
Alger Balanced Portfolio					
Class I-2	Actual	$ 1,000.00	$ 1,001.53	$ 4.64	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 (54)	Fundraising Consultant, Schultz & Williams; Trustee, Pennsylvania Ballet; Formerly Director of Development, Pennsylvania Ballet 2004-2013.	2003	25
NON-INTERESTED TRUSTEE			
Charles F. Baird, Jr. (62)	Managing Director of North Castle Partners, a private equity securities group; Chairman of Elizabeth Arden Red Door Spas and Barry's Bootcamp, former Chairman of Cascade Helmets, gloProfessional (makeup and skincare business), Contigo (manufacturer of mugs and water bottles), and International Fitness.	2000	25
Roger P. Cheever (70)	Associate Vice President for Principal Gifts at Harvard University since 2008; Formerly Senior Associate Dean for Development in the Faculty of Arts and Sciences, and 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 (53)	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 (51) 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 (50) Secretary	Senior Vice President since 2009, and Vice President and Assistant General Counsel of Alger Management since June 2006.	2006	N/A
Michael D. Martins (50) Treasurer	Senior Vice President of Alger Management; Assistant Treasurer since 2004.	2005	N/A
Anthony S. Caputo (60) Assistant Treasurer	Employed by Alger Management since 1986, currently serving as Vice President.	2007	N/A
Sergio M. Pavone (54) Assistant Treasurer	Employed by Alger Management since 2002, currently serving as Vice President.	2007	N/A
Patrick J. Murphy (45) Chief Compliance Officer	Senior Vice President and Chief Compliance Officer of Alger Management since 2014. Formerly, Vice President of Compliance, Fidelity Investments from 2005 to 2014.	2014	N/A
Joshua M. Lindauer (28) Assistant Secretary	Employed by Alger Management since 2014. From 2010 to 2014, Mr. Lindauer was a full-time student.	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 29, 2015, the Trustees, including the Independent Trustees, unanimously approved renewal with respect to the Alger Balanced Portfolio (the "Portfolio") 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 the 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 Portfolio, and (iv) the extent to which economies of scale would be realized if and as the Portfolio grows and whether the fee levels in the Agreement reflected such economies of scale. These materials included a presentation and analysis of the Portfolio 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 Portfolio.

Nature, Extent and Quality of Services. In considering the nature, extent and quality of the services provided to the Portfolio 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 quarterly meetings with and presentations by Portfolio investment management and 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 Portfolio. 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 Portfolio. They also considered the resources and practices of Alger Management in managing the Portfolio, as well as Alger Management's overall investment management business. They noted especially Alger Management's established expertise in managing portfolios of equity securities and the ability of the manager of the fixed-income portion of the 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 Portfolio 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 with respect to the Portfolio are provided separately under an Administration Agreement and a Shareholder Administrative Services Agreement between the Fund and 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 the Portfolio's returns for the year-to-date (at 6/30/15), second-quarter of 2015, 1-, 3-, and 5-year and longer periods to the extent available (and its year-by-year returns), together with supplemental performance data through 8/31/15, and compared them with benchmark and peer-group data for the same periods. They noted that the Portfolio's performance had matched or surpassed the medians of its peers for all stated periods of one year or less ended 6/30/15 and that the 8/31/15 supplemental data showed such strength continuing; while the Portfolio's performance against its benchmark was unsuccessful for the 1-year and year-to date periods, the second-quarter 2015 results showed superior performance by that measure as well. Performance against peers and benchmark for three and five years was poor, reflecting subpar performance in prior years. Representatives of Alger Management discussed with the Trustees the recent performance of the Portfolio. On the basis of these discussions and their review, the Trustees determined that the performance of the Portfolio was acceptable.

Fund Fees and Expense Ratios; Profitability to Alger Management and its Affiliates. The Trustees reviewed the 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 Portfolio's advisory fee exceeded the applicable median, but only so as to place it near the middle of the quartile above the median. Similarly, the expense ratio for the Portfolio's single share class fell in the quartile above the peer medians; in that regard, the Trustees noted that the class's assets were relatively modest in amount, so that the class may have suffered somewhat in overall comparison with its 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 Portfolio because of the differences in services provided by Alger Management to those types of clients as opposed to the Portfolio, 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 with respect to the Portfolio, and the methodology used by Alger Management in determining such profitability. The Trustees reviewed previously-provided data on the

Portfolio's profitability to Alger Management and its affiliates for the year ended June 30, 2015. 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 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 Portfolio and its operations is such that Alger Management is likely to realize economies of scale in the management of the Portfolio at some point as (and if) it grows in size. In that connection, they noted that the applicable advisory fee schedule in the Agreement includes a fee reduction for the Portfolio at a specified Portfolio asset level ("breakpoint"); this has the effect of lowering the Portfolio's overall management fee as the Portfolio grows past the 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 Portfolio. They noted that Alger Management maintains soft-dollar arrangements in connection with the equity portion of the Portfolio's 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, 2015, had been included in the materials supplied prior to the meeting. The Trustees also noted that Alger Management receives fees from the Portfolio under the Administration Agreement and the Shareholder Administrative Services Agreement, and that Alger Inc. provides a considerable portion of the Portfolio's equity brokerage and receives shareholder servicing fees from the Portfolio 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 Portfolio. 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 regarding renewal, with respect to the Portfolio, of the Investment Advisory Agreement. Based on its discussions and considerations as described above, the Board made the following conclusions and determinations:

- The Board concluded that the nature, extent and quality of the services provided to 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

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

- The Board 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 breakpoint 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 the 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. 01/2015 **3/31/15**

FACTS	WHAT DOES ALGER DO WITH YOUR PERSONAL INFORMATION?
Why?	Financial companies choose how they share your personal 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 and • Account balances and • Transaction history and • Purchase history and • Assets When you are no longer our customer, we continue to share your information as described in this notice.
How?	All financial companies need to share personal information to run their everyday business. In the section below, we list the reasons financial companies can share their personal information; the reasons 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 — 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 nonaffiliates to market to you	**No**	**We don't share**
Questions? Call 1-800-342-2186		

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.
How does Alger Collect my personal information?	We collect your personal information, for example, when you: • Open an account or • Make deposits or withdrawals from you account • Give us your contact information or • Provide account information or • Pay us by check.
Why can't I limit all sharing?	Federal law gives you the right to only • 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.
Other important information	

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 publicly available its month-end top 10 holdings with a 10 day lag and its month-end full portfolio with a 60 day lag on its 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 Portfolio's holdings versus its peers or an index (such as P/E (or price to book) ratio EPS forecasts, alpha, beta, capture ratio, standard deviation, Sharpe ratio, information ratio, R-squared, and market cap analysis), security specific impact on overall portfolio performance, return on equity statistics, geographic analysis, number of holdings, 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 Portfolio at (800) 992-3863 to obtain such information.

THE ALGER PORTFOLIOS

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(800) 992-3863
www.alger.com

Investment Manager

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Distributor

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

Transfer Agent and Dividend Disbursing Agent

State Street Bank and Trust Company
c/o Boston Financial Data Services, Inc.
P.O. Box 8480
Boston, MA 02266

Custodian

Brown Brothers Harriman & Company
50 Post Office Square
Boston, MA 02110

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 the Fund's investment policies, fees and expenses as well as other pertinent information.

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THE ALGER FUNDS

Alger Capital Appreciation Portfolio

ANNUAL REPORT

DECEMBER 31, 2015

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ALGER CAPITAL APPRECIATION PORTFOLIO

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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,

The Importance of a Differentiated Perspective when Investing

In the aftermath of the market lows of early 2009, commentators have frequently warned that U.S. equities were overdue for a catastrophic correction. In contrast, based on Alger analysts' and portfolio managers' fundamental analysis of industries globally, we concluded that U.S. equities had strong potential for generating gains. U.S. equities have, in fact, been one of the strongest performing asset classes, with the S&P 500 index generating a 237.17% cumulative return from March of 2009 to the end of 2015. While the year continued with periods of doubts and consequent volatility, we continue to have an optimistic view for U.S. equities. As in the past, pundits today with overly negative views have, we feel, a distorted view of the fundamental strength of the U.S. economy in particular and, more broadly, of the opportunities for investors globally.

From a more recent perspective, 2015 was challenging with the S&P 500 gaining only 1.38%, although U.S. large-cap growth stocks generated stronger gains. The Russell 1000 Growth Index, for example, produced a 5.67% return while its value counterpart declined 3.83%. In this letter, I explain why events in the U.S. and abroad haven't caused us to change our outlook and how our in-depth research of industries and individual companies supports our differentiated view of equities.

Navigating Market Risk

Alger analysts focus on fundamental, research-driven stock selection and they specialize in covering specific industries. Alger's specialist structure results in deep fundamental research and insight from analysts that have broad historical views and market experience within sectors. We are, as they say, close to the companies we follow and the stocks we invest in for our clients.

Our perspective on declining energy prices is an example of how we assess rapid and large-scale changes that frequently reshape the business landscape. The U.S. oil and gas industry has experienced a revolutionary change in the past decade through the advance of fracking and other technologies in the exploration and production of domestic land-based resources. But that success has had its natural result: increased production, which, when coupled with production from non-U.S. suppliers, has led to supply exceeding current demand and, thus, a dramatic decline in oil and natural gas prices. While the U.S. Energy sector has and will continue to struggle to adjust to this new energy market (i.e., to find a new equilibrium of supply and demand), many investors have gone further and concluded that overall U.S. economic growth will stall as a result of weakness in the industry and, specifically, through the loss of jobs and a decline in capital expenditures in the sector.

Our research, however, leads the Alger team to conclude that while the Energy sector certainly is in a significant retrenchment, low fuel prices will provide an overall benefit to the U.S. economy. More importantly, our fundamental stock selection process has determined that cheap energy will have a positive impact on many specific subsectors and companies. Heavy users of transportation fuel clearly benefit—the airline and cruise ship industries are obvious examples—but many industrial companies for which oil or oil-based commodity chemicals are significant cost inputs to products can also benefit. Ink producers, paint manufacturers, and specialty chemical providers are some of the industries that benefit from lower costs in this way. And, of course, the enormous energy cost savings are a boon to American consumers and will strengthen individuals' finances, especially for lower income Americans, thereby allowing them to increase their spending.

The country is already experiencing the benefits of cheap energy. In 2015, personal consumption expenditures for gasoline and other fuels declined 23.8%, according to data from the Bureau of Economic Analysis (BEA). With a big drop in energy costs, consumers ramped up their spending on other products and services, with personal consumption expenditures excluding energy climbing 4.5% in 2015.

The Web of Global Economics, the Federal Reserve, and Corporate Earnings

From a broader perspective, a mishmash of global and domestic developments drove market volatility. As concerns that corporate earnings would be hurt by declining oil prices strengthened, investors grew fearful that both a strengthening U.S. dollar (USD) and a slowdown in economic growth in various countries, including China and Brazil, would curtail our country's exports and create a tightening of credit availability abroad. In addition, the value of U.S. multinationals' foreign earnings could be crimped when repatriated, thanks to the strong U.S. dollar. At the same time, economic growth in the U.S. drove speculation that the Federal Reserve would raise interest rates, thereby providing a headwind for both the economy and corporate earnings. The speculation regarding a change in monetary policy proved correct with the Federal Reserve deciding in December to increase the target interest rate of its fed funds benchmark to a range of 0.25% to 0.50%, up from the prior target of 0% to 0.25%. Investors' reaction to the news was muted, however, because the change was anticipated. Yet the decision to tighten at a time when Sweden, Japan, the U.K., and the European Central Bank are engaged in quantitative easing supported a strong USD. With quantitative easing, countries print money to buy securities with the goal of keeping interest rates low and pumping money into local economies. With the exception of the strong USD, the longer-term potential impact on the U.S. economy of the Fed normalizing its monetary policy appears minimal with economists expecting real GDP to reach 2.6% in 2016, which would be an increase from the 2.4% rate for both 2015 and 2014.

Our Optimistic Perspective

For Alger, our best thinking comes not from listening to pundits, but instead from the collective efforts of our more than 40-person investment team. We focus our efforts on developing our research, improving our analysis, and understanding how change will impact businesses. During the reporting period, we continued to serve our clients by searching for companies across the globe with attractive potential for growing their earnings. We reasoned that certain fears that fueled negative views of U.S. equities, including declining oil prices, also created potential opportunities and that "headline" developments were not as bad as some believed.

We have also maintained that volatility in equities across the globe resulted from investors overreacting to the potential for the Federal Reserve to raise interest rates. We maintained that with low and sometimes negative debt yields in certain countries, foreign investors were flocking to U.S. bonds, which could help keep interest rates down even as the Fed increases its benchmark rate. In our opinion, Fed rate increases, furthermore, are likely to be gradual and modest as the central bank seeks to balance the need to manage economic growth with the global impact of a strong U.S. dollar.

The U.S. Economy and Corporate Fundamentals

Our optimism is based, in part, on corporate fundamentals and the steady, although not spectacular, growth of the U.S. economy. Americans' finances have been improving, with personal disposable income increasing 3.3% in the fourth quarter and 5.1% in the third quarter, according to the BEA. The personal savings rate, or savings as a percentage of disposable income, climbed to 5.4% in the fourth quarter, compared to 5.2% in the third quarter and the approximately 3% pace that existed prior to the global financial crisis. At the same time, Americans' debt service burden is relatively low at approximately 10% of disposable personal income compared to a peak of more than 13% at the end of 2007. While job growth has been slow, the country has added jobs every month since October of 2010 and the unemployment rate has fallen from a post-financial crisis high of 10.0% to only 5%.

Strength in the real estate market has also continued. Monthly readings for the National Association of Home Builders/Wells Fargo Housing Market Index, which measures sentiment toward the real estate market among builders, stayed at or above 60 during the second half of 2015. Readings above 50 indicate that builders view sales conditions as good rather than poor. At the same time, housing prices have climbed, with the S&P/Case-Shiller 20-City Composite Home Price Index reaching 182.86, up from a post-financial crisis low of 134.07 in March of 2012. The volume of permits for new construction, meanwhile, is running at slightly less than half the peak volume of 2005, which suggests that the real estate recovery has considerable potential for strengthening. In addition to the real estate recovery creating new construction jobs and supporting industries that provide trucks, equipment, and home building materials, the resulting higher home prices can help make Americans feel richer and thereby support consumer spending.

Finally, S&P 500 earnings are expected to grow 5% in 2016, according to consensus estimates. Ex-energy earnings, furthermore, are likely to grow at a high single-digit rate. In the meantime, corporations are continuing to grow their cash balances. At the end of the third quarter, S&P 500 companies (not including financials) held $1.45 trillion in cash, up 5.8% year over year, according to FactSet. Corporations are also returning capital to investors at near record levels. Dividends plus gross share buybacks in the third quarter reached $259.8 billion, the highest quarterly level in almost 10 years, according to FactSet. Mergers and acquisitions are also continuing at a brisk pace. We also believe that valuations are reasonable. At the beginning of 2016, the S&P 500 index had a forward price-to-earnings ratio of 15.7 compared with the 20-year median P/E ratio of 16.

The Road Ahead

We have learned in our 51 years of history that "good" television and "good" press are fueled most easily by talking heads who forecast doom and gloom for financial markets. Fortunately, we have also learned that the best research is done not by reading the newspaper or watching television, but instead by doing the hard work of talking to company management, reading voluminous company filings, understanding how a company drives revenue and profit growth, and most importantly, by believing what our research and analysis indicate. It is also important to have conviction that allows us to look through the next three months and to predict what the future truly holds for a company, industry, or sector. We maintain that well-managed companies that can capture market share with compelling products and services have potential over the long run for generating attractive returns and are best suited for weathering periods of market volatility. At Alger, we will continue to use our time-tested and research-driven investment strategy to find companies, whether in the U.S. or not, that we believe have the most potential for generating strong returns over time for our clients.

Portfolio Matters

The Alger Capital Appreciation Portfolio returned 6.19% for the fiscal 12-month period ended December 31, 2015, compared to the 5.67% return of its benchmark, the Russell 1000 Growth Index.

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

Among the most important relative contributors were Alphabet, Inc., Cl. C; Amazon.com, Inc.; Allergan PLC.; and Cigna Corp. Regarding Alphabet, Cl. C shares were held during the entire reporting period. During that timeframe, the shares generated a positive return and supported performance. Also during the reporting period, Facebook, Inc., Cl. A contributed to performance. The performance of Facebook stock has benefited from the social media company generating strong growth of advertising revenues as businesses increasingly promote products and services online.

Conversely, detracting from overall results on a relative basis were Alphabet, Inc., Cl. A; SunEdison, Inc.; Yahoo! Inc.; and YUM! Brands, Inc. Unlike Cl. C shares of Alphabet, Inc., Cl. A shares were sold early in the reporting period. During the shortened holding period, Class A shares declined in value and had a negative impact on performance. Also during the reporting period, Anadarko Petroleum Corp. detracted from results. Anadarko Petroleum is a diversified oil and gas company with exposure to onshore U.S. shale fields, offshore Gulf of Mexico operations, and international energy reserves. Declining hydrocarbon prices, however, hurt the performance of shares of Anadarko during the reporting period.

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

Sincerely,

Daniel C. Chung, CFA
Chief Investment Officer

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

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

The performance data quoted in these materials represent 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 the 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 Portfolio's management in this report are as of the date of the Shareholders' Letter and are subject to change at any time subsequent to this date. There is no guarantee that any of the assumptions that formed the basis for the opinions stated herein are accurate or that they will materialize. Moreover, the information forming the basis for such assumptions is from sources believed to be reliable; however, there is no guarantee that such information is accurate. Any securities mentioned, whether owned in the 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 the 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 the Portfolio. Please refer to the Schedule of Investments for the Portfolio which is included in this report for a complete list of Portfolio holdings as of December 31, 2015. Securities mentioned in the Shareholders' Letter, if not found in the Schedule of Investments, may have been held by the Portfolio 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. Investing in emerging markets involves higher levels of risk, including increased information, market, and valuation risks, and may not be suitable for all investors. Portfolios that participate in leveraging, such as Alger Capital Appreciation Portfolio, are subject to the risk that borrowing money to leverage will exceed the returns for securities purchased or that the securities purchased may actually go down in value; thus, Portfolio net asset values can decrease more quickly than if the Portfolio had not borrowed. For a more detailed discussion of the risks associated with the Portfolio, please see the Portfolio's Prospectus.

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

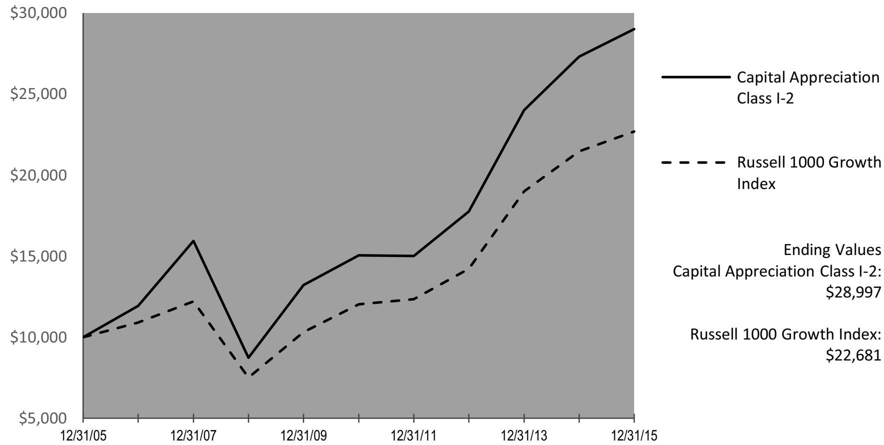
NOT FDIC INSURED. NOT BANK GUARANTEED. MAY LOSE VALUE.

Definitions:

- Russell 1000 Growth Index: An index of common stocks designed to track performance of large-capitalization companies with greater than average growth orientation.
- Russell 1000 Value Index measures the performance of the Russell 1000 Value segment which includes firms whose share prices have lower price to book ratios and lower expected long-term mean earnings growth rates.
- S&P 500 index: an index of large company stocks considered representative of the U.S. stock market.
- FactSet provides computer-based financial data and analysis for financial professionals, including investment managers, hedge funds, and investment bankers.

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

— 10 years ended 12/31/15



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, 2015. 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 12/31/15

AVERAGE ANNUAL TOTAL RETURNS	1 YEAR	5 YEARS	10 YEARS	Since 1/25/1995
Class I-2 (Inception 1/25/95)	6.19%	14.01%	11.23%	13.15%
Class S (Inception 5/1/02)[(i)]	5.91%	13.67%	10.91%	12.87%
Russell 1000 Growth Index	5.67%	13.53%	8.53%	8.86%

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, 2015 (Unaudited)

SECTORS/SECURITY TYPES	Alger Capital Appreciation Portfolio
Consumer Discretionary	20.9%
Consumer Staples	5.5
Energy	1.2
Financials	4.7
Health Care	18.4
Industrials	8.8
Information Technology	34.5
Materials	1.1
Telecommunication Services	1.1
Utilities	0.2
Total Equity Securities	96.4
Short-Term Investments and Net Other Assets	3.6
	100.0%

† *Based on net assets for the Portfolio.*

COMMON STOCKS—94.0%	SHARES	VALUE
ADVERTISING—0.0%		
Choicestream, Inc.*,@,(a)	23,166	$ **9,730**
AEROSPACE & DEFENSE—3.7%		
Hexcel Corp.	31,900	1,481,755
Honeywell International, Inc.	110,939	11,489,952
Lockheed Martin Corp.	14,174	3,077,884
The Boeing Co.	40,852	5,906,791
		21,956,382
AIRLINES—1.1%		
Delta Air Lines, Inc.	106,200	5,383,278
United Continental Holdings, Inc.*	22,320	1,278,936
		6,662,214
ALTERNATIVE CARRIERS—0.3%		
Level 3 Communications, Inc.*	36,350	**1,975,986**
APPAREL ACCESSORIES & LUXURY GOODS—0.1%		
Under Armour, Inc., Cl. A*	11,200	**902,832**
APPAREL RETAIL—0.1%		
VF Corp.	9,700	**603,825**
APPLICATION SOFTWARE—2.3%		
Adobe Systems, Inc.*	42,777	4,018,471
salesforce.com, inc.*	124,675	9,774,520
		13,792,991
AUTO PARTS & EQUIPMENT—1.8%		
Delphi Automotive PLC.	110,960	9,512,601
WABCO Holdings, Inc.*	10,600	1,083,956
		10,596,557
BIOTECHNOLOGY—6.1%		
ACADIA Pharmaceuticals, Inc.*	16,100	573,965
Biogen, Inc.*	18,481	5,661,654
BioMarin Pharmaceutical, Inc.*	11,452	1,199,712
Celgene Corp.*	72,211	8,647,989
Gilead Sciences, Inc.	83,128	8,411,722
Incyte Corp.*	23,221	2,518,318
Regeneron Pharmaceuticals, Inc.*	1,300	705,731
Vertex Pharmaceuticals, Inc.*	69,042	8,687,555
		36,406,646
BREWERS—1.7%		
Anheuser-Busch InBev SA#	23,200	2,900,000
Molson Coors Brewing Co., Cl. B	80,586	7,568,637
		10,468,637
BUILDING PRODUCTS—0.5%		
Fortune Brands Home & Security, Inc.	37,194	2,064,267
Lennox International, Inc.	7,591	948,116
		3,012,383
CABLE & SATELLITE—1.6%		
Comcast Corporation, Cl. A	164,604	**9,288,604**
COMMUNICATIONS EQUIPMENT—0.7%		
Arista Networks, Inc.*	25,754	2,004,691

COMMON STOCKS—(CONT.)	SHARES	VALUE
COMMUNICATIONS EQUIPMENT—(CONT.)		
ARRIS Group, Inc.*	68,600	$ 2,097,102
		4,101,793
CONSUMER FINANCE—0.4%		
LendingClub Corp.*	98,600	1,089,530
Synchrony Financial*	39,091	1,188,757
		2,278,287
DATA PROCESSING & OUTSOURCED SERVICES—4.7%		
Alliance Data Systems Corp.*	13,411	3,709,080
Sabre Corp.	155,200	4,340,944
Visa, Inc., Cl. A	257,315	19,954,778
		28,004,802
DRUG RETAIL—1.2%		
CVS Caremark Corp.	50,403	4,927,901
Walgreens Boots Alliance, Inc.	29,797	2,537,364
		7,465,265
FOOD RETAIL—0.9%		
The Kroger Co.	122,474	**5,123,087**
FOOTWEAR—0.3%		
NIKE, Inc., Cl. B	31,198	**1,949,875**
GENERAL MERCHANDISE STORES—0.9%		
Dollar General Corp.	44,837	3,222,435
Dollar Tree, Inc.*	26,660	2,058,685
		5,281,120
HEALTH CARE EQUIPMENT—1.7%		
DexCom, Inc.*	2,700	221,130
Edwards Lifesciences Corp.*	71,700	5,662,866
Hologic, Inc.*	61,100	2,363,959
STERIS PLC.	29,100	2,192,394
		10,440,349
HEALTH CARE FACILITIES—0.9%		
Amsurg Corp.*	31,700	2,409,200
HCA Holdings, Inc.*	44,140	2,985,188
		5,394,388
HOME IMPROVEMENT RETAIL—2.1%		
Lowe's Companies, Inc.	78,833	5,994,461
The Home Depot, Inc.	51,566	6,819,604
		12,814,065
HOTELS RESORTS & CRUISE LINES—1.5%		
Ctrip.com International Ltd.#*	51,710	2,395,724
Norwegian Cruise Line Holdings Ltd.*	111,100	6,510,460
		8,906,184
HOUSEWARES & SPECIALTIES—1.3%		
Jarden Corp.*	132,663	**7,577,711**
INDUSTRIAL CONGLOMERATES—0.5%		
Danaher Corp.	19,252	1,788,126
General Electric Co.	39,414	1,227,746
		3,015,872

COMMON STOCKS—(CONT.)	SHARES	VALUE
INDUSTRIAL GASES—0.7%		
Air Products & Chemicals, Inc.	31,883	**$ 4,148,297**
INTERNET RETAIL—5.4%		
Amazon.com, Inc.*	42,187	28,513,772
NetFlix, Inc.*	32,390	3,704,768
		32,218,540
INTERNET SOFTWARE & SERVICES—14.2%		
Alibaba Group Holding Ltd.#*	7,800	633,906
Alphabet, Inc., Cl. C*	56,237	42,677,135
Facebook, Inc., Cl. A*	258,101	27,012,851
GrubHub, Inc.*	49,206	1,190,785
LinkedIn Corp., Cl. A*	23,880	5,374,910
MATCH GROUP INC*	27,900	378,045
Palantir Technologies, Inc., Cl. A*,@	41,286	416,989
Yahoo! Inc.*	226,540	7,534,720
		85,219,341
INVESTMENT BANKING & BROKERAGE—0.7%		
E*TRADE Financial Corp.*	34,600	1,025,544
Morgan Stanley	98,312	3,127,305
		4,152,849
LEISURE PRODUCTS—0.4%		
Coach, Inc.	77,900	**2,549,667**
LIFE SCIENCES TOOLS & SERVICES—2.0%		
Thermo Fisher Scientific, Inc.	84,465	**11,981,360**
MANAGED HEALTH CARE—1.8%		
Aetna, Inc.	15,400	1,665,048
UnitedHealth Group, Inc.	76,277	8,973,226
		10,638,274
MOVIES & ENTERTAINMENT—1.1%		
The Walt Disney Co.	49,298	5,180,234
Time Warner, Inc.	23,400	1,513,278
		6,693,512
MULTI-UTILITIES—0.1%		
Sempra Energy	5,107	**480,109**
OIL & GAS EQUIPMENT & SERVICES—0.6%		
Baker Hughes, Inc.	57,908	2,672,454
Weatherford International PLC.*	115,900	972,401
		3,644,855
OIL & GAS EXPLORATION & PRODUCTION—0.6%		
Anadarko Petroleum Corp.	56,664	2,752,737
EOG Resources, Inc.	16,000	1,132,640
		3,885,377
OTHER DIVERSIFIED FINANCIAL SERVICES—0.6%		
Bank of America Corp.	207,009	**3,483,961**
PACKAGED FOODS & MEATS—0.2%		
General Mills, Inc.	21,400	**1,233,924**
PHARMACEUTICALS—5.8%		
Allergan PLC.*	47,873	14,960,313
Bristol-Myers Squibb Co.	167,151	11,498,317

COMMON STOCKS—(CONT.)	SHARES	VALUE
PHARMACEUTICALS—(CONT.)		
Eli Lilly & Co.	38,200	$ 3,218,732
Shire PLC.	73,800	5,062,367
		34,739,729
RAILROADS—0.4%		
Union Pacific Corp.	32,210	**2,518,822**
REGIONAL BANKS—0.9%		
Citizens Financial Group, Inc.	202,800	**5,311,332**
RENEWABLE ELECTRICITY—0.1%		
TerraForm Global, Inc., Cl. A[@,(b)]	127,439	**641,144**
RESEARCH & CONSULTING SERVICES—0.5%		
Verisk Analytics, Inc., Cl. A*	42,000	**3,228,960**
RESTAURANTS—3.2%		
McDonald's Corp.	73,068	8,632,254
Starbucks Corp.	76,215	4,575,186
Yum! Brands, Inc.	82,700	6,041,235
		19,248,675
SECURITY & ALARM SERVICES—0.5%		
Tyco International PLC.	91,843	**2,928,873**
SEMICONDUCTOR EQUIPMENT—0.7%		
Lam Research Corp.	53,700	**4,264,854**
SEMICONDUCTORS—3.0%		
Avago Technologies Ltd.	44,072	6,397,051
Broadcom Corp., Cl. A	105,318	6,089,487
NXP Semiconductors NV*	62,954	5,303,874
		17,790,412
SOFT DRINKS—1.1%		
PepsiCo, Inc.	68,501	**6,844,620**
SPECIALIZED CONSUMER SERVICES—0.6%		
ServiceMaster Global Holdings, Inc.*	88,045	**3,454,886**
SPECIALIZED FINANCE—0.2%		
McGraw Hill Financial, Inc.	9,355	**922,216**
SPECIALTY CHEMICALS—0.4%		
PPG Industries, Inc.	24,594	**2,430,379**
SPECIALTY STORES—0.6%		
Signet Jewelers Ltd.	27,859	**3,445,880**
SYSTEMS SOFTWARE—4.6%		
Microsoft Corp.	433,981	24,077,266
ServiceNow, Inc.*	39,989	3,461,448
		27,538,714
TECHNOLOGY HARDWARE STORAGE & PERIPHERALS—4.0%		
Apple, Inc.	229,619	**24,169,696**
TOBACCO—0.4%		
Altria Group, Inc.	42,000	**2,444,820**
TRADING COMPANIES & DISTRIBUTORS—1.4%		
HD Supply Holdings, Inc.*	200,297	6,014,919
United Rentals, Inc.*	29,100	2,110,914
		8,125,833

COMMON STOCKS—(CONT.)	SHARES	VALUE
WIRELESS TELECOMMUNICATION SERVICES—0.8%		
SBA Communications Corp., Cl. A*	42,951	**$ 4,512,862**
TOTAL COMMON STOCKS		
(Cost $503,800,093)		**562,922,358**
PREFERRED STOCKS—0.5%	**SHARES**	**VALUE**
ADVERTISING—0.1%		
Choicestream, Inc., Cl. A*,@,(a)	199,768	83,903
Choicestream, Inc., Cl. B*,@,(a)	445,303	187,027
		270,930
INTERNET SOFTWARE & SERVICES—0.3%		
Palantir Technologies, Inc., Cl. B*,@	168,373	1,700,567
Palantir Technologies, Inc., Cl. D*,@	21,936	221,554
		1,922,121
PHARMACEUTICALS—0.1%		
Intarcia Therapeutics, Inc.*,@	20,889	**787,097**
TOTAL PREFERRED STOCKS		
(Cost $2,360,207)		**2,980,148**
MASTER LIMITED PARTNERSHIP—1.0%	**SHARES**	**VALUE**
ASSET MANAGEMENT & CUSTODY BANKS—1.0%		
The Blackstone Group LP.	200,364	5,858,644
The Carlyle Group LP.	25,826	403,402
		6,262,046
TOTAL MASTER LIMITED PARTNERSHIP		
(Cost $7,285,000)		**6,262,046**
REAL ESTATE INVESTMENT TRUST—0.9%	**SHARES**	**VALUE**
MORTGAGE—0.7%		
Blackstone Mortgage Trust, Inc., Cl. A	158,240	**4,234,502**
SPECIALIZED—0.2%		
Crown Castle International Corp.	10,800	**933,660**
TOTAL REAL ESTATE INVESTMENT TRUST		
(Cost $5,587,003)		**5,168,162**
Total Investments		
(Cost $519,032,303)(c)	96.4%	**577,332,714**
Other Assets in Excess of Liabilities	3.6%	**21,646,020**
NET ASSETS	100.0%	**$ 598,978,734**

\# *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) *Pursuant to Securities and Exchange Commission Rule 144A deemed illiquid until eligible for sale on January 27, 2016.*
(c) *At December 31, 2015, the net unrealized appreciation on investments, based on cost for federal income tax purposes of $528,416,031, amounted to $48,916,684 which consisted of aggregate gross unrealized appreciation of $68,488,133 and aggregate gross unrealized depreciation of $19,571,449.*
* *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	% of net assets (Acquisition Date)	Market Value	% of net assets as of 12/31/2015
Choicestream, Inc.	*3/14/14*	*$6,718*	*0.00%*	*$9,730*	*0.00%*
Choicestream, Inc., Cl. A	*12/17/13*	*159,751*	*0.03%*	*83,903*	*0.02%*
Choicestream, Inc., Cl. B	*7/10/14*	*267,182*	*0.05%*	*187,027*	*0.03%*
Intarcia Therapeutics, Inc.	*3/27/14*	*676,595*	*0.14%*	*787,097*	*0.13%*
Palantir Technologies, Inc., Cl. A	*10/07/14*	*268,648*	*0.05%*	*416,989*	*0.07%*
Palantir Technologies, Inc., Cl. B	*10/07/14*	*1,111,840*	*0.22%*	*1,700,567*	*0.28%*
Palantir Technologies, Inc., Cl. D	*10/14/14*	*144,839*	*0.03%*	*221,554*	*0.04%*
TerraForm Global, Inc., Cl. A	*6/08/15*	*1,816,000*	*0.31%*	*641,144*	*0.11%*
Total				$4,048,011	0.68%

Industry classifications are unaudited.
See Notes to Financial Statements.

Statement of Assets and Liabilities December 31, 2015

		Alger Capital Appreciation Portfolio
ASSETS:		
Investments in securities, at value (Identified cost below)* see accompanying schedule of investments	$	577,052,054
Investments in affiliated securities, at value (Identified cost below)** see accompanying schedule of investments		280,660
Cash and cash equivalents		23,972,483
Receivable for investment securities sold		5,590,959
Receivable for shares of beneficial interest sold		310,449
Dividends and interest receivable		364,120
Prepaid expenses		36,858
Total Assets		607,607,583
LIABILITIES:		
Payable for investment securities purchased		6,356,788
Payable for shares of beneficial interest redeemed		1,698,308
Accrued investment advisory fees		415,626
Accrued transfer agent fees		23,820
Accrued distribution fees		8,335
Accrued administrative fees		14,111
Accrued shareholder administrative fees		5,131
Accrued other expenses		106,730
Total Liabilities		8,628,849
NET ASSETS	**$**	**598,978,734**
NET ASSETS CONSIST OF:		
Paid in capital (par value of $.001 per share)		547,312,305
Undistributed net investment income (accumulated loss)		(864)
Undistributed net realized gain (accumulated realized loss)		(6,633,119)
Net unrealized appreciation on investments		58,300,412
NET ASSETS	**$**	**598,978,734**
* Identified cost	$	518,598,652
** Identified cost	$	433,651

See Notes to Financial Statements.

		Alger Capital Appreciation Portfolio
NET ASSETS BY CLASS:		
Class I-2	$	559,298,171
Class S	$	39,680,563
SHARES OF BENEFICIAL INTEREST OUTSTANDING — NOTE 6:		
Class I-2		8,295,839
Class S		611,651
NET ASSET VALUE PER SHARE:		
Class I-2 — Net Asset Value Per Share Class I-2	$	67.42
Class S — Net Asset Value Per Share Class S	$	64.87

See Notes to Financial Statements.

ALGER CAPITAL APPRECIATION PORTFOLIO
Statement of Operations for the year ended December 31, 2015

		Alger Capital Appreciation Portfolio
INCOME:		
Dividends (net of foreign withholding taxes*)	$	6,451,313
Interest		8,471
Total Income		6,459,784
EXPENSES:		
Advisory fees — Note 3(a)		4,709,488
Distribution fees — Note 3(c)		
Class S		86,994
Shareholder administrative fees — Note 3(f)		58,142
Administration fees — Note 3(b)		159,890
Custodian fees		90,970
Transfer agent fees and expenses — Note 3(f)		102,135
Printing fees		78,650
Professional fees		68,510
Registration fees		13,147
Trustee fees — Note 3(g)		21,274
Fund accounting fees		70,008
Miscellaneous		42,403
Total Expenses		5,501,611
NET INVESTMENT INCOME		958,173
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY:		
Net realized gain on investments		52,120,700
Net realized gain on redemption-in-kind		872,265
Net realized (loss) on foreign currency transactions		(12,941)
Net change in unrealized (depreciation) on investments and foreign currency		(19,848,292)
Net realized and unrealized gain on investments and foreign currency		33,131,732
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$**	**34,089,905**
* Foreign withholding taxes	$	14,634

See Notes to Financial Statements.

ALGER CAPITAL APPRECIATION PORTFOLIO
Statements of Changes in Net Assets

	Alger Capital Appreciation Portfolio	
	For the Year Ended December 31, 2015	For the Year Ended December 31, 2014
Net investment income	$ 958,173	$ 740,022
Net realized gain on investments, options and foreign currency	52,980,024	74,106,536
Net change in unrealized depreciation on investments, options and foreign currency	(19,848,292)	(11,214,033)
Net increase in net assets resulting from operations	34,089,905	63,632,525
Dividends and distributions to shareholders from:		
Net investment income:		
Class I-2	(468,677)	(455,057)
Net realized gains:		
Class I-2	(62,137,185)	(72,756,420)
Class S	(4,470,628)	(4,146,950)
Total dividends and distributions to shareholders	(67,076,490)	(77,358,427)
Increase (decrease) from shares of beneficial interest transactions:		
Class I-2	90,356,282	47,268,624
Class S	14,498,723	9,352,955
Net increase from shares of beneficial interest transactions — Note 6	104,855,005	56,621,579
Total increase	71,868,420	42,895,677
Net Assets:		
Beginning of period	527,110,314	484,214,637
END OF PERIOD	**$ 598,978,734**	**$ 527,110,314**
Undistributed net investment income (accumulated loss)	$ (864)	$ 438,579

See Notes to Financial Statements.

Alger Capital Appreciation Portfolio

	Class I-2				
	Year ended 12/31/2015	Year ended 12/31/2014	Year ended 12/31/2013	Year ended 12/31/2012	Year ended 12/31/2011
Net asset value, beginning of period	$ 71.35	$ 73.41	$ 60.81	$ 51.96	$ 52.16
INCOME FROM INVESTMENT OPERATIONS:					
Net investment income(i)	0.13	0.12	0.24	0.69	0.15
Net realized and unrealized gain (loss) on investments	4.37	10.04	20.99	8.80	(0.29)
Total from investment operations	4.50	10.16	21.23	9.49	(0.14)
Dividends from net investment income	(0.06)	(0.08)	(0.27)	(0.62)	(0.06)
Distributions from net realized gains	(8.37)	(12.14)	(8.36)	(0.02)	–
Net asset value, end of period	$ 67.42	$ 71.35	$ 73.41	$ 60.81	$ 51.96
Total return	6.19%	13.75%	35.19%	18.30%	(0.30)%
RATIOS/SUPPLEMENTAL DATA:					
Net assets, end of period (000's omitted)	$ 559,298	$ 499,123	$ 464,465	$ 348,152	$ 296,320
Ratio of gross expenses to average net assets	0.93%	0.94%	0.96%	0.96%	0.97%
Ratio of expense reimbursements to average net assets	–	–	–	–	(0.03)%
Ratio of net expenses to average net assets	0.93%	0.94%	0.96%	0.96%	0.94%
Ratio of net investment income (loss) to average net assets	0.18%	0.16%	0.34%	1.18%	0.28%
Portfolio turnover rate	142.01%(ii)	143.20%(iii)	117.15%	139.19%	156.27%

See Notes to Financial Statements.

(i) *Amount was computed based on average shares outstanding during the period.*
(ii) *Amount excludes redemption-in-kind of $6,372,879. See note 6 to financial statements.*
(iii) *Amount excludes redemption-in-kind of $3,842,231. See note 6 to financial statements.*

Alger Capital Appreciation Portfolio

	Class S				
	Year ended 12/31/2015	Year ended 12/31/2014	Year ended 12/31/2013	Year ended 12/31/2012	Year ended 12/31/2011
Net asset value, beginning of period	$ 69.08	$ 71.54	$ 59.46	$ 50.72	$ 51.04
INCOME FROM INVESTMENT OPERATIONS:					
Net investment income (loss)[(i)]	(0.06)	(0.08)	0.03	0.48	(0.04)
Net realized and unrealized gain (loss) on investments	4.22	9.76	20.49	8.60	(0.28)
Total from investment operations	4.16	9.68	20.52	9.08	(0.32)
Dividends from net investment income	–	–	(0.08)	(0.32)	–
Distributions from net realized gains	(8.37)	(12.14)	(8.36)	(0.02)	–
Net asset value, end of period	$ 64.87	$ 69.08	$ 71.54	$ 59.46	$ 50.72
Total return	5.91%	13.45%	34.79%	17.89%	(0.63)%
RATIOS/SUPPLEMENTAL DATA:					
Net assets, end of period (000's omitted)	$ 39,681	$ 27,987	$ 19,750	$ 13,692	$ 12,038
Ratio of gross expenses to average net assets	1.20%	1.21%	1.26%	1.30%	1.31%
Ratio of expense reimbursements to average net assets	–	–	–	–	(0.03)%
Ratio of net expenses to average net assets	1.20%	1.21%	1.26%	1.30%	1.28%
Ratio of net investment income (loss) to average net assets	(0.09)%	(0.11)%	0.04%	0.83%	(0.07)%
Portfolio turnover rate	142.01%[(ii)]	143.20%[(iii)]	117.15%	139.19%	156.27%

See Notes to Financial Statements.

(i) *Amount was computed based on average shares outstanding during the period.*
(ii) *Amount excludes redemption-in-kind of $6,372,879. See note 6 to financial statements.*
(ii) *Amount excludes redemption-in-kind of $3,842,231. See note 6 to financial statements.*

NOTE 1 — General:

The Alger Portfolios (the “Fund”) is a diversified, open-end registered investment company organized as a business trust under the laws of the Commonwealth of Massachusetts. The Fund 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 offering seven series of shares of beneficial interest: 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 Fund’s Board of Trustees (“Board”). 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.

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 advisor, pursuant to policies established by the Board, 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 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 Portfolio's 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, 2 and 3 are recognized at the end of 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 accompanying Statement of Operations.

(e) Option Contracts: When the 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 accompanying 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.

(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 share 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 year end and have no impact on the net asset value of the Portfolio and are designed to present the Portfolio's capital accounts on a tax basis.

(h) Federal Income Taxes: It is the Portfolio's policy to comply with the requirements of the Internal Revenue Code 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 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 2012-2015. 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 the 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. ("Alger Management" or the "Manager"), 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, 2015, 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 pay Fred Alger & Company, Incorporated, the Fund's distributor (the "Distributor" or "Alger Inc.") and an affiliate of Alger Management, a fee at the annual rate of .25% of the average daily net assets of the Class S shares of the Portfolio to compensate the Distributor for its activities and expenses incurred in distributing the Class S shares. The fees paid may be more or less than the expenses incurred by Alger Inc.

(d) Brokerage Commissions: During the year ended December 31, 2015, the Portfolio paid Alger Inc. $232,739, in connection with securities transactions.

(e) Interfund Loans: The Portfolio and 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 Portfolio. There were no interfund loans outstanding as of December 31, 2015.

During the year ended December 31, 2015, the Portfolio earned interfund loan interest income of $1,138 which is included in interest income in the accompanying Statement of Operations.

(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, 2015 through February 28, 2015, the Portfolio paid 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 received an additional annual fee of $24,300 which was paid, pro rata, by all U.S.-registered funds managed by Alger Management. Additionally, each member of the Fund's audit committee received $81 from the Portfolio for each audit

committee meeting attended, to a maximum of $324 per annum.

Effective March 1, 2015, each Independent Trustee who is not affiliated with Alger Management or its affiliate receives a fee of $25,875 for each meeting attended, to a maximum of $103,500 per annum, paid pro rata by each fund in the Alger Fund Complex, plus travel expenses incurred for attending the meeting . The Portfolios' pro rata allocation was $19,289. The Independent Trustee appointed as Chairman of the Board of Trustees receives an additional compensation of $24,300 per annum paid pro rata by each fund in the Alger Fund Complex. The Portfolios' pro rata allocation was $919. Additionally, each member of the Audit Committee receives a fee of $2,500 for each meeting attended to a maximum of $10,000 per annum, paid pro rata by each fund in the Alger Fund Complex. The Portfolios' pro rata allocation was $1,135.

(h) Interfund Trades: The Portfolio may engage in purchase and sale transactions with funds that have a common investment advisor. For the year ended December 31, 2015, the Portfolio had no such purchases and sales.

(i) 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, short-term securities and redemption-in-kind transactions, for the year ended December 31, 2015, were as follows:

	PURCHASES	SALES
Alger Capital Appreciation Portfolio	$835,507,220	$791,006,870

Transactions in foreign securities may involve certain considerations and risks not typically associated with those of U.S. companies because of, among other factors, the level of governmental supervision and regulation of foreign security markets, and the possibility of political or economic instability. Additional risks associated with investing in the emerging markets include increased volatility, limited liquidity, and less stringent regulatory and legal system.

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 funds advised by Alger Management, as discussed in Note 3(e). For the year ended December 31, 2015, the Portfolio had no borrowings from its custodian and other funds.

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, 2015 and the year ended December 31, 2014, transactions of shares of beneficial interest were as follows:

	FOR THE YEAR ENDED DECEMBER 31, 2015		FOR THE YEAR ENDED DECEMBER 31, 2014	
	SHARES	AMOUNT	SHARES	AMOUNT
Alger Capital Appreciation Portfolio				
Class I-2:				
Shares sold	2,345,883	$ 173,637,745	940,779	$ 72,613,814
Dividends reinvested	891,975	60,725,663	990,568	70,993,981
Shares redeemed	(1,937,786)	(144,007,126)	(1,262,854)	(96,339,171)
Net increase	**1,300,072**	**$ 90,356,282**	**668,493**	**$ 47,268,624**
Class S:				
Shares sold	212,326	$ 15,346,976	134,186	$ 10,066,864
Dividends reinvested	68,243	4,470,628	59,754	4,146,950
Shares redeemed	(74,074)	(5,318,881)	(64,868)	(4,860,859)
Net increase	**206,495**	**$ 14,498,723**	**129,072**	**$ 9,352,955**

During the year ended December 31, 2015, shares redeemed for the Class I-2 shares of Alger Capital Appreciation Portfolio included redemption-in-kind transactions of 86,523 shares valued at $6,630,286. The Portfolio had realized gains on these transactions of $872,265 recorded in the accompanying Statement of Operations.

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

NOTE 7 — Income Tax Information:

The tax character of distributions paid during the year ended December 31, 2015 and the year ended December 31, 2014 were as follows:

	FOR THE YEAR ENDED DECEMBER 31, 2015	FOR THE YEAR ENDED DECEMBER 31, 2014
Alger Capital Appreciation Portfolio		
Distributions paid from:		
Ordinary Income	$ 2,777,804	$ 16,094,670
Long-term capital gain	64,298,686	61,263,757
Total distributions paid	**$ 67,076,490**	**$ 77,358,427**

As of December 31, 2015 the components of accumulated gains (losses) on a tax basis were as follows:

Alger Capital Appreciation Portfolio

Undistributed ordinary income		—
Undistributed long-term gains	$	2,750,609
Net accumulated earnings		2,750,609
Capital loss carryforwards		—
Late year ordinary income losses		(864)
Net unrealized appreciation		48,916,684
Total accumulated earnings	$	51,666,429

At December 31, 2015, the Portfolio, for federal income tax purposes, had no capital loss carryforwards and no capital loss carryforwards were utilized in 2015.

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.

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 partnership 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, 2015:

Alger Capital Appreciation Portfolio

Accumulated undistributed net investment income (accumulated loss)	$	(928,939)
Accumulated net realized gain (accumulated realized loss)	$	217,105
Paid-in Capital	$	711,834

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, 2015, 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	$ 124,457,707	$ 124,447,977	—	$ 9,730
Consumer Staples	33,580,353	33,580,353	—	—
Energy	7,530,232	7,530,232	—	—
Financials	16,148,645	16,148,645	—	—
Health Care	109,600,746	104,538,379	5,062,367	—
Industrials	52,533,295	52,533,295	—	—
Information Technology	204,882,603	204,465,614	—	416,989
Materials	6,578,676	6,578,676	—	—
Telecommunication Services	6,488,848	6,488,848	—	—
Utilities	1,121,253	480,109	641,144	—
TOTAL COMMON STOCKS	**$ 562,922,358**	**$ 556,792,128**	**$ 5,703,511**	**$ 426,719**
MASTER LIMITED PARTNERSHIP				
Financials	6,262,046	6,262,046	—	—
PREFERRED STOCKS				
Consumer Discretionary	270,930	—	—	270,930
Health Care	787,097	—	—	787,097
Information Technology	1,922,121	—	—	1,922,121
TOTAL PREFERRED STOCKS	**$ 2,980,148**	**—**	**—**	**$ 2,980,148**
REAL ESTATE INVESTMENT TRUST				
Financials	5,168,162	5,168,162	—	—
TOTAL INVESTMENTS IN SECURITIES	**$ 577,332,714**	**$ 568,222,336**	**$ 5,703,511**	**$ 3,406,867**

Alger Capital Appreciation Portfolio	FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) Common Stocks
Opening balance at January 1, 2015	$ 267,154
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	159,565
Purchases and sales	–
Purchases	–
Sales	–
Closing balance at December 31, 2015	426,719
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 12/31/2015	$ 159,565

	FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Alger Capital Appreciation Portfolio	**Preferred Stocks**
Opening balance at January 1, 2015	$ 2,569,952
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	410,196
Purchases and sales	–
Purchases	–
Sales	–
Closing balance at December 31, 2015	2,980,148
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 12/31/2015	$ 410,196

The following table provides quantitative information about our Level 3 fair value measurements of our investments as of December 31, 2015. 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, 2015	Valuation Methodology	Unobservable Input	Input/ Range
Alger Capital Appreciation Portfolio				
Common Stocks	$ 426,719	Income Approach	Discount Rate	20% - 40%
Preferred Stocks	2,980,148	Income Approach	Discount Rate	19% - 40%

The significant unobservable inputs used in the fair value measurement of the Portfolio'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, 2015 there were no transfers of securities between Level 1, Level 2 and Level 3.

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, 2015, 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	$ 23,972,483	—	$23,972,483	—

NOTE 9 — Derivatives:

Financial Accounting Standards Board Accounting Standards Codification 815 – Derivatives and Hedging 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 and 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 the stock market 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, 2015.

NOTE 10 — Principal Risks:

As of December 31, 2015, the Portfolio invested a significant portion of its assets in securities in the consumer discretionary, health care and information technology sectors. Changes in economic conditions affecting such sectors would have a greater impact on the Portfolio and could affect the value, income and/or liquidity of positions in such securities.

In the normal course of business, the Portfolio invests in securities and enters into transactions where risks exist due to fluctuations in the market (market risk). The value of securities held by the Portfolio may decline in response to certain events, including those directly involving the issuers whose securities are owned by the Portfolio; conditions affecting the general economy; overall market changes; local, regional or global political, social or economic instability; and currency and interest rate and price fluctuations. Similar to issuer credit risk, the Portfolio may be exposed to counterparty credit risk, or the risk that an entity with which the Portfolio has unsettled or open transactions may fail to or be unable to perform on its commitments. The Portfolio manages counterparty credit risk by entering into transactions only with counterparties that it believes have the financial resources to honor their obligations and by monitoring the financial stability of those counterparties. Financial assets, which potentially expose the Portfolio to market, issuer and counterparty credit risks, consist principally of financial instruments and receivables due from counterparties. The extent of the Portfolio's exposure to market, issuer and counterparty credit risks with respect to these financial assets is generally approximated by its value recorded in the Statement of Assets and Liabilities, less any collateral held by the Portfolio.

NOTE 11 — Affiliated Securities:

The securities listed below are deemed to be affiliates of the Fund because the Fund or its affiliates owned 5% or more of the company's voting securities during all or part of the year ended December 31, 2015. Purchase and sale transactions and dividend income earned during the year were as follows:

Security	Shares/Par at December 31, 2014	Purchases/ Conversion	Sales/ Conversion	Shares/Par at December 31, 2015	Dividend Income	Realized Gain (Loss)	Value at December 31, 2015
Alger Capital Appreciation Portfolio							
Common Stocks							
Choicestream, Inc.*	23,166	–	–	23,166	–	–	9,730
Preferred Stocks							
Choicestream, Inc. Class A & Class B*	645,071	–	–	645,071	–	–	270,930

* *Non-income producing security.*

NOTE 12 — Subsequent Events:

Management of the Portfolio has evaluated events that have occurred subsequent to December 31, 2015 through the issuance date of the financial statements. No such events have been identified which require recognition and/or disclosure.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees of The Alger Portfolios and the 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, one of the portfolios included in The Alger Portfolios (the "Fund") as of December 31, 2015, 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, 2015, 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, 2015, 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 26, 2016

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, 2015 and ending December 31, 2015.

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, 2015	Ending Account Value December 31, 2015	Expenses Paid During the Six Months Ended December 31, 2015[a]	Annualized Expense Ratio For the Six Months Ended December 31, 2015[b]
Alger Capital Appreciation Portfolio					
Class I-2	Actual	$ 1,000.00	$ 994.32	$ 4.67	0.93%
	Hypothetical[c]	1,000.00	1,020.52	4.74	0.93
Class S	Actual	1,000.00	993.01	6.03	1.20
	Hypothetical[c]	1,000.00	1,019.16	6.11	1.20

(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 (54)	Fundraising Consultant, Schultz & Williams; Trustee, Pennsylvania Ballet; Formerly Director of Development, Pennsylvania Ballet 2004-2013.	2003	25
NON-INTERESTED TRUSTEE			
Charles F. Baird, Jr. (62)	Managing Director of North Castle Partners, a private equity securities group; Chairman of Elizabeth Arden Red Door Spas and Barry's Bootcamp, former Chairman of Cascade Helmets, gloProfessional (makeup and skincare business), Contigo (manufacturer of mugs and water bottles), and International Fitness.	2000	25
Roger P. Cheever (70)	Associate Vice President for Principal Gifts at Harvard University since 2008; Formerly Senior Associate Dean for Development in the Faculty of Arts and Sciences, and 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 (53)	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 (51) 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 (50) Secretary	Senior Vice President since 2009, and Vice President and Assistant General Counsel of Alger Management since June 2006.	2006	N/A
Michael D. Martins (50) Treasurer	Senior Vice President of Alger Management; Assistant Treasurer since 2004.	2005	N/A
Anthony S. Caputo (60) Assistant Treasurer	Employed by Alger Management since 1986, currently serving as Vice President.	2007	N/A
Sergio M. Pavone (54) Assistant Treasurer	Employed by Alger Management since 2002, currently serving as Vice President.	2007	N/A
Patrick J. Murphy (45) Chief Compliance Officer	Senior Vice President and Chief Compliance Officer of Alger Management since 2014. Formerly, Vice President of Compliance, Fidelity Investments from 2005 to 2014.	2014	N/A
Joshua M. Lindauer (28) Assistant Secretary	Employed by Alger Management since 2014. From 2010 to 2014, Mr. Lindauer was a full-time student.	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 29, 2015, the Trustees, including the Independent Trustees, unanimously approved renewal with respect to the Alger Capital Appreciation Portfolio (the "Portfolio") 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 the 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 Portfolio, and (iv) the extent to which economies of scale would be realized if and as the Portfolio grows and whether the fee levels in the Agreement reflected such economies of scale. These materials included a presentation and analysis of the Portfolio 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 Portfolio.

Nature, Extent and Quality of Services. In considering the nature, extent and quality of the services provided to the Portfolio 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 quarterly meetings with and presentations by Portfolio investment management and 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 Portfolio. 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 Portfolio. They also considered the resources and practices of Alger Management in managing the 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 the Portfolio had been consistent with those of a growth-oriented fund. The Board noted that the Portfolio was being managed consistent with its growth mandate. They also noted that during the year Alger Management had continued its ongoing efforts to strengthen its investment management team with important hires. The Trustees concluded that Alger Management's experience, resources and strength in the areas of importance to the Portfolio 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 with respect to the Portfolio are provided separately under an Administration Agreement and a Shareholder Administrative Services Agreement between the Fund and 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 the Portfolio's returns for the year-to-date (at 6/30/15), second-quarter of 2015, 1-, 3-, and 5-year and longer periods to the extent available (and its year-by-year returns), together with supplemental performance data through 8/31/15, and compared them with benchmark and peer-group data for the same periods. They noted that the Portfolio had surpassed its benchmark and the medians of its peers for all stated periods of five years or less ended 6/30/15 and that the 8/31/15 supplemental data showed such strength against its peers to be continuing. Representatives of Alger Management discussed with the Trustees the recent performance of the Portfolio. On the basis of these discussions and their review, the Trustees determined that the performance of the Portfolio was acceptable.

Fund Fees and Expense Ratios; Profitability to Alger Management and its Affiliates. The Trustees reviewed the Portfolio's management fee and expense ratios 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 Portfolio's advisory fee significantly exceeded the peer median, falling in the top quartile. The Trustees expected that the fee would eventually be diminished somewhat by operation of the Portfolio's fee breakpoint. The Trustees also noted that while the Portfolio's fee was high in relation to its peers' fees, Portfolio shareholders had also been rewarded with consistently high performance when measured against the Portfolio's peers. Similarly, the expense ratios for the Portfolio's two share classes fell in the top quartile above the peer medians; in that regard, the Trustees noted that one class's assets were relatively modest in amount, so that the class may have suffered somewhat in overall comparison with its peers, and that the ratios may have been distorted because of a somewhat inappropriate peer group. 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 Portfolio because of the differences in services provided by Alger Management to those types of clients as opposed to the Portfolio, 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 with respect to the Portfolio, and the methodology used by Alger Management in determining such profitability. The Trustees reviewed previously-provided data on the Portfolio's profitability to Alger Management and its affiliates for the year ended June 30, 2015. 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 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 Portfolio and its operations is such that Alger Management is likely to realize economies of scale in the management of the Portfolio at some point as (and if) it grows in size. In that connection, they noted that the applicable advisory fee schedule in the Agreement includes fee reductions for the Portfolio at specified Portfolio asset levels ("breakpoints"); this has 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 Portfolio. They noted that Alger Management maintains soft-dollar arrangements in connection with the Portfolio's 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, 2015, had been included in the materials supplied prior to the meeting. The Trustees also noted that Alger Management receives fees from the Portfolio under the Administration Agreement and the Shareholder Administrative Services Agreement, and that Alger Inc. provides a considerable portion of the Portfolio's equity brokerage and receives shareholder servicing fees from the Portfolio 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 Portfolio. 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 regarding renewal, with respect to the Portfolio, of the Investment Advisory Agreement. Based on its discussions and considerations as described above, the Board made the following conclusions and determinations:

- The Board concluded that the nature, extent and quality of the services provided to 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 Portfolio was reasonable in light of comparative performance and expense and advisory fee information, costs of the services provided and profits to be realized and benefits derived or to be derived by Alger Management and its affiliates from the relationship with the Portfolio.
- The Board 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 the 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. 01/2015 **3/31/15**

FACTS	WHAT DOES ALGER DO WITH YOUR PERSONAL INFORMATION?
Why?	Financial companies choose how they share your personal 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 and • Account balances and • Transaction history and • Purchase history and • Assets • When you are no longer our customer, we continue to share your information as described in this notice.
How?	All financial companies need to share personal information to run their everyday business. In the section below, we list the reasons financial companies can share their personal information; the reasons 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 — 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 nonaffiliates to market to you	**No**	**We don't share**
Questions? Call 1-800-342-2186		

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.
How does Alger Collect my personal information?	We collect your personal information, for example, when you: • Open an account or • Make deposits or withdrawals from you account • Give us your contact information or • Provide account information or • Pay us by check
Why can't I limit all sharing?	Federal law gives you the right to only • 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.
Other important information	

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 publicly available its month-end top 10 holdings with a 10 day lag and its month-end full portfolio with a 60 day lag on its 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 Portfolio's holdings versus its peers or an index (such as P/E (or price to book) ratio EPS forecasts, alpha, beta, capture ratio, standard deviation, Sharpe ratio, information ratio, R-squared, and market cap analysis), security specific impact on overall portfolio performance, return on equity statistics, geographic analysis, number of holdings, 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 Portfolio 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

State Street Bank and Trust Company
c/o Boston Financial Data Services, Inc.
P.O. Box 8480
Boston, MA 02266

Custodian

Brown Brothers Harriman & Company
50 Post Office Square
Boston, MA 02110

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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Asset Management

December 31, 2015

Annual Report

Deutsche Variable Series I

Deutsche Bond VIP

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

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 foreign securities, particularly those of emerging markets, presents certain risks, such as currency fluctuations, political and economic changes, and market risks. Emerging markets tend to be more volatile than the markets of more mature economies, and generally have less diverse and less mature economic structures and less stable political systems than those of developed countries. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. See the prospectus for details.

Deutsche Asset Management represents the asset management activities conducted by Deutsche Bank AG or any of its subsidiaries.

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

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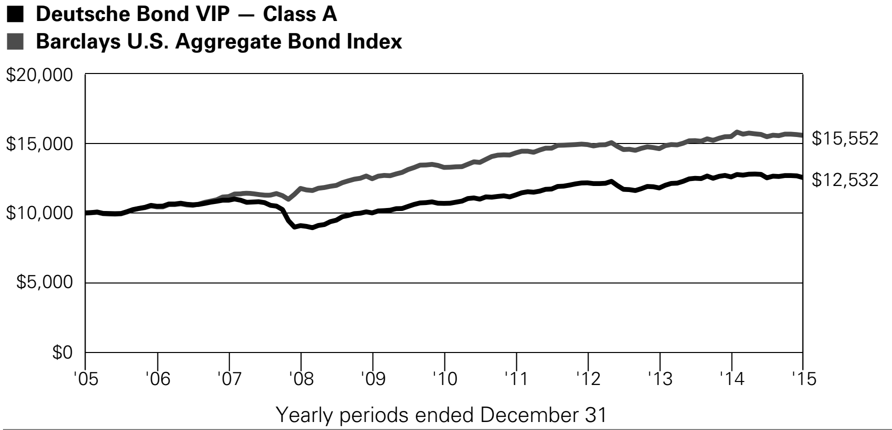
Performance Summary

December 31, 2015 (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, 2015 is 0.69% 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	$9,971	$10,310	$11,743	$12,532
	Average annual total return	–0.29%	1.02%	3.27%	2.28%
Barclays U.S. Aggregate Bond Index	Growth of $10,000	$10,055	$10,439	$11,732	$15,552
	Average annual total return	0.55%	1.44%	3.25%	4.51%

The growth of $10,000 is cumulative.

During the 12-month period ended December 31, 2015, the Fund provided a total return of –0.29% (Class A shares, unadjusted for contract charges), compared with the 0.55% return of its benchmark, the Barclays U.S. Aggregate Bond Index.[1]

As the period opened, there was ongoing speculation over when the U.S. Federal Reserve Board (the Fed) would initiate a cycle of hikes in its benchmark short-term lending rate, after several years of maintaining a zero interest rate policy. The Fed would remain in a data-dependent "wait and see" mode until December, despite the overall modest upward progress of the U.S. economy. The Fed's patient stance was supported by a strong dollar and the absence of upward pressures on U.S. inflation and wages, against a global backdrop of heightened macroeconomic and geopolitical uncertainty. A more than halving of the price of oil, along with weakness in commodities overall and the strong U.S. dollar, put a number of emerging-markets economies under severe stress throughout the period. In early 2015, the European Central Bank began a program of sovereign bond purchases in an effort to avert deflation. The next several months in Europe were dominated by the threat of a Greek default and exit from the common currency. The Greece crisis would be displaced in global economic headlines by heightened concerns over slowing growth in China, which has for some time been the primary source of incremental demand for the global economy. U.S. Treasury yields were volatile over the 12-month period as investors responded to the news flow and mixed data, but ended somewhat higher on all maturities as investors positioned themselves for the Fed's hiking cycle late in the period.

The Fund's performance relative to the benchmark for the period was principally aided by positioning along the yield curve. In particular, we were positioned for the curve to flatten via more significant interest rate increases on shorter maturities. Throughout the period, the managers used interest rate derivatives as part of implementing the Fund's yield curve exposures. The Fund's performance also benefited from our positioning within investment-grade corporates, which outweighed the impact of the sector's underperformance as credit spreads widened overall. While the underweight to mortgage-backed securities was a modest detractor, the Fund's focus on higher-coupon mortgage pools and other instruments that are sensitive to prepayment expectations worked well as market rates rose over the period. The Fund's modest holdings of emerging-markets and high-yield corporate debt were a drag on returns, largely due to energy-related positions. There continues to be substantial uncertainty around events which could act as a pivot point for credit sentiment globally. Against this backdrop, we have continued to broadly lower the Fund's risk profile. We are continuing to look for opportunities to diversify risks in the portfolio and for relative valuation opportunities created by heightened volatility.

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

Effective February 1, 2016, the portfolio management team is as follows:

Gary Russell, CFA
John D. Ryan
Thomas M. Farina, CFA
Gregory M. Staples, 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)	**12/31/15**	**12/31/14**
Government & Agency Obligations	41%	30%
Mortgage-Backed Securities Pass-Throughs	23%	18%
Corporate Bonds	22%	31%
Collateralized Mortgage Obligations	8%	6%
Commercial Mortgage-Backed Securities	4%	4%
Asset-Backed	2%	2%
Municipal Bonds and Notes	1%	4%
Short-Term U.S. Treasury Obligations	1%	1%
Cash Equivalents, Securities Lending Collateral and other Assets and Liabilities, net	–2%	4%
	100%	100%

Quality (Excludes Cash Equivalents and Securities Lending Collateral)	**12/31/15**	**12/31/14**
AAA	65%	53%
AA	3%	7%
A	4%	5%
BBB	15%	17%
BB or Below	9%	17%
Not Rated	4%	1%
	100%	100%

Interest Rate Sensitivity	**12/31/15**	**12/31/14**
Effective Maturity	7.4 years	6.7 years
Effective Duration	7.1 years	4.7 years

The quality ratings represent the higher of Moody's Investors Service, Inc. (“Moody's”), Fitch Ratings, Inc. (“Fitch”) or Standard & Poor's Corporation (“S&P”) credit ratings. The ratings of Moody's, Fitch 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 21.7%		
Consumer Discretionary 1.7%		
AMC Entertainment, Inc., 5.875%, 2/15/2022	15,000	15,225
AmeriGas Finance LLC:		
6.75%, 5/20/2020	15,000	14,588
7.0%, 5/20/2022	10,000	9,675
APX Group, Inc., 6.375%, 12/1/2019	15,000	14,363
Asbury Automotive Group, Inc., 144A, 6.0%, 12/15/2024	5,000	5,163
Ashton Woods U.S.A. LLC, 144A, 6.875%, 2/15/2021	25,000	21,250
Avis Budget Car Rental LLC, 5.5%, 4/1/2023 (b)	15,000	15,037
Bed Bath & Beyond, Inc.:		
4.915%, 8/1/2034	130,000	115,981
5.165%, 8/1/2044	150,000	127,052
CCO Safari II LLC:		
144A, 4.908%, 7/23/2025	40,000	39,961
144A, 6.484%, 10/23/2045	30,000	30,049
Cequel Communications Holdings I LLC:		
144A, 5.125%, 12/15/2021	5,000	4,500
144A, 6.375%, 9/15/2020	55,000	53,762
Churchill Downs, Inc., 144A, 5.375%, 12/15/2021	8,690	8,712
Clear Channel Worldwide Holdings, Inc.:		
Series A, 6.5%, 11/15/2022	15,000	14,475
Series B, 6.5%, 11/15/2022	25,000	24,375
Series B, 7.625%, 3/15/2020	75,000	69,281
CVS Health Corp., 5.125%, 7/20/2045	60,000	63,206
Delphi Corp., 5.0%, 2/15/2023	20,000	21,160
Discovery Communications LLC, 4.875%, 4/1/2043	25,000	20,578
DISH DBS Corp.:		
4.25%, 4/1/2018	15,000	15,037
5.0%, 3/15/2023	20,000	17,350
7.875%, 9/1/2019	90,000	97,875
General Motors Financial Co., Inc., 3.2%, 7/13/2020	75,000	73,845
Group 1 Automotive, Inc., 144A, 5.25%, 12/15/2023	20,000	19,800
Hot Topic, Inc., 144A, 9.25%, 6/15/2021	10,000	8,850
Live Nation Entertainment, Inc., 144A, 7.0%, 9/1/2020	20,000	20,700
MDC Partners, Inc., 144A, 6.75%, 4/1/2020	20,000	20,600
Mediacom Broadband LLC:		
5.5%, 4/15/2021	5,000	4,813
6.375%, 4/1/2023	10,000	9,775
MGM Resorts International:		
6.625%, 12/15/2021	40,000	40,950
6.75%, 10/1/2020	42,000	43,155
Numericable-SFR, 144A, 4.875%, 5/15/2019	30,000	29,737
Pinnacle Entertainment, Inc., 6.375%, 8/1/2021	10,000	10,513
Quebecor Media, Inc., 5.75%, 1/15/2023	15,000	15,112

	Principal Amount ($)(a)	Value ($)
Sirius XM Radio, Inc., 144A, 5.875%, 10/1/2020 (b)	10,000	10,475
Springs Industries, Inc., 6.25%, 6/1/2021	10,000	9,900
Starz LLC, 5.0%, 9/15/2019	10,000	10,125
Time Warner Cable, Inc., 7.3%, 7/1/2038	165,000	178,886
Viking Cruises Ltd., 144A, 8.5%, 10/15/2022	15,000	14,213
		1,340,104
Consumer Staples 0.3%		
Aramark Services, Inc., 144A, 5.125%, 1/15/2024 (b)	10,000	10,187
Chiquita Brands International, Inc., 7.875%, 2/1/2021	7,000	7,332
Constellation Brands, Inc., 4.75%, 12/1/2025	5,000	5,094
JBS Investments GmbH, 144A, 7.25%, 4/3/2024	30,000	27,225
JBS U.S.A. LLC:		
144A, 7.25%, 6/1/2021	30,000	29,775
144A, 8.25%, 2/1/2020 (b)	115,000	115,000
Post Holdings, Inc., 144A, 6.75%, 12/1/2021	5,000	5,100
Reynolds American, Inc.:		
4.45%, 6/12/2025	30,000	31,375
5.85%, 8/15/2045	20,000	22,235
Smithfield Foods, Inc., 6.625%, 8/15/2022	20,000	20,750
		274,073
Energy 2.8%		
Antero Resources Corp., 5.375%, 11/1/2021	5,000	4,000
DCP Midstream LLC, 144A, 9.75%, 3/15/2019	760,000	773,869
Delek & Avner Tamar Bond Ltd., 144A, 5.082%, 12/30/2023	250,000	251,563
Endeavor Energy Resources LP, 144A, 7.0%, 8/15/2021	16,000	14,240
Kinder Morgan, Inc.:		
3.05%, 12/1/2019	220,000	203,613
5.55%, 6/1/2045	160,000	124,901
MEG Energy Corp., 144A, 7.0%, 3/31/2024	15,000	10,650
Murphy Oil U.S.A., Inc., 6.0%, 8/15/2023	20,000	21,000
Noble Holding International Ltd., 4.0%, 3/16/2018	20,000	18,110
ONEOK Partners LP, 4.9%, 3/15/2025 (b)	80,000	67,379
Rosneft Finance SA, 144A, 6.625%, 3/20/2017	100,000	102,350
Transocean, Inc., 4.3%, 10/15/2022	555,000	294,150
Transportadora de Gas Internacional SA ESP, 144A, 5.7%, 3/20/2022	250,000	250,625
Williams Partners LP, 4.0%, 9/15/2025 (b)	100,000	74,876
		2,211,326
Financials 7.8%		
Banco Continental SAECA, 144A, 8.875%, 10/15/2017	200,000	203,500
Barclays Bank PLC, 7.625%, 11/21/2022	890,000	1,013,487

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

	Principal Amount ($)(a)	Value ($)
BBVA Bancomer SA, 144A, 6.75%, 9/30/2022	150,000	165,000
CBL & Associates LP, (REIT), 4.6%, 10/15/2024	410,000	386,450
CIT Group, Inc., 3.875%, 2/19/2019	65,000	64,675
Corp. Financiera de Desarrollo SA, 144A, 4.75%, 2/8/2022	250,000	253,750
Credit Agricole SA, 144A, 7.875%, 1/29/2049 (b)	200,000	204,500
Equinix, Inc.:		
(REIT), 5.375%, 4/1/2023	45,000	45,900
(REIT), 5.875%, 1/15/2026	5,000	5,150
Everest Reinsurance Holdings, Inc., 4.868%, 6/1/2044	170,000	160,272
Hospitality Properties Trust, (REIT), 5.0%, 8/15/2022	380,000	390,336
HSBC Holdings PLC:		
5.625%, 12/29/2049 (b)	410,000	410,513
6.375%, 12/29/2049	660,000	654,000
International Lease Finance Corp., 6.25%, 5/15/2019	5,000	5,356
Legg Mason, Inc., 5.625%, 1/15/2044	110,000	109,264
Macquarie Group Ltd., 144A, 6.0%, 1/14/2020	825,000	910,543
Massachusetts Mutual Life Insurance Co., 144A, 4.5%, 4/15/2065	30,000	26,831
Morgan Stanley, Series H, 5.45%, 7/29/2049	10,000	9,763
Nationwide Financial Services, Inc., 144A, 5.3%, 11/18/2044	220,000	220,238
Neuberger Berman Group LLC, 144A, 5.875%, 3/15/2022	155,000	161,200
Omega Healthcare Investors, Inc., (REIT), 4.95%, 4/1/2024	505,000	510,013
QBE Insurance Group Ltd., 144A, 2.4%, 5/1/2018	260,000	260,233
Societe Generale SA, 144A, 7.875%, 12/29/2049	20,000	19,926
The Goldman Sachs Group, Inc., Series L, 5.7%, 12/29/2049	15,000	14,906
		6,205,806
Health Care 1.2%		
AbbVie, Inc., 3.6%, 5/14/2025	90,000	88,824
Actavis Funding SCS, 4.75%, 3/15/2045	2,000	1,950
Community Health Systems, Inc.:		
5.125%, 8/1/2021	5,000	4,975
6.875%, 2/1/2022 (b)	10,000	9,488
7.125%, 7/15/2020 (b)	125,000	124,531
Endo Finance LLC, 144A, 5.75%, 1/15/2022 (b)	15,000	14,550
HCA, Inc.:		
5.875%, 2/15/2026	15,000	15,056
6.5%, 2/15/2020	235,000	256,032
7.5%, 2/15/2022	190,000	210,425
IMS Health, Inc., 144A, 6.0%, 11/1/2020	15,000	15,450
LifePoint Health, Inc.:		
5.5%, 12/1/2021	15,000	15,263
5.875%, 12/1/2023	10,000	10,150
Mallinckrodt International Finance SA, 4.75%, 4/15/2023	110,000	97,350
Tenet Healthcare Corp., 6.25%, 11/1/2018	60,000	63,150
		927,194

	Principal Amount ($)(a)	Value ($)
Industrials 0.7%		
ADT Corp.:		
4.125%, 4/15/2019	5,000	5,144
6.25%, 10/15/2021 (b)	20,000	20,891
Aerojet Rocketdyne Holdings, Inc., 7.125%, 3/15/2021	35,000	36,400
Artesyn Embedded Technologies, Inc., 144A, 9.75%, 10/15/2020	15,000	13,313
Belden, Inc., 144A, 5.5%, 9/1/2022	25,000	24,062
Bombardier, Inc.:		
144A, 5.75%, 3/15/2022	90,000	62,775
144A, 6.0%, 10/15/2022	15,000	10,515
Covanta Holding Corp., 5.875%, 3/1/2024	10,000	9,050
CTP Transportation Products LLC, 144A, 8.25%, 12/15/2019	15,000	15,638
DigitalGlobe, Inc., 144A, 5.25%, 2/1/2021	10,000	8,400
FTI Consulting, Inc., 6.0%, 11/15/2022	15,000	15,712
Garda World Security Corp., 144A, 7.25%, 11/15/2021	15,000	12,900
Grupo KUO SAB De CV, 144A, 6.25%, 12/4/2022	200,000	185,500
Meritor, Inc.:		
6.25%, 2/15/2024	10,000	8,550
6.75%, 6/15/2021	15,000	13,800
Oshkosh Corp., 5.375%, 3/1/2022	8,000	8,000
SBA Communications Corp., 5.625%, 10/1/2019	15,000	15,638
Spirit AeroSystems, Inc., 5.25%, 3/15/2022	15,000	15,309
Titan International, Inc., 6.875%, 10/1/2020 (b)	8,000	5,960
United Rentals North America, Inc.:		
6.125%, 6/15/2023 (b)	5,000	5,113
7.625%, 4/15/2022	85,000	90,839
		583,509
Information Technology 1.0%		
ACI Worldwide, Inc., 144A, 6.375%, 8/15/2020	5,000	5,150
Activision Blizzard, Inc., 144A, 5.625%, 9/15/2021	50,000	52,375
Audatex North America, Inc., 144A, 6.0%, 6/15/2021	10,000	10,075
Entegris, Inc., 144A, 6.0%, 4/1/2022	10,000	10,125
Fidelity National Information Services, Inc., 3.625%, 10/15/2020	80,000	81,042
First Data Corp., 144A, 8.75%, 1/15/2022	22,000	22,987
Freescale Semiconductor, Inc., 144A, 6.0%, 1/15/2022	15,000	15,713
Hewlett Packard Enterprise Co.:		
144A, 4.9%, 10/15/2025	85,000	83,352
144A, 6.35%, 10/15/2045	45,000	42,720
KLA-Tencor Corp., 4.65%, 11/1/2024	260,000	261,600
NCR Corp.:		
5.875%, 12/15/2021	5,000	4,925
6.375%, 12/15/2023	10,000	9,850
Seagate HDD Cayman, 144A, 5.75%, 12/1/2034	340,000	237,923
		837,837

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

		Principal Amount ($)(a)	Value ($)
Materials 3.1%			
Anglo American Capital PLC:			
144A, 4.125%, 4/15/2021 (b)		350,000	239,750
144A, 4.125%, 9/27/2022		555,000	361,444
ArcelorMittal, 6.125%, 6/1/2018		500,000	457,500
Ball Corp., 4.375%, 12/15/2020		5,000	5,078
Berry Plastics Corp., 5.5%, 5/15/2022		25,000	24,906
Corp. Nacional del Cobre de Chile, 144A, 4.5%, 9/16/2025 (b)		200,000	188,337
First Quantum Minerals Ltd., 144A, 7.0%, 2/15/2021		31,000	19,453
Glencore Funding LLC, 144A, 4.125%, 5/30/2023		50,000	36,876
Gold Fields Orogen Holdings BVI Ltd., 144A, 4.875%, 10/7/2020		200,000	149,000
Hexion, Inc., 6.625%, 4/15/2020		90,000	69,975
Novelis, Inc., 8.75%, 12/15/2020		265,000	243,137
Plastipak Holdings, Inc., 144A, 6.5%, 10/1/2021		15,000	14,475
Reynolds Group Issuer, Inc., 5.75%, 10/15/2020		325,000	330,587
Yamana Gold, Inc., 4.95%, 7/15/2024		405,000	343,433
			2,483,951
Telecommunication Services 2.8%			
America Movil SAB de CV, 7.125%, 12/9/2024	MXN	2,000,000	112,565
AT&T, Inc.:			
2.45%, 6/30/2020		75,000	73,862
3.4%, 5/15/2025		110,000	105,720
B Communications Ltd., 144A, 7.375%, 2/15/2021		15,000	16,155
Bharti Airtel International Netherlands BV, 144A, 5.125%, 3/11/2023		400,000	414,072
CenturyLink, Inc.:			
Series V, 5.625%, 4/1/2020		5,000	4,944
Series T, 5.8%, 3/15/2022		20,000	18,330
Series W, 6.75%, 12/1/2023 (b)		10,000	9,375
CyrusOne LP, 6.375%, 11/15/2022		5,000	5,150
Digicel Group Ltd., 144A, 8.25%, 9/30/2020		42,000	34,650
Frontier Communications Corp.:			
7.125%, 1/15/2023		110,000	94,875
8.5%, 4/15/2020		55,000	55,137
Hughes Satellite Systems Corp., 7.625%, 6/15/2021		50,000	53,000
Intelsat Jackson Holdings SA, 5.5%, 8/1/2023		30,000	23,550
Level 3 Financing, Inc.:			
6.125%, 1/15/2021		10,000	10,350
7.0%, 6/1/2020		100,000	104,500
Millicom International Cellular SA, 144A, 6.0%, 3/15/2025 (b)		200,000	170,000
MTN Mauritius Investments Ltd., 144A, 4.755%, 11/11/2024		250,000	217,500
Sprint Communications, Inc., 6.0%, 11/15/2022 (b)		25,000	17,625
Sprint Corp., 7.125%, 6/15/2024		15,000	10,819
T-Mobile U.S.A., Inc.:			
6.125%, 1/15/2022		5,000	5,137
6.625%, 11/15/2020		175,000	181,911
Turk Telekomunikasyon AS, 144A, 3.75%, 6/19/2019		250,000	247,825
Windstream Services LLC, 7.75%, 10/15/2020 (b)		325,000	273,812
			2,260,864
Utilities 0.3%			
Empresa Electrica Angamos SA, 144A, 4.875%, 5/25/2029		200,000	178,417
NRG Energy, Inc., 6.25%, 5/1/2024 (b)		45,000	37,809
			216,226
Total Corporate Bonds (Cost $18,693,280)			**17,340,890**

Mortgage-Backed Securities Pass-Throughs 22.9%

	Principal Amount ($)(a)	Value ($)
Federal Home Loan Mortgage Corp.:		
3.5%, 5/1/2043 (c)	4,000,000	4,117,539
4.0%, 8/1/2039	601,732	640,201
5.5%, with various maturities from 10/1/2023 until 6/1/2035	1,230,622	1,367,401
6.5%, 3/1/2026	187,829	213,911
Federal National Mortgage Association:		
2.5%*, 9/1/2038	46,304	48,590
4.0%, 8/1/2042 (c)	3,000,000	3,174,516
5.0%, with various maturities from 10/1/2033 until 8/1/2040	1,193,192	1,317,719
5.5%, with various maturities from 12/1/2032 until 8/1/2037	1,260,921	1,413,793
6.0%, with various maturities from 4/1/2024 until 3/1/2025	362,371	408,924
6.5%, with various maturities from 3/1/2017 until 12/1/2037	374,397	425,156
Government National Mortgage Association, 4.0% , with various maturities from 2/15/2041 until 4/15/2041	4,828,853	5,126,065
Total Mortgage-Backed Securities Pass-Throughs (Cost $17,982,592)		**18,253,815**

Asset-Backed 2.2%

	Principal Amount ($)(a)	Value ($)
Automobile Receivables 0.6%		
Avis Budget Rental Car Funding AESOP LLC, "C", Series 2015-1A, 144A, 3.96%, 7/20/2021	500,000	**503,544**
Miscellaneous 1.6%		
Hilton Grand Vacations Trust, "B", Series 2014-AA, 144A, 2.07%, 11/25/2026	268,587	262,118
PennyMac LLC, "A1", Series 2015-NPL1, 144A, 4.0%, 3/25/2055	552,166	549,266
Voya CLO Ltd., "C", Series 2015-1A, 144A, 3.675%*, 4/18/2027	500,000	452,908
		1,264,292
Total Asset-Backed (Cost $1,800,051)		**1,767,836**

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

	Principal Amount ($)(a)	Value ($)
Commercial Mortgage-Backed Securities 3.8%		
Del Coronado Trust, "M", Series 2013-HDMZ, 144A, 5.331%*, 3/15/2018	125,000	124,775
FHLMC Multifamily Structured Pass-Through Certificates, "X1", Series K043, Interest Only, 0.549%*, 12/25/2024	4,989,855	206,419
JPMBB Commercial Mortgage Securities Trust, "A3", Series 2014-C19, 3.669%, 4/15/2047	150,000	153,871
JPMorgan Chase Commercial Mortgage Securities Corp., "A4", Series 2007-C1, 5.716%, 2/15/2051	944,381	986,358
LB-UBS Commercial Mortgage Trust, "A4", Series 2007-C6, 5.858%, 7/15/2040	1,029,005	1,058,651
Merrill Lynch Mortgage Trust, "ASB", Series 2007-C1, 5.836%*, 6/12/2050	462,966	470,503
Total Commercial Mortgage-Backed Securities (Cost $3,084,280)		**3,000,577**

	Principal Amount ($)(a)	Value ($)
Collateralized Mortgage Obligations 8.2%		
Countrywide Home Loans, "A2", Series 2006-1, 6.0%, 3/25/2036	291,252	265,369
CS First Boston Mortgage Securities Corp., "10A3", Series 2005-10, 6.0%, 11/25/2035	104,615	68,850
Fannie Mae Connecticut Avenue Securities, "1M2", Series 2015-C01, 4.521%*, 2/25/2025	1,000,000	969,319
Federal Home Loan Mortgage Corp.:		
"PI", Series 4485, Interest Only, 3.5%, 6/15/2045	2,897,030	417,188
"PI", Series 3940, Interest Only, 4.0%, 2/15/2041	468,673	79,238
"SP", Series 4047, Interest Only, 6.32%**, 12/15/2037	501,566	71,962
"JS", Series 3572, Interest Only, 6.47%**, 9/15/2039	468,083	66,112
Federal National Mortgage Association:		
"PZ", Series 2010-129, 4.5%, 11/25/2040	929,142	981,980
"SI", Series 2007-23, Interest Only, 6.348%**, 3/25/2037	207,179	34,977
Freddie Mac Structured Agency Credit Risk Debt Notes:		
"M3", Series 2014-DN2, 3.821%*, 4/25/2024	500,000	466,210
"M3", Series 2014-DN4, 4.771%*, 10/25/2024	240,000	238,090
Government National Mortgage Association:		
"PL", Series 2013-19, 2.5%, 2/20/2043	684,500	620,546
"HX", Series 2012-91, 3.0%, 9/20/2040	346,880	354,988
"GC", Series 2010-101, 4.0%, 8/20/2040	500,000	538,988
"ME", Series 2014-4, 4.0%, 1/16/2044	500,000	535,992
"PI", Series 2015-40, Interest Only, 4.0%, 4/20/2044	639,357	82,242
"PI", Series 2014-108, Interest Only, 4.5%, 12/20/2039	430,068	71,168
"EI", Series 2011-162, Interest Only, 4.5%, 5/20/2040	903,949	58,936
"DI", Series 2011-40, Interest Only, 4.5%, 12/20/2040	1,699,229	71,763
"PZ", Series 2010-106, 4.75%, 8/20/2040	383,484	415,320
"IN", Series 2009-69, Interest Only, 5.5%, 8/20/2039	121,959	21,831
"IV", Series 2009-69, Interest Only, 5.5%, 8/20/2039	239,021	44,221
"IJ", Series 2009-75, Interest Only, 6.0%, 8/16/2039	104,604	17,868
"AI", Series 2007-38, Interest Only, 6.116%**, 6/16/2037	63,330	9,698
MASTR Alternative Loans Trust:		
"5A1", Series 2005-1, 5.5%, 1/25/2020	68,503	70,933
"8A1", Series 2004-3, 7.0%, 4/25/2034	8,017	8,242
Total Collateralized Mortgage Obligations (Cost $6,910,927)		**6,582,031**

		Principal Amount ($)(a)	Value ($)
Government & Agency Obligations 40.5%			
Other Government Related (d) 0.5%			
Perusahaan Penerbit SBSN, 144A, 4.325%, 5/28/2025		200,000	190,760
Sberbank of Russia, Series 7, REG S, 5.717%, 6/16/2021		200,000	197,238
			387,998
Sovereign Bonds 5.7%			
Dominican Republic, 144A, 5.5%, 1/27/2025		100,000	96,250
Government of Indonesia, Series FR56, 8.375%, 9/15/2026	IDR	2,680,000,000	189,381
Government of Romania, 144A, 2.75%, 10/29/2025	EUR	1,000,000	1,101,692
Republic of El Salvador:			
144A, 6.375%, 1/18/2027		100,000	84,500
144A, 7.65%, 6/15/2035		100,000	85,250
REG S, 8.25%, 4/10/2032		40,000	37,300
Republic of Hungary:			
4.0%, 3/25/2019		200,000	208,400
Series 19/A, 6.5%, 6/24/2019	HUF	11,600,000	45,284
Republic of Namibia, 144A, 5.25%, 10/29/2025		500,000	465,000
Republic of Slovenia, 144A, 5.5%, 10/26/2022		200,000	223,237
Republic of South Africa:			
Series R204, 8.0%, 12/21/2018	ZAR	2,200,000	138,869
Series R186, 10.5%, 12/21/2026	ZAR	7,800,000	532,609
Republic of Sri Lanka:			
144A, 5.125%, 4/11/2019		200,000	189,940
144A, 6.85%, 11/3/2025		280,000	263,753
Republic of Turkey, 5.625%, 3/30/2021		250,000	264,351
Republic of Uruguay, 5.1%, 6/18/2050		50,000	43,125
United Mexican States, 4.6%, 1/23/2046		600,000	531,000
			4,499,941

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

	Principal Amount ($)(a)	Value ($)
U.S. Sponsored Agency 1.4%		
Tennessee Valley Authority, 4.25%, 9/15/2065	1,167,000	**1,140,120**
U.S. Treasury Obligations 32.9%		
U.S. Treasury Bonds:		
3.0%, 5/15/2045	11,000	10,950
3.125%, 8/15/2044	255,000	260,608
U.S. Treasury Inflation-Indexed Note, 0.375%, 7/15/2025	1,805,292	1,747,842
U.S. Treasury Notes:		
1.0%, 8/31/2016 (f) (g)	9,248,000	9,266,783
1.0%, 9/30/2016	1,000,000	1,001,992
1.0%, 8/15/2018	4,670,100	4,639,819
1.25%, 1/31/2020	30,000	29,538
1.625%, 4/30/2019	6,640,000	6,678,645
2.0%, 8/15/2025	185,000	180,382
2.25%, 11/15/2024	1,201,000	1,200,390
2.5%, 5/15/2024	1,238,000	1,265,033
		26,281,982
Total Government & Agency Obligations (Cost $32,844,984)		**32,310,041**

	Principal Amount ($)(a)	Value ($)
Short-Term U.S. Treasury Obligations 1.0%		
U.S. Treasury Bills:		
0.215% ***, 2/11/2016 (e)	623,000	622,913
0.42%***, 6/2/2016 (e)	181,000	180,674
Total Short-Term U.S. Treasury Obligations (Cost $803,524)		**803,587**

	Principal Amount ($)(a)	Value ($)
Municipal Bonds and Notes 1.2%		
Kentucky, Asset/Liability Commission, General Fund Revenue, 3.165%, 4/1/2018 (Cost $960,470)	960,470	**977,048**

	Shares	Value ($)
Securities Lending Collateral 1.9%		
Daily Assets Fund, 0.36% (h) (i) (Cost $1,522,504)	1,522,504	**1,522,504**
Cash Equivalents 5.8%		
Central Cash Management Fund, 0.25% (h) (Cost $4,617,939)	4,617,939	**4,617,939**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $89,220,551)†	109.2	**87,176,268**
Other Assets and Liabilities, Net	(9.2)	**(7,376,458)**
Net Assets	100.0	**79,799,810**

* 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, 2015.

** These securities are shown at their current rate as of December 31, 2015.

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

† The cost for federal income tax purposes was $89,224,053. At December 31, 2015, net unrealized depreciation for all securities based on tax cost was $2,047,785. This consisted of aggregate gross unrealized depreciation for all securities in which there was an excess of value over tax cost of $718,108 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $2,765,893.

(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, 2015 amounted to $1,460,838, which is 1.8% 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, 2015, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

(f) At December 31, 2015, this security has been pledged, in whole or in part, as collateral for open centrally cleared swap contracts.

(g) At December 31, 2015, 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.

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.

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

SBSN: Surat Berharga Syariah Negara (Islamic Based Government Securities)

Included in the portfolio are investments in mortgage- or asset-backed securities, which are interests in separate pools of mortgages or assets. Effective maturities of these investments may be shorter than stated maturities due to prepayments. Some separate investments in the Federal Home Loan Mortgage Corp., Federal National Mortgage Association and Government National Mortgage Association issues which have similar coupon rates have been aggregated for presentation purposes in this investment portfolio.

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

At December 31, 2015, open futures contracts purchased were as follows:

Futures	Expiration Date	Contracts	Notional Value ($)	Unrealized Depreciation ($)
10 Year U.S. Treasury Note	3/21/2016	164	20,648,625	**(93,225)**

At December 31, 2015, open futures contracts sold were as follows:

Futures	Expiration Date	Contracts	Notional Value ($)	Unrealized Depreciation ($)
Ultra Long U.S. Treasury Bond	3/21/2016	33	5,236,688	**(32,791)**

At December 31, 2015, 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 — 3-Month LIBOR	5/9/2016 5/11/2026	2,000,000[1]	5/5/2016	**22,450**	**(2)**
Put Options					
Pay Fixed — 2.0% – Receive Floating — 3-Month LIBOR	8/15/2016 8/15/2046	2,900,000[1]	8/11/2016	55,680	(25,633)
Pay Fixed — 2.22% – Receive Floating — 3-Month LIBOR	7/13/2016 7/13/2046	2,900,000[2]	7/11/2016	54,520	(39,785)
Pay Fixed — 2.48% – Receive Floating — 3-Month LIBOR	5/9/2016 5/11/2026	2,000,000[1]	5/5/2016	22,450	(54,791)
Total Put Options				**132,650**	**(120,209)**
Total				**155,100**	**(120,211)**

(j) Unrealized appreciation on written options on interest rate swap contracts at December 31, 2015 was $34,889.

At December 31, 2015, open credit default swap contracts purchased were as follows:

Centrally Cleared Swap

Effective/ Expiration Dates	Notional Amount ($)	Fixed Cash Flows Paid	Underlying Reference Obligation	Value ($)	Unrealized Depreciation ($)
3/20/2015 6/20/2020	1,188,000	5.0%	Markit CDX North America High Yield Index	(44,574)	**(2,180)**

At December 31, 2015, 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 9/18/2045	3,600,000	Floating — 3-Month LIBOR	Fixed — 2.998%	306,831	185,624
12/16/2015 9/16/2025	500,000	Floating — 3-Month LIBOR	Fixed — 2.64%	21,823	18,656
12/16/2015 9/16/2020	8,900,000	Floating — 3-Month LIBOR	Fixed — 2.214%	223,142	227,052
12/16/2015 9/17/2035	9,700,000	Floating — 3-Month LIBOR	Fixed — 2.938%	665,342	453,541
12/4/2015 12/4/2045	2,000,000	Fixed — 2.615%	Floating — 3-Month LIBOR	(4,736)	38,664
2/3/2015 2/3/2045	1,800,000	Fixed — 3.035%	Floating — 3-Month LIBOR	(186,496)	(164,940)
1/28/2015 1/28/2045	2,000,000	Fixed — 3.088%	Floating — 3-Month LIBOR	(231,073)	(210,992)
12/16/2015 9/18/2017	13,600,000	Fixed — 1.557%	Floating — 3-Month LIBOR	(117,111)	(127,616)
9/16/2015 9/16/2045	1,800,000	Fixed — 3.0%	Floating — 3-Month LIBOR	(167,879)	(125,436)
12/16/2015 12/16/2045	1,400,000	Fixed — 2.75%	Floating — 3-Month LIBOR	(43,490)	(57,298)
9/30/2015 9/30/2045	2,000,000	Fixed — 2.88%	Floating — 3-Month LIBOR	(131,650)	(89,804)
9/16/2015 9/16/2045	8,995,000	Floating — 3-Month LIBOR	Fixed — 3.0%	838,928	345,563
Total net unrealized appreciation					**493,014**

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

Counterparties:

1 Nomura International PLC

2 Citigroup, Inc.

LIBOR: London Interbank Offered Rate; 3-Month LIBOR rate at December 31, 2015 is 0.61%.

At December 31, 2015, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
BRL	4,800,000	USD	1,230,815	1/5/2016	17,545	Macquarie Bank Ltd.
USD	200,000	BRL	800,000	1/11/2016	1,799	Macquarie Bank Ltd.
BRL	800,000	USD	205,392	1/11/2016	3,593	Macquarie Bank Ltd.
BRL	1,600,000	USD	411,311	1/11/2016	7,714	Nomura International PLC
BRL	1,600,000	USD	412,219	1/11/2016	8,622	BNP Paribas
BRL	1,600,000	USD	418,301	1/11/2016	14,704	Morgan Stanley
EUR	6,972,222	USD	8,003,902	1/19/2016	423,155	JPMorgan Chase Securities, Inc.
EUR	991,830	USD	1,126,438	1/19/2016	48,187	Morgan Stanley
USD	1,560,639	NZD	2,383,000	1/19/2016	67,068	Citigroup, Inc.
USD	1,526,165	EUR	1,436,000	1/19/2016	35,167	JPMorgan Chase Securities, Inc.
USD	930,818	MXN	16,200,000	1/20/2016	8,132	BNP Paribas
ZAR	16,200,000	USD	1,059,769	1/20/2016	15,043	JPMorgan Chase Securities, Inc.
ZAR	32,400,000	USD	2,175,636	1/20/2016	86,185	BNP Paribas
ZAR	10,600,000	USD	694,166	1/28/2016	11,589	JPMorgan Chase Securities, Inc.
MXN	2,042,900	USD	118,619	1/28/2016	281	JPMorgan Chase Securities, Inc.
CNY	6,000,000	USD	911,197	2/25/2016	4,787	Australia & New Zealand Banking Group Ltd.
Total unrealized appreciation					**753,571**	

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
USD	1,219,504	BRL	4,800,000	1/5/2016	(6,234)	Macquarie Bank Ltd.
MXN	19,214,561	ZAR	16,200,000	1/11/2016	(67,943)	Nomura International PLC
USD	411,576	BRL	1,600,000	1/11/2016	(7,979)	Nomura International PLC
USD	1,150,765	MXN	19,214,560	1/11/2016	(36,372)	JPMorgan Chase Securities, Inc.
NZD	2,383,000	USD	1,603,225	1/19/2016	(24,482)	BNP Paribas
USD	6,063,437	EUR	5,536,222	1/19/2016	(44,022)	Citigroup, Inc.
USD	2,124,347	ZAR	32,400,000	1/20/2016	(34,896)	BNP Paribas
USD	466,838	COP	1,450,000,000	1/20/2016	(10,768)	Morgan Stanley
USD	468,195	COP	1,450,000,000	1/20/2016	(12,125)	BNP Paribas
USD	981,818	INR	64,800,000	1/29/2016	(6,141)	Morgan Stanley
USD	934,143	CNY	6,000,000	2/25/2016	(27,734)	Australia & New Zealand Banking Group Ltd.
Total unrealized depreciation					**(278,696)**	

Currency Abbreviations

BRL	Brazilian Dollar	INR	Indian Rupee
CNY	Chinese Yuan	MXN	Mexican Peso
COP	Colombian Peso	NZD	New Zealand Dollar
EUR	Euro	USD	United States Dollar
HUF	Hungarian Forint	ZAR	South African Rand
IDR	Indonesian Rupiah		

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, 2015 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 (k)				
Corporate Bonds	$ —	$ 17,340,890	$ —	$ 17,340,890
Mortgage-Backed Securities Pass-Throughs	—	18,253,815	—	18,253,815
Asset-Backed	—	1,767,836	—	1,767,836
Commercial Mortgage-Backed Securities	—	3,000,577	—	3,000,577
Collateralized Mortgage Obligations	—	6,582,031	—	6,582,031
Government & Agency Obligations	—	32,310,041	—	32,310,041
Short-Term U.S. Treasury Obligations	—	803,587	—	803,587
Municipal Bonds and Notes	—	977,048	—	977,048
Short-Term Investments (k)	6,140,443	—	—	6,140,443
Derivatives (l)				
Interest Rate Swap Contracts	—	1,269,100	—	1,269,100
Forward Foreign Currency Exchange Contracts	—	753,571	—	753,571
Total	**$ 6,140,443**	**$ 83,058,496**	**$ —**	**$ 89,198,939**

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivatives (l)				
Futures Contracts	$ (126,016)	$ —	$ —	$ (126,016)
Written Options	—	(120,211)	—	(120,211)
Credit Default Swap Contracts	—	(2,180)	—	(2,180)
Interest Rate Swap Contracts	—	(776,086)	—	(776,086)
Forward Foreign Currency Exchange Contracts	—	(278,696)	—	(278,696)
Total	**$ (126,016)**	**$ (1,177,173)**	**$ —**	**$ (1,303,189)**

There have been no transfers between fair value measurement levels during the year ended December 31, 2015.

(k) See Investment Portfolio for additional detailed categorizations.

(l) 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, 2015

Assets	
Investments:	
Investments in non-affiliated securities, at value (cost $83,080,108) — including $1,460,838 of securities loaned	$ 81,035,825
Investment in Daily Assets Fund (cost $1,522,504)*	1,522,504
Investment in Central Cash Management Fund (cost $4,617,939)	4,617,939
Total investments in securities, at value (cost $89,220,551)	87,176,268
Cash	17,166
Foreign currency, at value (cost $335,168)	306,943
Deposit with broker for futures contracts	15,707
Receivable for Fund shares sold	129,176
Interest receivable	525,741
Receivable for variation margin on centrally cleared swaps	268,511
Unrealized appreciation on forward foreign currency exchange contracts	753,571
Foreign taxes recoverable	1,498
Other assets	3,214
Total assets	89,197,795
Liabilities	
Payable upon return of securities loaned	1,522,504
Payable for investment purchased — delayed delivery securities	7,315,620
Payable for Fund shares redeemed	6,715
Options written, at value (premiums received $155,100)	120,211
Unrealized depreciation on forward foreign currency exchange contracts	278,696
Accrued management fee	22,417
Accrued Trustees' fees	1,428
Other accrued expenses and payables	130,394
Total liabilities	9,397,985
Net assets, at value	**$ 79,799,810**
Net Assets Consist of	
Undistributed net investment income	3,494,238
Net unrealized appreciation (depreciation) on:	
Investments	(2,044,283)
Swap contracts	490,834
Futures	(126,016)
Foreign currency	446,291
Written options	34,889
Accumulated net realized gain (loss)	(18,517,172)
Paid-in capital	96,021,029
Net assets, at value	**$ 79,799,810**
Class A	
Net Asset Value, offering and redemption price per share ($79,799,810 ÷ 14,528,974 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 5.49**

* 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, 2015

Investment Income		
Income:		
Interest (net of foreign taxes withheld of $1,703)	$	3,046,609
Income distributions — Central Cash Management Fund		9,168
Securities lending income, including income from Daily Assets Fund, net of borrower rebates		8,843
Total income		3,064,620
Expenses:		
Management fee		376,262
Administration fee		96,477
Services to shareholders		1,625
Custodian fee		54,192
Professional fees		90,201
Reports to shareholders		30,956
Trustees' fees and expenses		5,629
Other		11,594
Total expenses before expense reductions		666,936
Expense reductions		(50,533)
Total expenses after expense reductions		616,403
Net investment income		**2,448,217**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		(3,142,875)
Swap contracts		(831,307)
Futures		(848,103)
Written options		36,090
Foreign currency		1,465,217
		(3,320,978)
Change in net unrealized appreciation (depreciation) on:		
Investments		(736,463)
Swap contracts		489,661
Futures		(124,388)
Written options		626,631
Foreign currency		527,557
		782,998
Net gain (loss)		**(2,537,980)**
Net increase (decrease) in net assets resulting from operations	**$**	**(89,763)**

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, 2015		2014
Operations:				
Net investment income	$	2,448,217	$	3,111,445
Net realized gain (loss)		(3,320,978)		3,604,392
Change in net unrealized appreciation (depreciation)		782,998		(20,085)
Net increase (decrease) in net assets resulting from operations		(89,763)		6,695,752
Distributions to shareholders from:				
Net investment income:				
Class A		(2,926,472)		(3,659,417)
Fund share transactions:				
Class A				
Proceeds from shares sold		11,060,840		11,004,710
Reinvestment of distributions		2,926,472		3,659,417
Payments for shares redeemed		(32,571,389)		(21,178,745)
Net increase (decrease) in net assets from Class A share transactions		(18,584,077)		(6,514,618)
Increase (decrease) in net assets		(21,600,312)		(3,478,283)
Net assets at beginning of period		101,400,122		104,878,405
Net assets at end of period (including undistributed net investment income of $3,494,238 and $2,890,836, respectively)	**$**	**79,799,810**	**$**	**101,400,122**

Other Information	2015	2014
Class A		
Shares outstanding at beginning of period	17,886,425	19,030,134
Shares sold	1,969,516	1,948,624
Shares issued to shareholders in reinvestment of distributions	520,725	662,938
Shares redeemed	(5,847,692)	(3,755,271)
Net increase (decrease) in Class A shares	(3,357,451)	(1,143,709)
Shares outstanding at end of period	**14,528,974**	**17,886,425**

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

Financial Highlights

Class A	2015	2014	2013	2012	2011
	Years Ended December 31,				
Selected Per Share Data					
Net asset value, beginning of period	**$ 5.67**	**$ 5.51**	**$ 5.89**	**$ 5.72**	**$ 5.66**
Income (loss) from investment operations:					
Net investment income[a]	.14	.17	.16	.16	.22
Net realized and unrealized gain (loss)	(.15)	.19	(.33)	.27	.09
Total from investment operations	(.01)	.36	(.17)	.43	.31
Less distributions from:					
Net investment income	(.17)	(.20)	(.21)	(.26)	(.25)
Net asset value, end of period	**$ 5.49**	**$ 5.67**	**$ 5.51**	**$ 5.89**	**$ 5.72**
Total Return (%)	(.29)[b]	6.63[b]	(3.03)[b]	7.77	5.68
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	80	101	105	190	112
Ratio of expenses before expense reductions (%)	.69	.69	.65	.58	.62
Ratio of expenses after expense reductions (%)	.64	.61	.56	.58	.62
Ratio of net investment income (%)	2.54	2.99	2.88	2.81	3.86
Portfolio turnover rate (%)	197	273	418	115	219

[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 (the "Trust") 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 Trust consists of five diversified funds: Deutsche Bond VIP, Deutsche Capital Growth VIP, Deutsche Core Equity VIP, Deutsche CROCI® International VIP (formerly Deutsche International VIP) and Deutsche Global Small Cap VIP (individually or collectively hereinafter referred to as a "Fund" or the "Funds"). These financial statements report on Deutsche Bond VIP. The Trust 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.

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. During the year ended December 31, 2015, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of December 31, 2015) on the cash collateral invested in Daily Assets Fund. 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, 2015, 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. The 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, 2015, 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 approximately $4,561,000 of post-enactment losses, which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($1,170,000) and long-term losses ($3,391,000).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2015 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, 2015, the Fund's components of distributable earnings (accumulated losses) on a tax basis are as follows:

Undistributed ordinary income*	$ 3,977,470
Capital loss carryforwards	$ (18,617,000)
Net unrealized appreciation (depreciation) on investments	$ (2,047,785)

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

	Years Ended December 31, 2015	2014
Distributions from ordinary income*	$ 2,926,472	$ 3,659,417

* 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 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, 2015, 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, 2015, is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2015, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $5,369,000 to $20,649,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from approximately $3,895,000 to $38,428,000.

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, 2015, 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, 2015. A summary of open written option contracts is included in the table following the Fund's Investment Portfolio. For the year ended December 31, 2015, the investment in written options contracts had a total value generally indicative of a range from approximately $120,000 to $923,000.

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, 2015, the Fund entered into credit default swap agreements to gain exposure to the underlying issuer's credit quality characteristics or to hedge the risk of default or other specified credit events on portfolio assets.

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 contract as of December 31, 2015, is included in a table following the Fund’s Investment Portfolio. For the year ended December 31, 2015, the investment in credit default swap contracts sold had a total notional value generally indicative of a range from $0 to $2,475,000.

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, 2015, 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, 2015 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2015, the investment in interest rate swap contracts had a total notional amount generally indicative of a range from $36,300,000 to $60,309,000.

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, 2015, 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, 2015, is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2015, the investment in forward currency contracts U.S. dollars purchased had a total contract value generally indicative of a range from approximately $14,197,000 to $40,977,000, and the investment in forward currency contracts U.S. dollars sold had a total contract value generally indicative of a range from approximately $11,732,000 to $30,949,000.

The investment in forward currency contracts long vs. other foreign currencies sold had a total contract value generally indicative of a range from approximately $1,165,000 to $17,983,000.

The following tables summarize the value of the Fund's derivative instruments held as of December 31, 2015 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivatives	**Forward Contracts**	**Swap Contracts**	**Total**
Interest Rate Contracts (a)	$ —	$ 1,269,100	$ 1,269,100
Foreign Exchange Contracts (b)	753,571	—	753,571
	$ 753,571	**$ 1,269,100**	**$ 2,022,671**

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

(a) Includes cumulative appreciation of 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 forward foreign currency exchange contracts

Liability Derivatives	**Written Options**	**Forward Contracts**	**Swap Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (a) (b)	$ (120,211)	$ —	$ (776,086)	$ (126,016)	$ (1,022,313)
Credit Contracts (b)	—	—	(2,180)	—	(2,180)
Foreign Exchange Contracts (c)	—	(278,696)	—	—	(278,696)
	$ (120,211)	**$ (278,696)**	**$ (778,266)**	**$ (126,016)**	**$ (1,303,189)**

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, 2015 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)	$ 36,090	$ —	$ (751,475)	$ (848,103)	$ (1,563,488)
Credit Contracts (b)	—	—	(79,832)	—	(79,832)
Foreign Exchange Contracts (c)	—	1,330,668	—	—	1,330,668
	$ 36,090	**$ 1,330,668**	**$ (831,307)**	**$ (848,103)**	**$ (312,652)**

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)	$ 626,631	$ —	$ 492,678	$ (124,388)	$ 994,921
Credit Contracts (b)	—	—	(3,017)	—	(3,017)
Foreign Exchange Contracts (c)	—	535,258	—	—	535,258
	$ 626,631	**$ 535,258**	**$ 489,661**	**$ (124,388)**	**$ 1,527,162**

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, 2015, 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.	$ 4,787	$ (4,787)	$ —	$ —	$ —
BNP Paribas	102,939	(71,503)	—	—	31,436
Citigroup, Inc.	67,068	(67,068)	—	—	—
JPMorgan Chase Securities, Inc.	485,235	(36,372)	—	—	448,863
Macquarie Bank Ltd.	22,937	(6,234)	—	—	16,703
Morgan Stanley	62,891	(16,909)	—	—	45,982
Nomura International PLC	7,714	(7,714)	—	—	—
	$ 753,571	**$ (210,587)**	**$ —**	**$ —**	**$ 542,984**

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.	$ 27,734	$ (4,787)	$ —	$ —	$ 22,947
BNP Paribas	71,503	(71,503)	—	—	—
Citigroup, Inc.	83,807	(67,068)	—	(16,739)	—
JPMorgan Chase Securities, Inc.	36,372	(36,372)	—	—	—
Macquarie Bank Ltd.	6,234	(6,234)	—	—	—
Morgan Stanley	16,909	(16,909)	—	—	—
Nomura International PLC	156,348	(7,714)	—	(20,041)	128,593
	$ 398,907	**$ (210,587)**	**$ —**	**$ (36,780)**	**$ 151,540**

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

C. Purchases and Sales of Securities

During the year ended December 31, 2015, purchases and sales of investment securities (excluding short-term investments and U.S. Treasury obligations) aggregated $177,718,484 and $192,105,936, respectively. Purchases and sales of U.S. Treasury obligations aggregated $14,434,699 and $11,764,192, respectively.

For the year ended December 31, 2015, transactions for written options on interest rate swap contracts were as follows:

	Contract Amount	Premiums
Outstanding, beginning of period	19,200,000	$ 267,641
Options written	5,800,000	110,200
Options bought back	(2,000,000)	(43,400)
Options exercised	(5,800,000)	(80,921)
Options expired	(7,400,000)	(98,420)
Outstanding, end of period	**9,800,000**	**$ 155,100**

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, 2015, 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, 2015 through April 30, 2015, 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 at 0.61%.

For the period from May 1, 2015 through September 30, 2015, 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 at 0.66%.

Effective October 1, 2015 through September 30, 2016, 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 0.64%.

For the year ended December 31, 2015, fees waived and/or expenses reimbursed were $50,533.

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, 2015, the Administration Fee was $96,477, of which $6,957 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, 2015, the amounts charged to the Fund by DSC aggregated $580, of which $96 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, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $15,414, of which $6,144 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 1940 Act, 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, 2015, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $769.

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, 2015, four participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, owning 37%, 26%, 13% and 10%, 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 the one-month 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, 2015.

Report of Independent Registered Public Accounting Firm

To the Board of 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 (the “Fund”) at December 31, 2015 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, 2015 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 12, 2016

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, 2015 to December 31, 2015).

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, 2015

Actual Fund Return	**Class A**
Beginning Account Value 7/1/15	$1,000.00
Ending Account Value 12/31/15	$1,001.80
Expenses Paid per $1,000*	$ 3.28
Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 7/1/15	$1,000.00
Ending Account Value 12/31/15	$1,021.93
Expenses Paid per $1,000*	$ 3.31

* 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	.65%

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 Trusts' 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 Trusts' 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 2015.

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

— In September 2015, 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 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 from 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's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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.

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 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 additional reporting from DIMA regarding such funds and, where appropriate, 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, 2014, the Fund's performance (Class A shares) was in the 1st 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-, three- and five-year periods ended December 31, 2014.

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, 2014). 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, 2014, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board noted that the expense limitation agreed to by DIMA was expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable Deutsche U.S. registered funds ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Funds. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM manages an institutional account comparable to the Fund, but that Deutsche AWM does not manage any comparable Deutsche Europe funds. The Board took note of the differences in services provided to 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. The Board also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's investment 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. 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 considered these benefits in reaching its conclusion that the Fund's management fees were reasonable.

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 the individual serving as 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	Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); 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)	106	—
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	106	—
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	106	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); 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; North Bennett Street School (Boston)	106	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)	106	—
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)	106	—
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	106	—

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
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)	106	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)	106	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)	106	—
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)	106	—

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 Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012)
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (since 2015); and Director and Vice President, DeAWM Trust Company (since 2016)
Melinda Morrow[6] (1970) Vice President, 2012–present	Director,[3] Deutsche Asset Management
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset Management; and Chairman, Director and President, DeAWM Trust Company (since 2013); formerly, Director, DeAWM Trust Company (2009–2013)
Caroline Pearson[7] (1962) Chief Legal Officer, 2010–present	Managing Director,[3] Deutsche Asset Management; Secretary, DeAWM Distributors, Inc; and Secretary, DeAWM Service Company
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director,[3] Deutsche Asset Management
Wayne Salit[6] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Hepsen Uzcan[6] (1974) Assistant Secretary, 2013–present	Director,[3] Deutsche Asset Management
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

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

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 Management

VS1bond-2 (R-025819-5 2/16)

Deutsche
Asset Management

December 31, 2015

Annual Report

Deutsche Variable Series I

Deutsche Capital Growth VIP

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

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

Deutsche Asset Management represents the asset management activities conducted by Deutsche Bank AG or any of its subsidiaries.

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

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

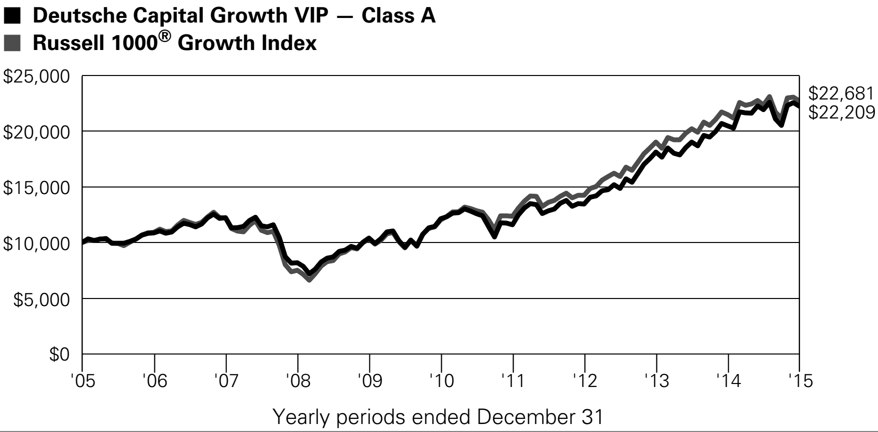
Performance Summary

December 31, 2015 (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, 2015 are 0.50% and 0.80% 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	$10,862	$16,522	$18,316	$22,209
	Average annual total return	8.62%	18.22%	12.87%	8.31%
Russell 1000 Growth Index	Growth of $10,000	$10,567	$15,946	$18,864	$22,681
	Average annual total return	5.67%	16.83%	13.53%	8.53%

Deutsche Capital Growth VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,833	$16,378	$18,035	$21,508
	Average annual total return	8.33%	17.88%	12.52%	7.96%
Russell 1000 Growth Index	Growth of $10,000	$10,567	$15,946	$18,864	$22,681
	Average annual total return	5.67%	16.83%	13.53%	8.53%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2015 (Unaudited)

The Fund returned 8.62% (Class A shares, unadjusted for contract charges) during 2015, outperforming the 5.67% return of the Russell 1000® Growth Index.[1] The Fund has also outpaced the benchmark in the three-year period ended on December 31, 2015. In managing the Fund, we strive to keep the portfolio's risk characteristics from deviating from the benchmark to a significant degree. Our outperformance is therefore the result of what we believe is a sustainable source — our focus on individual stock selection and bottom-up research — rather than an effort to boost returns by adding risk.

The Fund's broader positioning was well suited for the market backdrop that characterized 2015 by virtue of its emphasis on faster-growing stocks. Further, our preference for stocks with reliable earnings led us to tilt the portfolio toward companies with exposure to the domestic economy over those reliant on overseas growth trends and/or the direction of commodity prices. Our bottom-up process generated outperformance in eight of 10 sectors, with financials and consumer staples being the only groups in which we missed the mark.[2]

Our stock picks performed well within the technology sector, led by our position in Palo Alto Networks, Inc. We identified Palo Alto as a likely winner in the security space in early 2014, and the company has indeed experienced robust growth amid the rapidly rising demand for Internet and data security solutions. Avago Technologies Ltd., a semiconductor company that benefited from the strong trend in smartphones, also aided our results. We continued to favor the technology sector, where we see longer-term strength in important growth themes such as mobility, security and cloud computing.

The Fund's performance was helped by having 10 stocks taken over or bid for during the annual period. While we don't invest with the goal of identifying stocks that are likely to benefit from takeovers, we believe the buyouts of multiple portfolio holdings are a natural result of our focus on the types of faster-growing companies that can become attractive targets for corporate buyers at a time of slow global growth.

The consumer discretionary sector also proved to be an area of strength for the Fund, thanks to the strong showing of Amazon.com, Inc., NIKE, Inc. and Home Depot, Inc.[3] On the negative side, Twenty-First Century Fox, Inc., Mead Johnson Nutrition Co. and Western Digital Corp. represented the Fund's largest detractors.

Although we expect a continuation of the low-return environment for U.S. equities, we remain enthusiastic about the outlook for the individual stocks we hold in the portfolio. We continue to focus on single-stock opportunities, with an emphasis on companies that are positioned to benefit from favorable product stories and/or positive secular growth themes. We believe this approach helps us isolate individual companies with the potential to deliver outperformance even when the broader market is experiencing subpar returns.

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

3 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)	**12/31/15**	**12/31/14**
Common Stocks	98%	99%
Cash Equivalents	2%	0%
Convertible Preferred Stocks	0%	—
Convertible Bonds	—	1%
	100%	100%

Sector Diversification (As a % of Common Stocks, Convertible Bonds and Convertible Preferred Stocks)	**12/31/15**	**12/31/14**
Information Technology	28%	28%
Consumer Discretionary	22%	19%
Health Care	18%	16%
Industrials	11%	12%
Consumer Staples	10%	10%
Financials	5%	6%
Materials	3%	3%
Telecommunication Services	1%	1%
Energy	1%	4%
Utilities	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 98.2%		
Consumer Discretionary 21.4%		
Auto Components 0.5%		
BorgWarner, Inc.	100,534	**4,346,085**
Hotels, Restaurants & Leisure 1.5%		
Bloomin' Brands, Inc.	60,386	1,019,920
Brinker International, Inc. (a)	142,737	6,844,239
Las Vegas Sands Corp.	110,253	4,833,491
		12,697,650
Household Durables 0.7%		
Jarden Corp.*	101,432	**5,793,796**
Internet & Catalog Retail 4.6%		
Amazon.com, Inc.*	49,762	33,633,638
Expedia, Inc.	48,688	6,051,919
		39,685,557
Media 4.2%		
Twenty-First Century Fox, Inc. “A”	401,019	10,891,676
Walt Disney Co.	237,779	24,985,817
		35,877,493
Specialty Retail 6.2%		
Home Depot, Inc.	192,359	25,439,478
L Brands, Inc.	180,567	17,301,930
O'Reilly Automotive, Inc.*	38,541	9,767,060
		52,508,468
Textiles, Apparel & Luxury Goods 3.7%		
NIKE, Inc. “B”	350,874	21,929,625
VF Corp.	154,538	9,619,990
		31,549,615
Consumer Staples 9.9%		
Beverages 1.8%		
PepsiCo, Inc.	149,981	**14,986,101**
Food & Staples Retailing 2.5%		
Costco Wholesale Corp.	85,563	13,818,425
Rite Aid Corp.*	1,008,381	7,905,707
		21,724,132
Food Products 4.4%		
Blue Buffalo Pet Products, Inc.* (a)	10,638	199,037
Mead Johnson Nutrition Co.	126,653	9,999,254
Mondelez International, Inc. “A”	202,712	9,089,606
The JM Smucker Co.	34,686	4,278,171
The WhiteWave Foods Co.*	351,271	13,667,955
		37,234,023
Personal Products 1.2%		
Estee Lauder Companies, Inc. “A”	116,560	**10,264,274**
Energy 1.1%		
Oil, Gas & Consumable Fuels		
Concho Resources, Inc.*	51,175	4,752,111
Valero Energy Corp.	67,192	4,751,146
		9,503,257
Financials 4.5%		
Banks 0.4%		
SVB Financial Group*	29,232	**3,475,685**
Capital Markets 2.2%		
Affiliated Managers Group, Inc.*	43,857	7,006,594
Ameriprise Financial, Inc.	49,985	5,319,404
The Charles Schwab Corp.	182,194	5,999,648
		18,325,646

	Shares	Value ($)
Consumer Finance 1.0%		
Capital One Financial Corp.	116,597	**8,415,972**
Diversified Financial Services 0.9%		
Intercontinental Exchange, Inc.	31,366	**8,037,851**
Health Care 17.1%		
Biotechnology 6.7%		
Alexion Pharmaceuticals, Inc.*	35,794	6,827,706
Celgene Corp.*	168,907	20,228,302
Gilead Sciences, Inc.	213,154	21,569,053
Medivation, Inc.*	172,402	8,333,913
		56,958,974
Health Care Equipment & Supplies 1.8%		
Becton, Dickinson & Co.	29,965	4,617,307
St. Jude Medical, Inc.	112,065	6,922,255
The Cooper Companies, Inc.	29,620	3,975,004
		15,514,566
Health Care Providers & Services 3.5%		
Cigna Corp.	102,421	14,987,265
HCA Holdings, Inc.*	41,268	2,790,955
McKesson Corp.	59,185	11,673,057
		29,451,277
Life Sciences Tools & Services 1.7%		
Thermo Fisher Scientific, Inc.	103,087	**14,622,891**
Pharmaceuticals 3.4%		
Allergan PLC*	65,904	20,595,000
Shire PLC (ADR)	42,403	8,692,615
		29,287,615
Industrials 10.7%		
Aerospace & Defense 2.8%		
BE Aerospace, Inc.	99,912	4,233,271
Boeing Co.	108,947	15,752,647
TransDigm Group, Inc.*	17,506	3,999,246
		23,985,164
Commercial Services & Supplies 0.8%		
Stericycle, Inc.*	57,482	**6,932,329**
Electrical Equipment 2.0%		
Acuity Brands, Inc.	21,808	5,098,711
AMETEK, Inc.	219,675	11,772,383
		16,871,094
Industrial Conglomerates 3.1%		
Danaher Corp.	97,696	9,074,004
General Electric Co. (a)	138,789	4,323,277
Roper Technologies, Inc.	66,788	12,675,695
		26,072,976
Machinery 1.1%		
Dover Corp.	62,101	3,807,412
Parker-Hannifin Corp. (a)	53,524	5,190,758
		8,998,170
Road & Rail 0.9%		
Norfolk Southern Corp.	95,571	**8,084,351**
Information Technology 28.1%		
Communications Equipment 0.5%		
Palo Alto Networks, Inc.*	25,996	**4,578,936**
Internet Software & Services 8.1%		
Alphabet, Inc. “A”*	25,883	20,137,233
Alphabet, Inc. “C”*	26,085	19,795,385

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

	Shares	Value ($)
Facebook, Inc. "A"*	204,781	21,432,379
LinkedIn Corp. "A"*	33,870	7,623,460
		68,988,457
IT Services 5.1%		
Cognizant Technology Solutions Corp. "A"*	124,996	7,502,260
Fidelity National Information Services, Inc.	138,911	8,418,007
MasterCard, Inc. "A"	45,604	4,440,005
Visa, Inc. "A" (a)	301,817	23,405,908
		43,766,180
Semiconductors & Semiconductor Equipment 2.0%		
Avago Technologies Ltd.	53,849	7,816,182
Broadcom Corp. "A"	74,800	4,324,936
NXP Semiconductors NV*	59,804	5,038,487
		17,179,605
Software 6.9%		
Adobe Systems, Inc.*	154,651	14,527,915
Microsoft Corp.	447,320	24,817,314
Oracle Corp.	268,283	9,800,378
salesforce.com, Inc.*	123,971	9,719,326
		58,864,933
Technology Hardware, Storage & Peripherals 5.5%		
Apple, Inc.	409,701	43,125,127
Western Digital Corp.	54,692	3,284,255
		46,409,382
Materials 3.5%		
Chemicals 2.8%		
Dow Chemical Co.	137,070	7,056,363
Ecolab, Inc.	104,515	11,954,426
PPG Industries, Inc.	50,352	4,975,785
		23,986,574
Construction Materials 0.7%		
Vulcan Materials Co.	61,257	**5,817,577**
Telecommunication Services 1.3%		
Diversified Telecommunication Services		
Level 3 Communications, Inc.*	83,702	4,550,040
Zayo Group Holdings, Inc.*	261,925	6,964,586
		11,514,626
Utilities 0.6%		
Water Utilities		
American Water Works Co., Inc.	80,323	**4,799,299**
Total Common Stocks (Cost $514,178,145)		**837,110,581**
Convertible Preferred Stocks 0.3%		
Health Care 0.3%		
Allergan PLC, Series A, 5.5%	1,100	1,133,198
Teva Pharmaceutical Industries Ltd., 7.0%	934	950,213
		2,083,411
Industrials 0.0%		
Stericycle, Inc. Series A, 5.25%	3,000	**274,680**
Total Convertible Preferred Stocks (Cost $2,334,000)		**2,358,091**
Securities Lending Collateral 3.8%		
Daily Assets Fund, 0.36% (b) (c) (Cost $32,519,925)	32,519,925	**32,519,925**
Cash Equivalents 1.5%		
Central Cash Management Fund, 0.25% (b) (Cost $13,094,318)	13,094,318	**13,094,318**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $562,126,388)†	103.8	**885,082,915**
Other Assets and Liabilities, Net	(3.8)	**(32,519,420)**
Net Assets	100.0	**852,563,495**

* Non-income producing security.

† The cost for federal income tax purposes was $562,824,754. At December 31, 2015, net unrealized appreciation for all securities based on tax cost was $322,258,161. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $335,806,989 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $13,548,828.

(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, 2015 amounted to $31,591,427, which is 3.7% of net assets.

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

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

ADR: American Depositary Receipt

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, 2015 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)	$ 837,110,581	$ —	$ —	$ 837,110,581
Convertible Preferred Stocks (d)	2,358,091	—	—	2,358,091
Short-Term Investments (d)	45,614,243	—	—	45,614,243
Total	**$ 885,082,915**	**$ —**	**$ —**	**$ 885,082,915**

There have been no transfers between fair value measurement levels during the year ended December 31, 2015.

(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, 2015

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $516,512,145) — including $31,591,427 of securities loaned	$	839,468,672
Investment in Daily Assets Fund (cost $32,519,925)*		32,519,925
Investment in Central Cash Management Fund (cost $13,094,318)		13,094,318
Total investments in securities, at value (cost $562,126,388)		885,082,915
Receivable for Fund shares sold		523,108
Dividends receivable		669,801
Interest receivable		4,921
Other assets		14,133
Total assets		886,294,878
Liabilities		
Payable upon return of securities loaned		32,519,925
Payable for Fund shares redeemed		746,717
Accrued management fee		273,340
Accrued Trustees' fees		11,788
Other accrued expenses and payables		179,613
Total liabilities		33,731,383
Net assets, at value	**$**	**852,563,495**
Net Assets Consist of		
Undistributed net investment income		6,293,047
Net unrealized appreciation (depreciation) on Investments		322,956,527
Accumulated net realized gain (loss)		57,298,807
Paid-in capital		466,015,114
Net assets, at value	**$**	**852,563,495**
Class A		
Net Asset Value, offering and redemption price per share ($848,986,044 ÷ 30,084,968 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**28.22**
Class B		
Net Asset Value, offering and redemption price per share ($3,577,451 ÷ 127,214 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**28.12**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2015

Investment Income		
Income:		
Dividends	$	10,709,575
Income distributions — Central Cash Management Fund		6,270
Interest		6,007
Securities lending income, including income from Daily Assets Fund, net of borrower rebates		75,226
Total income		10,797,078
Expenses:		
Management fee		3,369,709
Administration fee		906,083
Services to shareholders		4,080
Record keeping fee (Class B)		177
Distribution and service fees (Class B)		8,442
Custodian fee		21,050
Professional fees		86,307
Reports to shareholders		17,867
Trustees' fees and expenses		35,347
Other		40,207
Total expenses		4,489,269
Net investment income (loss)		**6,307,809**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from Investments		73,261,776
Change in net unrealized appreciation (depreciation) on investments		(4,793,723)
Net gain (loss)		**68,468,053**
Net increase (decrease) in net assets resulting from operations	**$**	**74,775,862**

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, 2015	2014
Operations:		
Net investment income (loss)	$ 6,307,809	$ 6,418,200
Net realized gain (loss)	73,261,776	126,077,955
Change in net unrealized appreciation (depreciation)	(4,793,723)	(29,242,203)
Net increase (decrease) in net assets resulting from operations	74,775,862	103,253,952
Distributions to shareholders from:		
Net investment income:		
Class A	(6,323,352)	(5,280,971)
Class B	(12,995)	(41,098)
Net realized gains:		
Class A	(117,055,763)	(48,279,027)
Class B	(434,436)	(767,015)
Total distributions	(123,826,546)	(54,368,111)
Fund share transactions:		
Class A		
Proceeds from shares sold	45,298,331	51,156,495
Reinvestment of distributions	123,379,115	53,559,998
Payments for shares redeemed	(161,179,658)	(101,225,789)
Net increase (decrease) in net assets from Class A share transactions	7,497,788	3,490,704
Class B		
Proceeds from shares sold	1,114,466	1,318,640
Reinvestment of distributions	447,431	808,113
Payments for shares redeemed	(1,187,018)	(11,748,491)
Net increase (decrease) in net assets from Class B share transactions	374,879	(9,621,738)
Increase (decrease) in net assets	(41,178,017)	42,754,807
Net assets at beginning of period	893,741,512	850,986,705
Net assets at end of period (including undistributed net investment income of $6,293,047 and $6,242,357, respectively)	**$ 852,563,495**	**$ 893,741,512**

Other Information		
Class A		
Shares outstanding at beginning of period	29,731,475	29,474,327
Shares sold	1,580,052	1,781,210
Shares issued to shareholders in reinvestment of distributions	4,417,441	2,074,361
Shares redeemed	(5,644,000)	(3,598,423)
Net increase (decrease) in Class A shares	353,493	257,148
Shares outstanding at end of period	**30,084,968**	**29,731,475**
Class B		
Shares outstanding at beginning of period	113,396	484,326
Shares sold	38,768	46,596
Shares issued to shareholders in reinvestment of distributions	16,048	31,359
Shares redeemed	(40,998)	(448,885)
Net increase (decrease) in Class B shares	13,818	(370,930)
Shares outstanding at end of period	**127,214**	**113,396**

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

Financial Highlights

Class A	2015	2014	2013	2012	2011
		Years Ended December 31,			
Selected Per Share Data					
Net asset value, beginning of period	**$29.95**	**$28.41**	**$21.38**	**$18.58**	**$19.59**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.20	.21	.21	.28	.17
Net realized and unrealized gain (loss)	2.34	3.18	7.12	2.70	(1.03)
Total from investment operations	2.54	3.39	7.33	2.98	(.86)
Less distributions from:					
Net investment income	(.22)	(.18)	(.30)	(.18)	(.15)
Net realized gains	(4.05)	(1.67)	—	—	—
Total distributions	(4.27)	(1.85)	(.30)	(.18)	(.15)
Net asset value, end of period	**$28.22**	**$29.95**	**$28.41**	**$21.38**	**$18.58**
Total Return (%)	8.62	12.97	34.65	16.05	(4.47)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	849	890	837	701	677
Ratio of expenses (%)	.49	.50	.50	.50	.50
Ratio of net investment income (loss) (%)	.70	.76	.85	1.32	.86
Portfolio turnover rate (%)	35	47	37	25	47

[a] Based on average shares outstanding during the period.

Class B	2015	2014	2013	2012	2011
		Years Ended December 31,			
Selected Per Share Data					
Net asset value, beginning of period	**$29.84**	**$28.29**	**$21.29**	**$18.51**	**$19.51**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.13	.09	.13	.20	.10
Net realized and unrealized gain (loss)	2.32	3.22	7.10	2.69	(1.02)
Total from investment operations	2.45	3.31	7.23	2.89	(.92)
Less distributions from:					
Net investment income	(.12)	(.09)	(.23)	(.11)	(.08)
Net realized gains	(4.05)	(1.67)	—	—	—
Total distributions	(4.17)	(1.76)	(.23)	(.11)	(.08)
Net asset value, end of period	**$28.12**	**$29.84**	**$28.29**	**$21.29**	**$18.51**
Total Return (%)	8.33	12.67	34.19	15.61	(4.76)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	4	3	14	13	13
Ratio of expenses (%)	.76	.80	.83	.83	.84
Ratio of net investment income (loss) (%)	.44	.33	.52	.97	.52
Portfolio turnover rate (%)	35	47	37	25	47

[a] Based on average shares outstanding during the period.

Notes to Financial Statements

A. Organization and Significant Accounting Policies

Deutsche Variable Series I (the "Trust") 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 Trust consists of five diversified funds: Deutsche Bond VIP, Deutsche Capital Growth VIP, Deutsche Core Equity VIP, Deutsche CROCI® International VIP (formerly Deutsche International VIP) and Deutsche Global Small Cap VIP (individually or collectively hereinafter referred to as a "Fund" or the "Funds"). These financial statements report on Deutsche Capital Growth VIP. The Trust 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. Prior to September 30, 2015, Brown Brothers Harriman & Co. served as security lending agent for the Fund. Effective September 30, 2015, Deutsche Bank AG serves as security lending agent to the Fund. The 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. During the year ended December 31, 2015, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of December 31, 2015) on the cash collateral invested in Daily Assets Fund. 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, 2015, 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. The 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, 2015, the Fund had a net tax basis capital loss carryforward of approximately $8,161,000 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, 2015 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, 2015, the Fund's components of distributable earnings (accumulated losses) on a tax basis are as follows:

Undistributed ordinary income*	$ 6,699,864
Undistributed net long-term capital gains	$ 65,687,053
Capital loss carryforwards	$ (8,161,000)
Net unrealized appreciation (depreciation) on investments	$ 322,258,161

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

	Years Ended December 31, 2015	2014
Distributions from ordinary income*	$ 6,336,347	$ 5,322,069
Distributions from long-term capital gains	$117,490,199	$ 49,046,042

* 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, 2015, purchases and sales of investment securities (excluding short-term investments) aggregated $310,700,666 and $421,788,189, 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, 2015, 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, 2015 through September 30, 2015, the Advisor had 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%

Effective October 1, 2015 through September 30, 2016, 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	.79%
Class B	1.05%

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, 2015, the Administration Fee was $906,083, of which $73,433 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, 2015, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	**Total Aggregated**	**Unpaid at December 31, 2015**
Class A	$ 801	$ 137
Class B	204	33
	$ 1,005	**$ 170**

Distribution Service Agreement. DeAWM Distributors, Inc. ("DDI"), also an affiliate of the Advisor, is the Trusts' 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, 2015, the Distribution Service Fee aggregated $8,442, of which $754 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, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $10,978, of which $4,183 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 1940 Act, 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. Effective September 30, 2015, Deutsche Bank AG serves as lending agent for the Fund. For the year ended December 31, 2015, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $895.

D. Ownership of the Fund

At December 31, 2015, three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 47%, 29% and 11%, 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 67% and 18%, 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 the one-month 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, 2015.

Report of Independent Registered Public Accounting Firm

To the Board of 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 (the “Fund”) at December 31, 2015 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, 2015 by correspondence with the custodian, brokers and transfer agent, provide a reasonable basis for our opinion.

Boston, Massachusetts
February 12, 2016

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, 2015 to December 31, 2015).

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, 2015

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/15	$1,000.00	$1,000.00
Ending Account Value 12/31/15	$1,014.70	$1,013.30
Expenses Paid per $1,000*	$ 2.49	$ 3.81
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/15	$1,000.00	$1,000.00
Ending Account Value 12/31/15	$1,022.74	$1,021.42
Expenses Paid per $1,000*	$ 2.50	$ 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	.49%	.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 $4.05 per share from net long-term capital gains during its year ended December 31, 2015.

Pursuant to Section 852 of the Internal Revenue Code, the Fund designates $72,440,000 as capital gain dividends for its year ended December 31, 2015.

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, 2015 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 Trusts' 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 Trusts' 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 2015.

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

In September 2015, 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 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 from 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's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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.

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 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 additional reporting from DIMA regarding such funds and, where appropriate, 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, 2014, the Fund's performance (Class A shares) was in the 1st quartile, 2nd 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 three-year period and has underperformed its benchmark in the one- and five-year periods ended December 31, 2014.

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, 2014). 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, 2014, 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 noted that the expense limitations agreed to by DIMA were expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable Deutsche U.S. registered funds ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Funds. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM 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 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 also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's investment 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 considered these benefits in reaching its conclusion that the Fund's management fees were reasonable.

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 the individual serving as 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	Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); 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)	106	—
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	106	—
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	106	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); 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; North Bennett Street School (Boston)	106	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)	106	—
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)	106	—
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	106	—

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
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)	106	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)	106	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)	106	—
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)	106	—

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 Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012)
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (since 2015); and Director and Vice President, DeAWM Trust Company (since 2016)
Melinda Morrow[6] (1970) Vice President, 2012–present	Director,[3] Deutsche Asset Management
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset Management; and Chairman, Director and President, DeAWM Trust Company (since 2013); formerly, Director, DeAWM Trust Company (2009–2013)
Caroline Pearson[7] (1962) Chief Legal Officer, 2010–present	Managing Director,[3] Deutsche Asset Management; Secretary, DeAWM Distributors, Inc; and Secretary, DeAWM Service Company
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director,[3] Deutsche Asset Management
Wayne Salit[6] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Hepsen Uzcan[6] (1974) Assistant Secretary, 2013–present	Director,[3] Deutsche Asset Management
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

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

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 Management

VS1capgro-2 (R-025820-5 2/16)

Deutsche
Asset Management

December 31, 2015

Annual Report

Deutsche Variable Series I

Deutsche Core Equity VIP

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

Stocks may decline in value. Fund management could be wrong in its analysis of industries, companies, economic trends and favor a security that underperforms the market. The Fund may lend securities to approved institutions. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. See the prospectus for details.

Deutsche Asset Management represents the asset management activities conducted by Deutsche Bank AG or any of its subsidiaries.

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

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

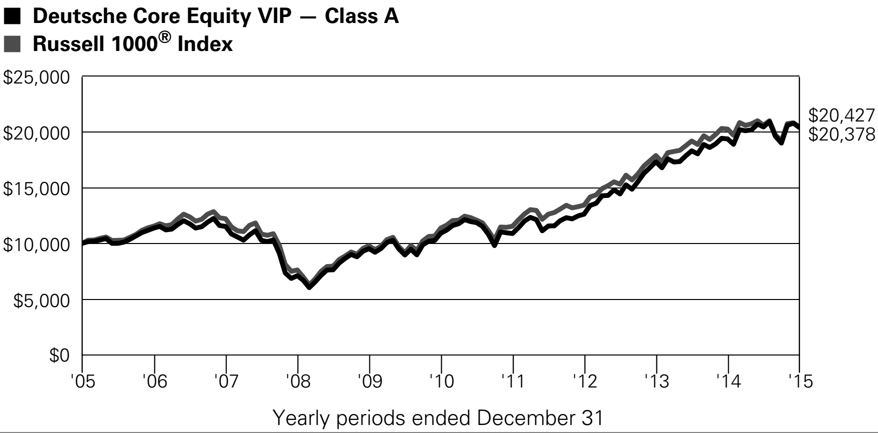
Performance Summary

December 31, 2015 (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, 2015 are 0.57% and 0.82% 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	$10,525	$16,162	$18,691	$20,378
	Average annual total return	5.25%	17.35%	13.33%	7.38%
Russell 1000® Index	Growth of $10,000	$10,092	$15,212	$17,975	$20,427
	Average annual total return	0.92%	15.01%	12.44%	7.40%

Deutsche Core Equity VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,491	$16,040	$18,438	$19,853
	Average annual total return	4.91%	17.06%	13.02%	7.10%
Russell 1000® Index	Growth of $10,000	$10,092	$15,212	$17,975	$20,427
	Average annual total return	0.92%	15.01%	12.44%	7.40%

The growth of $10,000 is cumulative.

Management Summary

The Fund returned 5.25% (Class A shares, unadjusted for contract charges) during 2015, outperforming the 0.92% return of its benchmark, the Russell 1000® Index. The Fund also outpaced its benchmark in the three- and five-year periods ended December 31, 2015.[1]

We believe the Fund's healthy relative performance in a potentially challenging environment helps illustrate the potential benefits of our approach. We continued to focus on generating longer-term outperformance through the quality of our individual stock selection, rather than trying to boost short-term returns by taking undue risk. Our emphasis on stocks with reliable earnings led us to tilt the portfolio toward companies with exposure to the domestic economy over those reliant on overseas growth trends and/or the direction of commodity prices. This approach proved helpful during the course of the year and was a key factor in our outperformance.

The Fund's stock picks outperformed in nine of 10 sectors during the year, with the only shortfall occurring in financials. Our stock selection was most effective in the information technology, industrial and materials sectors, with smaller positive contributions from the utilities, energy and consumer discretionary groups.[2] NIKE, Inc., which reported better-than-expected growth across all geographies despite soft global economic conditions, was the leading individual contributor to the Fund's 12-month results. Our positions in the supermarket operator Kroger Co., which gained market share, and Roper Technologies, Inc., which benefited from the increased demand for its radio frequency identification communication technology used in toll-collection systems, also made positive contributions to returns. The Fund further benefited from having eight of its holdings taken over or bid for during the course of the year. On the negative side, the energy exploration and production company Anadarko Petroleum Corp. was the leading detractor from performance.

With regard to the Fund's positioning, we continue to favor the technology sector, where we see longer-term strength in important growth themes such as mobility, security and cloud computing. We also hold a positive view on the health care sector, as we believe it represents a bright spot of growth in the market. On the other end of the spectrum, we have found fewer compelling opportunities in market segments — such as utilities and telecommunications — with less attractive growth prospects. We also reduced the Fund's weighting in energy in response to the continued uncertainty regarding the direction of oil prices.

While we expect a continuation of the low-return environment for stocks in the year ahead, we remain enthusiastic about the outlook for the individual stocks we hold in the portfolio. We continue to focus on single-stock opportunities, with an emphasis on companies that are positioned to benefit from favorable product stories and/or positive secular growth themes. We believe this approach enables us to isolate individual companies with the potential to deliver outperformance even when the broader market is experiencing subpar returns.

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 any 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.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/15**	**12/31/14**
Common Stocks	99%	99%
Cash Equivalents	1%	1%
Convertible Preferred Stocks	0%	—
Convertible Bond	0%	0%
	100%	100%

Sector Diversification (As a % of Common Stocks, Convertible Bond and Convertible Preferred Stocks)	**12/31/15**	**12/31/14**
Information Technology	20%	20%
Health Care	16%	17%
Financials	15%	16%
Consumer Discretionary	14%	13%
Industrials	11%	11%
Consumer Staples	10%	9%
Energy	6%	8%
Materials	4%	3%
Utilities	3%	2%
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 99.2%		
Consumer Discretionary 13.6%		
Auto Components 0.8%		
BorgWarner, Inc.	30,560	**1,321,109**
Hotels, Restaurants & Leisure 1.2%		
Bloomin' Brands, Inc.	13,075	220,837
Brinker International, Inc.	29,275	1,403,736
Las Vegas Sands Corp.	13,074	573,164
		2,197,737
Household Durables 0.6%		
Jarden Corp.*	17,344	**990,689**
Internet & Catalog Retail 2.0%		
Amazon.com, Inc.*	5,205	**3,518,008**
Media 1.8%		
Twenty-First Century Fox, Inc. "A"	39,356	1,068,909
Walt Disney Co. (a)	20,291	2,132,178
		3,201,087
Specialty Retail 4.9%		
Advance Auto Parts, Inc.	11,426	1,719,727
Home Depot, Inc.	25,077	3,316,433
L Brands, Inc. (a)	39,236	3,759,594
		8,795,754
Textiles, Apparel & Luxury Goods 2.3%		
NIKE, Inc. "B"	49,302	3,081,375
VF Corp.	16,676	1,038,081
		4,119,456
Consumer Staples 10.5%		
Beverages 1.4%		
PepsiCo, Inc.	25,600	**2,557,952**
Food & Staples Retailing 3.7%		
Costco Wholesale Corp.	12,288	1,984,512
Kroger Co.	67,963	2,842,892
Rite Aid Corp.*	218,701	1,714,616
		6,542,020
Food Products 4.6%		
Blue Buffalo Pet Products, Inc.* (a)	2,455	45,933
ConAgra Foods, Inc.	41,107	1,733,071
Mead Johnson Nutrition Co.	26,170	2,066,121
The JM Smucker Co.	13,761	1,697,282
The WhiteWave Foods Co.*	66,835	2,600,550
		8,142,957
Personal Products 0.8%		
Estee Lauder Companies, Inc. "A"	17,094	**1,505,298**
Energy 6.2%		
Energy Equipment & Services 0.6%		
Schlumberger Ltd.	15,973	**1,114,117**
Oil, Gas & Consumable Fuels 5.6%		
Anadarko Petroleum Corp.	33,944	1,649,000
Chevron Corp.	19,237	1,730,560
Concho Resources, Inc.*	5,040	468,014
EOG Resources, Inc.	24,093	1,705,543
Occidental Petroleum Corp.	30,726	2,077,385
Phillips 66	28,526	2,333,427
		9,963,929
Financials 15.3%		
Banks 7.0%		
Citigroup, Inc.	86,009	4,450,966
JPMorgan Chase & Co.	77,623	5,125,446
Regions Financial Corp.	295,570	2,837,472
		12,413,884
Capital Markets 2.1%		
Ameriprise Financial, Inc.	18,430	1,961,321
Bank of New York Mellon Corp.	45,159	1,861,454
		3,822,775
Consumer Finance 1.7%		
Capital One Financial Corp.	42,709	**3,082,736**
Insurance 2.9%		
MetLife, Inc.	46,827	2,257,530
Prudential Financial, Inc.	35,367	2,879,227
		5,136,757
Real Estate Investment Trusts 1.6%		
Prologis, Inc. (REIT)	64,177	**2,754,477**
Health Care 15.9%		
Biotechnology 4.2%		
Celgene Corp.*	30,148	3,610,525
Gilead Sciences, Inc.	24,554	2,484,619
Medivation, Inc.*	27,710	1,339,501
		7,434,645
Health Care Equipment & Supplies 2.1%		
Becton, Dickinson & Co.	13,921	2,145,087
St. Jude Medical, Inc.	26,562	1,640,735
		3,785,822
Health Care Providers & Services 2.5%		
Cigna Corp.	14,921	2,183,390
HCA Holdings, Inc.* (a)	11,110	751,369
McKesson Corp.	7,651	1,509,007
		4,443,766
Life Sciences Tools & Services 1.8%		
Thermo Fisher Scientific, Inc.	22,425	**3,180,986**
Pharmaceuticals 5.3%		
Allergan PLC*	6,041	1,887,813
Bristol-Myers Squibb Co.	14,572	1,002,408
Merck & Co., Inc.	50,277	2,655,631
Pfizer, Inc.	86,112	2,779,695
Shire PLC (ADR) (a)	5,647	1,157,635
		9,483,182
Industrials 10.5%		
Aerospace & Defense 2.2%		
Boeing Co.	21,291	3,078,465
TransDigm Group, Inc.* (a)	3,833	875,649
		3,954,114
Airlines 0.9%		
Southwest Airlines Co.	36,726	**1,581,422**
Electrical Equipment 2.0%		
AMETEK, Inc.	46,160	2,473,714
Regal Beloit Corp. (a)	17,971	1,051,663
		3,525,377

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

	Shares	Value ($)
Industrial Conglomerates 3.5%		
General Electric Co.	105,889	3,298,442
Roper Technologies, Inc.	15,344	2,912,138
		6,210,580
Machinery 0.8%		
Parker-Hannifin Corp.	15,236	**1,477,587**
Road & Rail 1.1%		
Norfolk Southern Corp.	23,006	**1,946,078**
Information Technology 20.2%		
Communications Equipment 1.1%		
Cisco Systems, Inc. (a)	73,117	**1,985,492**
Internet Software & Services 4.8%		
Alphabet, Inc. "A"*	3,826	2,976,666
Alphabet, Inc. "C"*	3,846	2,918,653
Facebook, Inc. "A"*	25,902	2,710,903
		8,606,222
IT Services 3.5%		
Cognizant Technology Solutions Corp. "A"*	24,422	1,465,808
Fidelity National Information Services, Inc.	21,038	1,274,903
Visa, Inc. "A"	45,874	3,557,529
		6,298,240
Semiconductors & Semiconductor Equipment 1.4%		
Avago Technologies Ltd.	10,651	1,545,993
NXP Semiconductors NV*	10,204	859,687
		2,405,680
Software 6.1%		
Intuit, Inc.	11,299	1,090,353
Microsoft Corp.	116,329	6,453,933
Oracle Corp. (a)	52,183	1,906,245
salesforce.com, Inc.*	17,388	1,363,219
		10,813,750
Technology Hardware, Storage & Peripherals 3.3%		
Apple, Inc.	50,055	5,268,789
Western Digital Corp.	10,191	611,970
		5,880,759
Materials 3.6%		
Chemicals 1.8%		
Dow Chemical Co.	27,162	1,398,300
Ecolab, Inc.	15,795	1,806,632
		3,204,932
Construction Materials 0.8%		
Vulcan Materials Co.	13,993	**1,328,915**
Containers & Packaging 1.0%		
Sealed Air Corp.	41,694	**1,859,553**

	Shares	Value ($)
Telecommunication Services 0.9%		
Wireless Telecommunication Services		
T-Mobile U.S., Inc.*	42,311	**1,655,206**
Utilities 2.5%		
Electric Utilities 0.8%		
NextEra Energy, Inc.	13,087	**1,359,608**
Water Utilities 1.7%		
American Water Works Co., Inc.	50,458	**3,014,866**
Total Common Stocks (Cost $144,493,688)		**176,617,524**

	Principal Amount ($)	Value ($)
Convertible Bond 0.3%		
Consumer Discretionary		
Fiat Chrysler Automobiles NV, 7.875%, 12/15/2016 (Cost $440,000)	440,000	**511,225**

	Shares	Value ($)
Convertible Preferred Stocks 0.3%		
Health Care 0.2%		
Allergan PLC, Series A, 5.5%	300	309,054
Teva Pharmaceutical Industries Ltd., 7.0%	212	215,680
		524,734
Industrials 0.1%		
Stericycle, Inc., Series A, 5.25%	1,000	**91,560**
Total Convertible Preferred Stocks (Cost $612,000)		**616,294**
Securities Lending Collateral 6.7%		
Daily Assets Fund, 0.36% (b) (c) (Cost $11,894,145)	11,894,145	**11,894,145**
Cash Equivalents 0.6%		
Central Cash Management Fund, 0.25% (b) (Cost $1,117,931)	1,117,931	**1,117,931**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $158,557,764)†	107.1	**190,757,119**
Other Assets and Liabilities, Net	(7.1)	**(12,630,900)**
Net Assets	100.0	**178,126,219**

* Non-income producing security.

† The cost for federal income tax purposes was $158,701,703. At December 31, 2015, net unrealized appreciation for all securities based on tax cost was $32,055,416. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $37,975,035 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $5,919,619.

(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, 2015 amounted to $11,538,114, which is 6.5% 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.

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, 2015 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)	$176,617,524	$ —	$ —	$176,617,524
Convertible Bond	—	511,225	—	511,225
Convertible Preferred Stocks (d)	616,294	—	—	616,294
Short-Term Investments (d)	13,012,076	—	—	13,012,076
Total	**$190,245,894**	**$ 511,225**	**$ —**	**$190,757,119**

There have been no transfers between fair value measurement levels during the year ended December 31, 2015.

(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, 2015

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $145,545,688) — including $11,538,114 of securities loaned	$	177,745,043
Investment in Daily Assets Fund (cost $11,894,145)*		11,894,145
Investment in Central Cash Management Fund (cost $1,117,931)		1,117,931
Total investments in securities, at value (cost $158,557,764)		190,757,119
Receivable for Fund shares sold		19,128
Dividends receivable		205,972
Interest receivable		1,521
Other assets		3,851
Total assets		190,987,591

Liabilities		
Payable upon return of securities loaned		11,894,145
Payable for Fund shares redeemed		796,251
Accrued management fee		61,116
Accrued Trustees' fees		2,531
Other accrued expenses and payables		107,329
Total liabilities		12,861,372
Net assets, at value	**$**	**178,126,219**

Net Assets Consist of		
Undistributed net investment income		2,321,097
Net unrealized appreciation (depreciation) on investments		32,199,355
Accumulated net realized gain (loss)		14,396,620
Paid-in capital		129,209,147
Net assets, at value	**$**	**178,126,219**
Class A		
Net Asset Value, offering and redemption price per share ($176,076,331 ÷ 13,252,114 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**13.29**
Class B		
Net Asset Value, offering and redemption price per share ($2,049,888 ÷ 154,548 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**13.26**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2015

Investment Income		
Income:		
Dividends	$	3,512,019
Interest		33,352
Income distributions — Central Cash Management Fund		1,263
Securities lending income, including income from Daily Assets Fund, net of borrower rebates		11,033
Total income		3,557,667
Expenses:		
Management fee		830,746
Administration fee		213,012
Services to shareholders		2,002
Record keeping fee (Class B)		373
Distribution service fee (Class B)		4,940
Custodian fee		19,000
Professional fees		73,391
Reports to shareholders		23,433
Trustees' fees and expenses		10,088
Other		11,349
Total expenses		1,188,334
Net investment income		**2,369,333**

Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from investments		14,502,719
Change in net unrealized appreciation (depreciation) on investments		(5,598,072)
Net gain (loss)		**8,904,647**
Net increase (decrease) in net assets resulting from operations	**$**	**11,273,980**

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, 2015	2014
Operations:		
Net investment income	$ 2,369,333	$ 1,881,277
Net realized gain (loss)	14,502,719	17,630,326
Change in net unrealized appreciation (depreciation)	(5,598,072)	4,906,485
Net increase (decrease) in net assets resulting from operations	11,273,980	24,418,088
Distributions to shareholders from:		
Net investment income:		
Class A	(1,815,630)	(2,373,232)
Class B	(11,196)	(16,034)
Net realized gains:		
Class A	(491,871)	—
Class B	(4,384)	—
Total distributions	(2,323,081)	(2,389,266)
Fund share transactions:		
Class A		
Proceeds from shares sold	9,787,413	9,130,365
Reinvestment of distributions	2,307,501	2,373,232
Payments for shares redeemed	(65,202,089)	(36,253,798)
Net increase (decrease) in net assets from Class A share transactions	(53,107,175)	(24,750,201)
Class B		
Proceeds from shares sold	435,534	50,380
Reinvestment of distributions	15,580	16,034
Payments for shares redeemed	(285,169)	(301,019)
Net increase (decrease) in net assets from Class B share transactions	165,945	(234,605)
Increase (decrease) in net assets	(43,990,331)	(2,955,984)
Net assets at beginning of period	222,116,550	225,072,534
Net assets at end of period (including undistributed net investment income of $2,321,097 and $1,766,159, respectively)	**$ 178,126,219**	**$ 222,116,550**

Other Information		
Class A		
Shares outstanding at beginning of period	17,268,971	19,342,719
Shares sold	745,068	762,045
Shares issued to shareholders in reinvestment of distributions	173,366	210,580
Shares redeemed	(4,935,291)	(3,046,373)
Net increase (decrease) in Class A shares	(4,016,857)	(2,073,748)
Shares outstanding at end of period	**13,252,114**	**17,268,971**
Class B		
Shares outstanding at beginning of period	142,262	161,956
Shares sold	32,766	4,074
Shares issued to shareholders in reinvestment of distributions	1,171	1,423
Shares redeemed	(21,651)	(25,191)
Net increase (decrease) in Class B shares	12,286	(19,694)
Shares outstanding at end of period	**154,548**	**142,262**

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

Financial Highlights

Class A		Years Ended December 31,			
	2015	2014	2013	2012	2011
Selected Per Share Data					
Net asset value, beginning of period	**$12.76**	**$11.54**	**$ 8.53**	**$ 7.46**	**$ 7.56**
Income (loss) from investment operations:					
Net investment income[a]	.15	.10	.12	.15	.10
Net realized and unrealized gain (loss)	.52	1.25	3.03	1.03	(.10)
Total from investment operations	.67	1.35	3.15	1.18	.00
Less distributions from:					
Net investment income	(.11)	(.13)	(.14)	(.11)	(.10)
Net realized gains	(.03)	—	—	—	—
Total distributions	(.14)	(.13)	(.14)	(.11)	(.10)
Net asset value, end of period	**$13.29**	**$12.76**	**$11.54**	**$ 8.53**	**$ 7.46**
Total Return (%)	5.25	11.82	37.33	15.81	(.14)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	176	220	223	180	85
Ratio of expenses (%)	.56	.57	.56	.59	.63
Ratio of net investment income (%)	1.11	.86	1.20	1.90	1.25
Portfolio turnover rate (%)	27	48	238	307	215

[a] Based on average shares outstanding during the period.

Class B		Years Ended December 31,			
	2015	2014	2013	2012	2011
Selected Per Share Data					
Net asset value, beginning of period	**$12.74**	**$11.53**	**$ 8.51**	**$ 7.45**	**$ 7.55**
Income (loss) from investment operations:					
Net investment income[a]	.11	.07	.10	.11	.08
Net realized and unrealized gain (loss)	.52	1.24	3.03	1.03	(.10)
Total from investment operations	.63	1.31	3.13	1.14	(.02)
Less distributions from:					
Net investment income	(.08)	(.10)	(.11)	(.08)	(.08)
Net realized gains	(.03)	—	—	—	—
Total distributions	(.11)	(.10)	(.11)	(.08)	(.08)
Net asset value, end of period	**$13.26**	**$12.74**	**$11.53**	**$ 8.51**	**$ 7.45**
Total Return (%)	4.91	11.52	37.10	15.41	(.40)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	2	2	2	2	2
Ratio of expenses (%)	.83	.82	.76	.90	.88
Ratio of net investment income (%)	.84	.60	1.00	1.41	.99
Portfolio turnover rate (%)	27	48	238	307	215

[a] Based on average shares outstanding during the period.

Notes to Financial Statements

A. Organization and Significant Accounting Policies

Deutsche Variable Series I (the "Trust") 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 Trust consists of five diversified funds: Deutsche Bond VIP, Deutsche Capital Growth VIP, Deutsche Core Equity VIP, Deutsche CROCI® International VIP (formerly Deutsche International VIP) and Deutsche Global Small Cap VIP (individually or collectively hereinafter referred to as a "Fund" or the "Funds"). These financial statements report on Deutsche Core Equity VIP. The Trust 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. During the year ended December 31, 2015, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of December 31, 2015) on the cash collateral invested in Daily Assets Fund. 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, 2015, 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. The 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, 2015 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, 2015, the Fund's components of distributable earnings (accumulated losses) on a tax basis are as follows:

Undistributed ordinary income*	$ 4,935,429
Undistributed net long-term capital gains	$ 11,926,321
Net unrealized appreciation (depreciation) on investments	$ 32,055,416

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

	Years Ended December 31, 2015	2014
Distributions from ordinary income*	$ 1,826,826	$ 2,389,266
Distributions from long-term capital gains	$ 496,255	$ —

* 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, 2015, purchases and sales of investment securities (excluding short-term investments) aggregated $56,693,467 and $106,706,082, 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, 2015, 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, 2015 through September 30, 2015, the Advisor had 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%

Effective October 1, 2015 through September 30, 2016, 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	.81%
Class B	1.06%

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, 2015, the Administration Fee was $213,012, of which $15,671 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, 2015, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at December 31, 2015
Class A	$ 603	$ 103
Class B	113	19
	$ 716	**$ 122**

Distribution Service Agreement. DeAWM Distributors, Inc. ("DDI"), also an affiliate of the Advisor, is the Trusts' 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, 2015, the Distribution Service Fee aggregated $4,940, of which $437 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, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $11,725, of which $4,590 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 1940 Act, 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, 2015, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 39% and 34%, 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 67%, 12% 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 the one-month 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, 2015.

Report of Independent Registered Public Accounting Firm

To the Board of 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 (the "Fund") at December 31, 2015 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, 2015 by correspondence with the custodian, brokers and transfer agent, provide a reasonable basis for our opinion.

Boston, Massachusetts
February 12, 2016

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, 2015 to December 31, 2015).

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, 2015

Actual Fund Return	Class A	Class B
Beginning Account Value 7/1/15	$1,000.00	$1,000.00
Ending Account Value 12/31/15	$ 997.70	$ 996.20
Expenses Paid per $1,000*	$ 2.77	$ 4.23

Hypothetical 5% Portfolio Return	Class A	Class B
Beginning Account Value 7/1/15	$1,000.00	$1,000.00
Ending Account Value 12/31/15	$1,022.43	$1,020.97
Expenses Paid per $1,000*	$ 2.80	$ 4.28

* 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	.55%	.84%

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 $0.03 per share from net long-term capital gains during its year ended December 31, 2015.

Pursuant to Section 852 of the Internal Revenue Code, the Fund designates $13,138,000 as capital gain dividends for its year ended December 31, 2015.

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, 2015 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 Trusts' 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 Trusts' 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 2015.

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

— In September 2015, 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 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 from 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's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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.

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 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 additional reporting from DIMA regarding such funds and, where appropriate, 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, 2014, the Fund's performance (Class A shares) was in the 3rd 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 three-year period and has underperformed its benchmark in the one- and five-year periods ended December 31, 2014.

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, 2014). 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, 2014, 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 noted that the expense limitations agreed to by DIMA were expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to a comparable Deutsche U.S. registered fund ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Fund. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM 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 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 also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's investment 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 considered these benefits in reaching its conclusion that the Fund's management fees were reasonable.

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 the individual serving as 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	Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); 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)	106	—
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	106	—
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	106	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); 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; North Bennett Street School (Boston)	106	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)	106	—
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)	106	—
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	106	—

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
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)	106	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)	106	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)	106	—
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)	106	—

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 Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012)
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (since 2015); and Director and Vice President, DeAWM Trust Company (since 2016)
Melinda Morrow[6] (1970) Vice President, 2012–present	Director,[3] Deutsche Asset Management
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset Management; and Chairman, Director and President, DeAWM Trust Company (since 2013); formerly, Director, DeAWM Trust Company (2009–2013)
Caroline Pearson[7] (1962) Chief Legal Officer, 2010–present	Managing Director,[3] Deutsche Asset Management; Secretary, DeAWM Distributors, Inc; and Secretary, DeAWM Service Company
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director,[3] Deutsche Asset Management
Wayne Salit[6] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Hepsen Uzcan[6] (1974) Assistant Secretary, 2013–present	Director,[3] Deutsche Asset Management
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

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

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 Management

VS1coreq-2 (R-025822-6 2/16)

Deutsche
Asset Management

December 31, 2015

Annual Report

Deutsche Variable Series I

Deutsche CROCI® International VIP

(formerly Deutsche International VIP)

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

Investing in foreign securities, particularly those of emerging markets, presents certain risks, such as currency fluctuations, political and economic changes, and market risks. Emerging markets tend to be more volatile than the markets of more mature economies, and generally have less diverse and less mature economic structures and less stable political systems than those of developed countries. Stocks may decline in value. 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. The Fund may lend securities to approved institutions. See the prospectus for details.

Deutsche Asset Management represents the asset management activities conducted by Deutsche Bank AG or any of its subsidiaries.

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

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

Performance Summary

December 31, 2015 (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, 2015 are 1.04% and 1.31% 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

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 CROCI® International VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$9,452	$10,027	$10,080	$10,220
	Average annual total return	–5.48%	0.09%	0.16%	0.22%
MSCI EAFE® Index	Growth of $10,000	$9,919	$11,581	$11,937	$13,479
	Average annual total return	–0.81%	5.01%	3.60%	3.03%

Deutsche CROCI® International VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$9,429	$9,960	$9,957	$9,945
	Average annual total return	–5.71%	–0.13%	–0.09%	–0.06%
MSCI EAFE® Index	Growth of $10,000	$9,919	$11,581	$11,937	$13,479
	Average annual total return	–0.81%	5.01%	3.60%	3.03%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2015 (Unaudited)

The Fund returned –5.48% (Class A, unadjusted for contract charges) during 2015, underperforming the –0.81% return of its benchmark, the MSCI EAFE Index.[1] After gaining ground in the first six months of the year, the international equity markets weakened during the second half due to concerns about slowing global growth. Investors responded to the threat of weaker economic conditions by gravitating to stocks seen as being in the best position to deliver superior earnings growth. In contrast, value stocks lagged the broader market. This type of periodic, short-term underperformance for value stocks is within expectations, since investor preferences can swing in favor of the growth and value styles for several quarters at a time. Still, the divergence between the two investment styles proved to be a headwind for our 12-month results due to our value-oriented approach.

The Fund's sector allocations, which are a residual effect of our bottom-up stock selection process, also played a part in its underperformance. We held a meaningful overweight in the materials sector, which was one of the worst-performing segments of the market amid concerns about growth and the concurrent weakness in commodity prices.[2] In addition, we held a near-zero weighting in the consumer staples sector since most stocks in the group failed to meet the criteria of our value discipline.[3] Consumer staples stocks outperformed during 2015, however, as the sector represented a defensive option at a time of elevated market volatility.

Stock selection further contributed to the Fund's underperformance. The bulk of the shortfall occurred in the industrials sector, where a number of positions in economically sensitive companies weighed on our results. Our largest individual detractors in the group were Rolls-Royce Holdings PLC, the energy-focused engineering company; Weir Group PLC;* and the maritime shipping company AP Moeller - Maersk A/S. The utilities sector, where we lost some relative performance through our positions in E.ON SE* and Fortum Oyj,* proved to be a challenging area for the Fund, as well. Certain holdings in the energy sector, including Origin Energy Ltd.* and Woodside Petroleum Ltd.,* also stood out as being notable detractors.

Several aspects of our positioning added value during the year ended December 31, 2015. A number of our holdings in Japanese stocks performed well and provided a boost to Fund performance, including the homebuilder Sekisui House Ltd.* and the chemical company Nitto Denko Corp.* Two Japanese health care stocks — Daiichi Sankyo Co., Ltd.* and Otsuka Holdings Co., Ltd. — also finished among our top performers for the year. Outside of Japan, notable contributors included the oilfield services company Petrofac Ltd.,* the beverage-can producer Rexam PLC* and the German tire manufacturer Continental AG.* While the Fund's primary focus is on individual stock selection, we also seek to hedge the portfolio against currency risk through the use of forward currency contracts. The goal of this strategy is to provide pure exposure to the performance of equities and dampen the volatility associated with currency movements. This aspect of our approach made a positive contribution to Fund performance during the past 12 months, as most major foreign currencies declined substantially relative to the U.S. dollar.

Keeping in mind that the Fund's sector weightings are a residual effect of our bottom-up stock selection process, we held the largest overweight positions in the materials, utilities, industrials and consumer discretionary sectors as of December 31, 2015. The Fund held a zero weighting in financials, and it was underweight in consumer staples and telecommunications services.

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 "Overweight" means the Fund holds a higher weighting n a given sector or security than the benchmark. "Underweight" means it holds a lower weighting.

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

* Not held in the portfolio as of December 31, 2015.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/15**	**12/31/14**
Common Stocks	99%	99%
Cash Equivalents	1%	1%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/15**	**12/31/14**
United Kingdom	29%	24%
Japan	23%	21%
Switzerland	14%	7%
France	8%	8%
Hong Kong	6%	2%
Germany	4%	11%
Spain	4%	—
Singapore	4%	4%
Sweden	2%	2%
Netherlands	2%	6%
Denmark	2%	2%
Australia	2%	5%
Finland	—	2%
Austria	—	2%
Luxembourg	—	2%
Norway	—	2%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/15**	**12/31/14**
Industrials	30%	14%
Consumer Discretionary	30%	17%
Utilities	16%	10%
Materials	10%	23%
Health Care	8%	14%
Information Technology	4%	5%
Consumer Staples	2%	2%
Energy	—	13%
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 97.7%		
Australia 1.5%		
BHP Billiton Ltd. (Cost $3,155,643)	120,432	**1,556,736**
Denmark 1.8%		
AP Moeller - Maersk A/S "B" (Cost $3,155,572)	1,441	**1,890,007**
France 8.0%		
Cie Generale des Etablissements Michelin	21,507	2,058,381
Engie SA	120,575	2,143,388
Sanofi	21,137	1,804,766
Sodexo SA	24,314	2,385,415
(Cost $9,375,943)		**8,391,950**
Germany 4.2%		
Merck KGaA	22,937	2,246,999
Siemens AG (Registered)	21,643	2,128,601
(Cost $4,620,068)		**4,375,600**
Hong Kong 6.1%		
CLP Holdings Ltd.	242,958	2,066,807
Hong Kong & China Gas Co., Ltd.	1,040,580	2,047,070
MTR Corp., Ltd.	472,946	2,341,987
(Cost $6,220,576)		**6,455,864**
Japan 21.8%		
Bridgestone Corp.	58,808	2,031,660
Denso Corp.	44,350	2,139,004
Isuzu Motors Ltd.	182,600	1,983,389
JGC Corp.	128,793	1,987,310
Kyocera Corp.	43,400	2,031,442
Mitsubishi Electric Corp.	200,000	2,119,273
Osaka Gas Co., Ltd.	532,000	1,922,566
Otsuka Holdings Co., Ltd.	67,086	2,400,827
Sumitomo Metal Mining Co., Ltd.	165,097	1,999,707
Toyota Industries Corp.	41,035	2,214,783
Toyota Motor Corp.	34,300	2,122,413
(Cost $23,558,394)		**22,952,374**
Netherlands 1.9%		
Koninklijke DSM NV (Cost $2,742,151)	40,289	**2,022,164**
Singapore 3.8%		
Keppel Corp., Ltd.	414,716	1,894,826
Singapore Airlines Ltd.	271,441	2,143,863
(Cost $5,441,081)		**4,038,689**
Spain 3.9%		
Gas Natural SDG SA	97,139	1,983,964
Iberdrola SA	300,826	2,136,341
(Cost $4,515,709)		**4,120,305**

	Shares	Value ($)
Sweden 2.0%		
Telefonaktiebolaget LM Ericsson "B" (Cost $2,599,814)	218,996	**2,116,144**
Switzerland 14.0%		
ABB Ltd. (Registered)*	115,814	2,073,424
Kuehne + Nagel International AG (Registered)	15,541	2,136,423
Nestle SA (Registered)	28,027	2,083,903
Roche Holding AG (Genusschein)	7,990	2,201,828
Sika AG (Bearer)	649	2,341,341
Swatch Group AG (Bearer) (a)	5,429	1,889,017
Wolseley PLC	36,988	2,007,377
(Cost $15,739,723)		**14,733,313**
United Kingdom 28.7%		
BAE Systems PLC	307,751	2,266,572
Barratt Developments PLC	216,187	1,989,827
Bunzl PLC	77,289	2,143,938
Burberry Group PLC	105,486	1,858,662
easyJet PLC	78,683	2,020,377
ITV PLC	549,609	2,242,329
Johnson Matthey PLC	54,367	2,131,410
National Grid PLC	148,735	2,057,975
Next PLC	17,548	1,886,650
Persimmon PLC*	68,731	2,053,791
Rolls-Royce Holdings PLC*	204,477	1,731,943
Smiths Group PLC	141,143	1,957,379
SSE PLC	88,505	1,991,824
Taylor Wimpey PLC	711,083	2,119,274
Whitbread PLC	28,274	1,835,573
(Cost $34,483,551)		**30,287,524**
Total Common Stocks (Cost $115,608,225)		**102,940,670**
Securities Lending Collateral 1.5%		
Daily Assets Fund, 0.36% (b) (c) (Cost $1,524,773)	1,524,773	**1,524,773**
Cash Equivalents 1.4%		
Central Cash Management Fund, 0.25% (b) (Cost $1,515,450)	1,515,450	**1,515,450**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $118,648,448)†	100.6	**105,980,893**
Other Assets and Liabilities, Net	(0.6)	**(589,776)**
Net Assets	100.0	**105,391,117**

* Non-income producing security.

† The cost for federal income tax purposes was $119,462,860. At December 31, 2015, net unrealized depreciation for all securities based on tax cost was $13,481,967. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $2,509,466 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $15,991,433.

(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, 2015 amounted to $1,424,853, which is 1.4% of net assets.

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

(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.

As of December 31, 2015, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
USD	41,114	SEK	347,427	1/29/2016	81	Merrill Lynch & Co., Inc.
USD	26,034	AUD	36,090	1/29/2016	226	Merrill Lynch & Co., Inc.
USD	651,423	JPY	78,272,739	1/29/2016	199	Merrill Lynch & Co., Inc.
USD	107,270	HKD	831,182	1/29/2016	6	Merrill Lynch & Co., Inc.
USD	414,266	JPY	49,873,093	1/29/2016	929	Morgan Stanley
DKK	13,142,447	USD	1,928,566	1/29/2016	13,088	Morgan Stanley
SGD	5,873,470	USD	4,177,432	1/29/2016	39,380	Morgan Stanley
SEK	460,111	USD	54,890	1/29/2016	335	Merrill Lynch & Co., Inc.
EUR	17,841,614	USD	19,534,264	1/29/2016	130,574	Morgan Stanley
USD	68,565	AUD	94,317	1/29/2016	63	Morgan Stanley
CHF	13,037,587	USD	13,187,837	1/29/2016	154,483	Morgan Stanley
GBP	22,528,599	USD	33,548,748	1/29/2016	334,256	Morgan Stanley
Total unrealized appreciation					**673,620**	

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
USD	205,705	CHF	203,260	1/29/2016	(2,511)	Merrill Lynch & Co., Inc.
USD	25,280	DKK	171,634	1/29/2016	(265)	Citigroup, Inc.
USD	264,813	EUR	241,010	1/29/2016	(2,702)	Morgan Stanley
USD	329,767	GBP	221,313	1/29/2016	(3,479)	Merrill Lynch & Co., Inc.
USD	43,365	SEK	362,857	1/29/2016	(341)	Citigroup, Inc.
USD	90,267	SGD	126,926	1/29/2016	(844)	Merrill Lynch & Co., Inc.
AUD	2,144,320	USD	1,548,220	1/29/2016	(12,046)	Morgan Stanley
AUD	73,063	USD	53,080	1/29/2016	(83)	Merrill Lynch & Co., Inc.
AUD	112,061	USD	81,265	1/29/2016	(274)	Citigroup, Inc.
HKD	50,640,383	USD	6,533,438	1/29/2016	(2,426)	Morgan Stanley
JPY	2,853,150,087	USD	23,604,333	1/29/2016	(148,197)	Morgan Stanley
JPY	42,777,308	USD	355,204	1/29/2016	(917)	Citigroup, Inc.
SEK	18,325,860	USD	2,167,880	1/29/2016	(4,997)	Morgan Stanley
Total unrealized depreciation					**(179,082)**	

Currency Abbreviations

AUD	Australian Dollar	HKD	Hong Kong Dollar
CHF	Swiss Franc	JPY	Japanese Yen
DKK	Danish Krone	SEK	Swedish Krona
EUR	Euro	SGD	Singapore Dollar
GBP	British Pound	USD	United States Dollar

For information on the Fund's policy and additional disclosures regarding forward foreign currency exchange 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, 2015 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	$ —	$ 1,556,736	$ —	$ 1,556,736
Denmark	—	1,890,007	—	1,890,007
France	—	8,391,950	—	8,391,950
Germany	—	4,375,600	—	4,375,600
Hong Kong	—	6,455,864	—	6,455,864
Japan	—	22,952,374	—	22,952,374
Netherlands	—	2,022,164	—	2,022,164
Singapore	—	4,038,689	—	4,038,689
Spain	—	4,120,305	—	4,120,305
Sweden	—	2,116,144	—	2,116,144
Switzerland	—	14,733,313	—	14,733,313
United Kingdom	—	30,287,524	—	30,287,524
Short-Term Investments (d)	3,040,223	—	—	3,040,223
Derivatives (e)				
Forward Foreign Currency Exchange Contracts	—	673,620	—	673,620
Total	**$ 3,040,223**	**$103,614,290**	**$ —**	**$106,654,513**

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivatives (e)				
Forward Foreign Currency Exchange Contracts	$ —	$ (179,082)	$ —	$ (179,082)
Total	**$ —**	**$ (179,082)**	**$ —**	**$ (179,082)**

There have been no transfers between fair value measurement levels during the year ended December 31, 2015.

(d) See Investment Portfolio for additional detailed categorizations.

(e) Derivatives include unrealized appreciation (depreciation) on forward foreign currency exchange contracts.

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

Statement of Assets and Liabilities

as of December 31, 2015

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $115,608,225) — including $1,424,853 of securities loaned	$	102,940,670
Investment in Daily Assets Fund (cost $1,524,773)*		1,524,773
Investment in Central Cash Management Fund (cost $1,515,450)		1,515,450
Total investments, at value (cost $118,648,448)		105,980,893
Foreign currency, at value (cost $94,795)		93,788
Receivable for investments sold		30,375
Receivable for Fund shares sold		21,819
Dividends receivable		126,372
Interest receivable		1,878
Unrealized appreciation on forward foreign currency exchange contracts		673,620
Foreign taxes recoverable		453,355
Other assets		4,276
Total assets		107,386,376
Liabilities		
Payable upon return of securities loaned		1,524,773
Payable for Fund shares redeemed		118,240
Unrealized depreciation on forward foreign currency exchange contracts		179,082
Accrued management fee		54,212
Accrued Trustees' fees		1,704
Other accrued expenses and payables		117,248
Total liabilities		1,995,259
Net assets, at value	**$**	**105,391,117**
Net Assets Consist of		
Undistributed net investment income		8,993,057
Net unrealized appreciation (depreciation) on:		
Investments		(12,667,555)
Foreign currency		465,686
Accumulated net realized gain (loss)		(126,587,192)
Paid-in capital		235,187,121
Net assets, at value	**$**	**105,391,117**
Class A		
Net Asset Value, offering and redemption price per share ($105,119,713 ÷ 14,702,326 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**7.15**
Class B		
Net Asset Value, offering and redemption price per share ($271,404 ÷ 37,903 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**7.16**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2015

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $354,950)	$	4,602,881
Income distributions — Central Cash Management Fund		1,750
Securities lending income, including income from Daily Assets Fund, net of borrower rebates		81,755
Total income		4,686,386
Expenses:		
Management fee		995,910
Administration fee		126,065
Services to shareholders		3,128
Distribution service fee (Class B)		736
Custodian fee		57,599
Professional fees		72,068
Reports to shareholders		41,508
Trustees' fees and expenses		5,788
Other		23,747
Total expenses before expense reductions		1,326,549
Expense reductions		(94,356)
Total expenses after expense reductions		1,232,193
Net investment income (loss)		**3,454,193**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		(20,742,165)
Foreign currency		5,713,573
		(15,028,592)
Change in net unrealized appreciation (depreciation) on:		
Investments		4,401,772
Foreign currency		487,877
		4,889,649
Net gain (loss)		**(10,138,943)**
Net increase (decrease) in net assets resulting from operations	**$**	**(6,684,750)**

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, 2015	2014
Operations:		
Net investment income (loss)	$ 3,454,193	$ 5,060,784
Net realized gain (loss)	(15,028,592)	21,737,659
Change in net unrealized appreciation (depreciation)	4,889,649	(43,796,669)
Net increase (decrease) in net assets resulting from operations	(6,684,750)	(16,998,226)
Distributions to shareholders from:		
Net investment income:		
Class A	(5,221,184)	(2,472,725)
Class B	(11,210)	(4,273)
Total distributions	(5,232,394)	(2,476,998)
Fund share transactions:		
Class A		
Proceeds from shares sold	11,121,280	8,496,800
Reinvestment of distributions	5,221,184	2,472,725
Payments for shares redeemed	(24,895,883)	(17,182,817)
Net increase (decrease) in net assets from Class A share transactions	(8,553,419)	(6,213,292)
Class B		
Proceeds from shares sold	46,566	15,844
Reinvestment of distributions	11,210	4,273
Payments for shares redeemed	(23,403)	(21,212)
Net increase (decrease) in net assets from Class B share transactions	34,373	(1,095)
Increase (decrease) in net assets	(20,436,190)	(25,689,611)
Net assets at beginning of period	125,827,307	151,516,918
Net assets at end of period (including undistributed net investment income of $8,993,057 and $4,945,421, respectively)	**$ 105,391,117**	**$ 125,827,307**

Other Information		
Class A		
Shares outstanding at beginning of period	15,973,456	16,697,511
Shares sold	1,384,894	980,337
Shares issued to shareholders in reinvestment of distributions	624,543	279,089
Shares redeemed	(3,280,567)	(1,983,481)
Net increase (decrease) in Class A shares	(1,271,130)	(724,055)
Shares outstanding at end of period	**14,702,326**	**15,973,456**
Class B		
Shares outstanding at beginning of period	33,566	33,679
Shares sold	5,973	1,824
Shares issued to shareholders in reinvestment of distributions	1,336	481
Shares redeemed	(2,972)	(2,418)
Net increase (decrease) in Class B shares	4,337	(113)
Shares outstanding at end of period	**37,903**	**33,566**

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

Financial Highlights

Class A	Years Ended December 31, 2015	2014	2013	2012	2011
Selected Per Share Data					
Net asset value, beginning of period	**$ 7.86**	**$ 9.06**	**$ 7.96**	**$ 6.74**	**$ 8.22**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.21	.31[b]	.14	.22	.15
Net realized and unrealized gain (loss)	(.59)	(1.36)	1.41	1.16	(1.49)
Total from investment operations	(.38)	(1.05)	1.55	1.38	(1.34)
Less distributions from:					
Net investment income	(.33)	(.15)	(.45)	(.16)	(.14)
Net asset value, end of period	**$ 7.15**	**$ 7.86**	**$ 9.06**	**$ 7.96**	**$ 6.74**
Total Return (%)	(5.48)[c]	(11.76)[c]	20.23[c]	20.65	(16.67)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	105	126	151	230	211
Ratio of expenses before expense reductions (%)	1.05	1.04	1.02	.98	1.00
Ratio of expenses after expense reductions (%)	.98	.98	1.01	.98	1.00
Ratio of net investment income (loss) (%)	2.74	3.55[b]	1.64	2.99	1.98
Portfolio turnover rate (%)	99	135	97	85	174

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.

Class B	Years Ended December 31, 2015	2014	2013	2012	2011
Selected Per Share Data					
Net asset value, beginning of period	**$ 7.87**	**$ 9.07**	**$ 7.96**	**$ 6.75**	**$ 8.22**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.19	.28[b]	.13	.20	.13
Net realized and unrealized gain (loss)	(.59)	(1.35)	1.41	1.15	(1.48)
Total from investment operations	(.40)	(1.07)	1.54	1.35	(1.35)
Less distributions from:					
Net investment income	(.31)	(.13)	(.43)	(.14)	(.12)
Net asset value, end of period	**$ 7.16**	**$ 7.87**	**$ 9.07**	**$ 7.96**	**$ 6.75**
Total Return (%)	(5.71)[c]	(11.98)[c]	20.01[c]	20.13	(16.77)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	.27	.26	.31	.28	.24
Ratio of expenses before expense reductions (%)	1.33	1.31	1.30	1.26	1.28
Ratio of expenses after expense reductions (%)	1.23	1.23	1.27	1.26	1.28
Ratio of net investment income (loss) (%)	2.47	3.26[b]	1.62	2.73	1.70
Portfolio turnover rate (%)	99	135	97	85	174

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.

Notes to Financial Statements

A. Organization and Significant Accounting Policies

Deutsche Variable Series I (the "Trust") 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 Trust consists of five diversified funds: Deutsche Bond VIP, Deutsche Capital Growth VIP, Deutsche Core Equity VIP, Deutsche CROCI® International VIP (formerly Deutsche International VIP) and Deutsche Global Small Cap VIP (individually or collectively hereinafter referred to as a "Fund" or the "Funds"). These financial statements report on Deutsche CROCI® International VIP. The Trust 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.

Forward currency contracts are valued at the prevailing forward exchange rate of the underlying currencies and are categorized as Level 2.

Securities and other assets for which market quotations are not readily available or for which the above valuation procedures are deemed not to reflect fair value are valued in a manner that is intended to reflect their fair value as determined in accordance with procedures approved by the Trustees and are generally categorized as Level 3. In accordance with the Fund's valuation procedures, factors 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. During the year ended December 31, 2015, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of December 31, 2015) on the cash collateral invested in Daily Assets Fund. 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, 2015, 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. The 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, a portion of which may be recoverable. Based upon the current interpretation of the tax rules and regulations, estimated tax liabilities and recoveries 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, 2015, 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; and approximately $20,442,000 of post-enactment losses, which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($7,186,000) and long-term losses ($13,256,000).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2015 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, 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, 2015, the Fund's components of distributable earnings (accumulated losses) on a tax basis are as follows:

Undistributed ordinary income*	$ 9,731,490
Capital loss carryforwards	$ (126,066,000)
Net unrealized appreciation (depreciation) on investments	$ (13,481,967)

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

	Years Ended December 31, 2015	2014
Distributions from ordinary income*	$ 5,232,394	$ 2,476,998

* 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 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

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, 2015, 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.

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, 2015 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2015, the investment in forward currency contracts short vs. U.S. dollars had a total contract value generally indicative of a range from $0 to approximately $131,951,000, 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 $2,268,000.

The following tables summarize the value of the Fund's derivative instruments held as of December 31, 2015 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivatives	**Forward Contracts**
Foreign Exchange Contracts (a)	$ 673,620

The above derivative is located in the following Statement of Assets and Liabilities account:

(a) Unrealized appreciation on forward foreign currency exchange contracts

Liability Derivatives	**Forward Contracts**
Foreign Exchange Contracts (a)	$ (179,082)

The above derivative is located in the following Statement of Assets and Liabilities account:

(a) 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, 2015 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**
Foreign Exchange Contracts (a)	$ 6,265,962

The above derivative is located in the following Statement of Operations account:

(a) 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**
Foreign Exchange Contracts (a)	$ 494,538

The above derivative is located in the following Statement of Operations account:

(a) 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, 2015, 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**
Merrill Lynch & Co., Inc.	$ 847	$ (847)	$ —	$ —
Morgan Stanley	672,773	(170,368)	—	502,405
	$ 673,620	**$ (171,215)**	**$ —**	**$ 502,405**

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**
Citigroup, Inc.	$ 1,797	$ —	$ —	$ 1,797
Merrill Lynch & Co., Inc.	6,917	(847)	—	6,070
Morgan Stanley	170,368	(170,368)	—	—
	$ 179,082	**$ (171,215)**	**$ —**	**$ 7,867**

C. Purchases and Sales of Securities

During the year ended December 31, 2015, purchases and sales of investment securities (excluding short-term investments) aggregated $120,401,901 and $125,260,637, 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, 2015, the fee pursuant to the Investment Management Agreement was equivalent to an annual rate (exclusive of any applicable waivers/reimbursements) of 0.79% of the Fund's average daily net assets.

For the period from January 1, 2015 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%

Effective October 1, 2015 through September 30, 2016, 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	.93%
Class B	1.18%

For the year ended December 31, 2015, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 94,053
Class B	303
	$ 94,356

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, 2015, the Administration Fee was $126,065, of which $9,063 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, 2015, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	**Total Aggregated**	**Unpaid at December 31, 2015**
Class A	$ 647	$ 110
Class B	81	14
	$ 728	**$ 124**

Distribution Service Agreement. DeAWM Distributors, Inc. ("DDI"), also an affiliate of the Advisor, is the Trusts' 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, 2015, the Distribution Service Fee aggregated $736, of which $58 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, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $12,872, of which $5,102 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 1940 Act, 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, 2015, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $7,032.

E. Ownership of the Fund

At December 31, 2015, four participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 24%, 14%, 12% and 11%, respectively. Two participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, owning 83% and 10%, respectively.

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 the one-month 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, 2015.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Deutsche Variable Series I and the Shareholders of Deutsche CROCI® 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 CROCI® International VIP (formerly Deutsche International VIP) (the "Fund") at December 31, 2015 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, 2015 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 12, 2016

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, 2015 to December 31, 2015).

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, 2015

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/15	$1,000.00	$1,000.00
Ending Account Value 12/31/15	$ 889.30	$ 887.20
Expenses Paid per $1,000*	$ 4.57	$ 5.76

Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/15	$1,000.00	$1,000.00
Ending Account Value 12/31/15	$1,020.37	$1,019.11
Expenses Paid per $1,000*	$ 4.89	$ 6.16

* Expenses are equal to the Fund's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by 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 CROCI® International VIP	.96%	1.21%

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 $148,088 and earned $3,265,850 of foreign source income during the year ended December 31, 2015. Pursuant to Section 853 of the Internal Revenue Code, the Fund designates $0.01 per share as foreign taxes paid and $0.22 per share as income earned from foreign sources for the year ended December 31, 2015.

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 Trusts' 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 Trusts' 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 CROCI® International VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2015.

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

— In September 2015, 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 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 from 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's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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.

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 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 additional reporting from DIMA regarding such funds and, where appropriate, 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, 2014, the Fund's performance (Class A shares) was in the 4th 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, 2014. 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, 2014). 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, 2014, 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 noted that the expense limitations agreed to by DIMA were expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable Deutsche U.S. registered funds ("Deutsche 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 (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM 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 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 also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's investment 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 considered these benefits in reaching its conclusion that the Fund's management fees were reasonable.

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 the individual serving as 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	Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); 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)	106	—
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	106	—
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	106	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); 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; North Bennett Street School (Boston)	106	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)	106	—
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)	106	—
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	106	—

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
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)	106	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)	106	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)	106	—
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)	106	—

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 Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012)
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (since 2015); and Director and Vice President, DeAWM Trust Company (since 2016)
Melinda Morrow[6] (1970) Vice President, 2012–present	Director,[3] Deutsche Asset Management
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset Management; and Chairman, Director and President, DeAWM Trust Company (since 2013); formerly, Director, DeAWM Trust Company (2009–2013)
Caroline Pearson[7] (1962) Chief Legal Officer, 2010–present	Managing Director,[3] Deutsche Asset Management; Secretary, DeAWM Distributors, Inc; and Secretary, DeAWM Service Company
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director,[3] Deutsche Asset Management
Wayne Salit[6] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Hepsen Uzcan[6] (1974) Assistant Secretary, 2013–present	Director,[3] Deutsche Asset Management
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

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

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 Management

VS1cint-2 (R-025823-5 2/16)

Deutsche
Asset Management

December 31, 2015

Annual Report

Deutsche Investments VIT Funds

Deutsche Equity 500 Index VIP

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

Stocks may decline in value. Various factors, including costs, cash flows and security selection, may cause the Fund's performance to differ from that of the index. 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 Management represents the asset management activities conducted by Deutsche Bank AG or any of its subsidiaries.

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

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

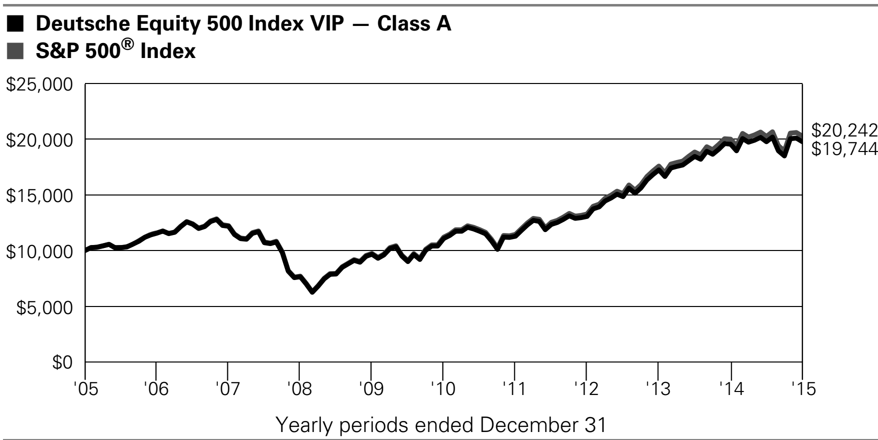
Performance Summary

December 31, 2015 (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, 2015 are 0.34%, 0.62% 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, 2015)

Deutsche Equity 500 Index VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,113	$15,128	$17,824	$19,744
	Average annual total return	1.13%	14.80%	12.25%	7.04%
S&P 500 Index	Growth of $10,000	$10,138	$15,259	$18,075	$20,242
	Average annual total return	1.38%	15.13%	12.57%	7.31%

Deutsche Equity 500 Index VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,092	$15,022	$17,598	$19,264
	Average annual total return	0.92%	14.53%	11.97%	6.78%
S&P 500 Index	Growth of $10,000	$10,138	$15,259	$18,075	$20,242
	Average annual total return	1.38%	15.13%	12.57%	7.31%

Deutsche Equity 500 Index VIP		1-Year	3-Year	5-Year	10-Year
Class B2	Growth of $10,000	$10,076	$14,966	$17,495	$19,030
	Average annual total return	0.76%	14.38%	11.84%	6.65%
S&P 500 Index	Growth of $10,000	$10,138	$15,259	$18,075	$20,242
	Average annual total return	1.38%	15.13%	12.57%	7.31%

The growth of $10,000 is cumulative.

The Fund returned 1.13% in 2015 (Class A shares, unadjusted for contract charges), which compares with a return of 1.38% for the Standard & Poor's 500® (S&P 500) Index.[1] Since the Fund's strategy is to replicate the performance of the index before the deduction of expenses, the Fund's return is normally close to the return of the index.

As the nearly flat return of the index would indicate, stocks encountered a mixed environment in 2015. On the plus side, stock-market performance was helped by the relative strength of the U.S. economy. The domestic economy continued to experience a modest expansion, highlighted by strength in employment, the housing and auto markets, and consumer spending. In contrast, the world's other major developed markets struggled to produce positive growth. Investors gravitated to companies in a position to benefit from the positive domestic economic conditions, which helped support the performance of U.S. equities.

Despite these positives, stocks faced increased headwinds during the second half of the year as it became increasingly evident that growth outside of the United States was waning. In particular, China's economy — while strong compared to the rest of the world — continued to slow. This trend had a broad-based impact on the global markets, as it fueled a decline in commodity prices and resulted in slower growth throughout the emerging markets. It also prompted China's central bank to devalue the nation's currency, the yuan, which led to weakness throughout the global financial markets during August and September. Stocks were further pressured by the strength of the U.S. dollar, which depressed profits for companies that earn a large percentage of their revenues outside of the United States. Not least, the persistent uncertainty regarding the timing of the U.S. Federal Reserve Board's (the Fed) first interest rate hike — which ultimately occurred in December — proved to be negative factor for investor sentiment.

On a sector basis, the consumer discretionary, health care, consumer staples, information technology and telecommunications services sectors all finished with returns in excess of the index.[2,3] The consumer discretionary sector gained a boost from the favorable impact of rising wages, falling unemployment and lower energy prices on consumer spending. In health care, meanwhile, the gains were broad-based, with strength among insurance, medical device, biotechnology and pharmaceutical stocks. At a time of slow global growth, investors were attracted to the health care sector's combination of defensive qualities and above-average earnings potential.

On the other end of the spectrum, energy was by far the worst-performing sector in the benchmark during 2015. The prices of oil and gas fell sharply, depressing profits and leading to questions about the long-term viability of many of the sector's smaller players. The downturn in oil was accompanied by weakness across the commodities complex, causing the materials sector to finish as the second-worst sector performer in 2015. The majority of the stocks in the materials group suffered a loss during the year, with particular weakness occurring among mining companies and fertilizer producers. The utilities, industrials and financial sectors also trailed the broader S&P 500 Index.

Brent Reeder
Senior Vice President, Northern Trust Investments, Inc., Subadvisor to the Fund
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 Standard & Poor's 500 (S&P 500) Index is an unmanaged, capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. Index returns assume reinvested dividends and do not reflect any fees or expenses it is not possible to invest directly into an index.

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

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

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/15**	**12/31/14**
Common Stocks	100%	99%
Cash Equivalents	0%	1%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/15**	**12/31/14**
Information Technology	21%	20%
Financials	16%	17%
Health Care	15%	14%
Consumer Discretionary	13%	12%
Consumer Staples	10%	10%
Industrials	10%	10%
Energy	7%	9%
Utilities	3%	3%
Materials	3%	3%
Telecommunication Services	2%	2%
	100%	100%

Ten Largest Equity Holdings (18.8% of Net Assets)	
1. **Apple, Inc.** Designs, manufactures and markets personal computers and related computing and mobile communications devices	**3.3%**
2. **Alphabet, Inc.** Operates as a holding company and through its subsidiaries provides Web-based search, maps, commerce and hardware products	**2.5%**
3. **Microsoft Corp.** Develops, manufactures, licenses, sells and supports software products	**2.5%**
4. **Exxon Mobil Corp.** Explorer and producer of oil and gas	**1.8%**
5. **General Electric Co.** Diversified technology, media and financial services company	**1.6%**
6. **Johnson & Johnson** Provider of health care products	**1.6%**
7. **Amazon.com, Inc.** An online retailer; sells books, music and videotapes	**1.4%**
8. **Wells Fargo & Co.** A diversified financial services company	**1.4%**
9. **Berkshire Hathaway, Inc.** Holding company of insurance business and a variety of other businesses	**1.4%**
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.

	Shares	Value ($)
Common Stocks 99.5%		
Consumer Discretionary 12.8%		
Auto Components 0.4%		
BorgWarner, Inc.	7,092	306,587
Delphi Automotive PLC	8,644	741,050
Goodyear Tire & Rubber Co.	8,480	277,042
Johnson Controls, Inc.	20,160	796,118
		2,120,797
Automobiles 0.6%		
Ford Motor Co.	121,157	1,707,102
General Motors Co.	44,046	1,498,005
Harley-Davidson, Inc. (a)	6,014	272,975
		3,478,082
Distributors 0.1%		
Genuine Parts Co.	4,632	**397,842**
Diversified Consumer Services 0.0%		
H&R Block, Inc.	7,361	**245,195**
Hotels, Restaurants & Leisure 1.9%		
Carnival Corp.	14,301	779,119
Chipotle Mexican Grill, Inc.*	974	467,374
Darden Restaurants, Inc.	3,597	228,913
Marriott International, Inc. "A" (a)	5,929	397,480
McDonald's Corp.	28,595	3,378,213
Royal Caribbean Cruises Ltd.	5,312	537,628
Starbucks Corp.	46,243	2,775,967
Starwood Hotels & Resorts Worldwide, Inc.	5,272	365,244
Wyndham Worldwide Corp.	3,666	266,335
Wynn Resorts Ltd. (a)	2,497	172,767
Yum! Brands, Inc.	13,493	985,664
		10,354,704
Household Durables 0.4%		
D.R. Horton, Inc.	10,392	332,856
Garmin Ltd. (a)	3,540	131,582
Harman International Industries, Inc.	2,205	207,733
Leggett & Platt, Inc.	4,323	181,652
Lennar Corp. "A" (a)	5,578	272,820
Mohawk Industries, Inc.*	1,964	371,962
Newell Rubbermaid, Inc.	8,306	366,129
PulteGroup, Inc.	9,737	173,513
Whirlpool Corp.	2,424	356,013
		2,394,260
Internet & Catalog Retail 2.2%		
Amazon.com, Inc.*	11,962	8,084,996
Expedia, Inc.	3,707	460,780
Netflix, Inc.*	13,298	1,521,025
The Priceline Group, Inc.*	1,549	1,974,898
TripAdvisor, Inc.* (a)	3,483	296,926
		12,338,625
Leisure Products 0.1%		
Hasbro, Inc.	3,450	232,392
Mattel, Inc. (a)	10,363	281,563
		513,955
Media 3.0%		
Cablevision Systems Corp. (New York Group) "A"	6,745	215,165
CBS Corp. "B"	13,445	633,663
Comcast Corp. "A"	75,958	4,286,310
Discovery Communications, Inc. "A"* (a)	4,746	126,623
Discovery Communications, Inc. "C"*	8,004	201,861
Interpublic Group of Companies, Inc.	12,665	294,841
News Corp. "A"	11,832	158,076
News Corp. "B"	3,586	50,061
Omnicom Group, Inc.	7,562	572,141
Scripps Networks Interactive, Inc. "A" (a)	3,038	167,728
TEGNA, Inc.	6,793	173,357
Time Warner Cable, Inc.	8,808	1,634,677
Time Warner, Inc.	24,859	1,607,632
Twenty-First Century Fox, Inc. "A"	36,372	987,864
Twenty-First Century Fox, Inc. "B"	13,502	367,659
Viacom, Inc. "B"	10,782	443,787
Walt Disney Co. (a)	47,330	4,973,436
		16,894,881
Multiline Retail 0.6%		
Dollar General Corp.	9,026	648,699
Dollar Tree, Inc.*	7,268	561,235
Kohl's Corp.	5,848	278,540
Macy's, Inc.	9,758	341,335
Nordstrom, Inc. (a)	4,190	208,704
Target Corp. (a)	19,237	1,396,798
		3,435,311
Specialty Retail 2.6%		
Advance Auto Parts, Inc.	2,267	341,206
AutoNation, Inc.*	2,339	139,545
AutoZone, Inc.*	955	708,524
Bed Bath & Beyond, Inc.* (a)	5,189	250,369
Best Buy Co., Inc.	9,139	278,283
CarMax, Inc.* (a)	6,231	336,287
GameStop Corp. "A" (a)	3,225	90,429
Home Depot, Inc.	39,519	5,226,388
L Brands, Inc.	7,949	761,673
Lowe's Companies, Inc.	28,487	2,166,151
O'Reilly Automotive, Inc.* (a)	3,077	779,773
Ross Stores, Inc.	12,534	674,455
Signet Jewelers Ltd.	2,456	303,783
Staples, Inc.	20,156	190,877
The Gap, Inc. (a)	7,074	174,728
Tiffany & Co.	3,456	263,658
TJX Companies, Inc.	20,848	1,478,332
Tractor Supply Co. (a)	4,196	358,758
Urban Outfitters, Inc.* (a)	2,644	60,151
		14,583,370
Textiles, Apparel & Luxury Goods 0.9%		
Coach, Inc.	8,449	276,536
Fossil Group, Inc.* (a)	1,417	51,805
Hanesbrands, Inc.	12,271	361,136
Michael Kors Holdings Ltd.*	5,731	229,584
NIKE, Inc. "B"	41,940	2,621,250
PVH Corp.	2,562	188,691
Ralph Lauren Corp.	1,867	208,133
Under Armour, Inc. "A"* (a)	5,599	451,335
VF Corp.	10,659	663,523
		5,051,993

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

	Shares	Value ($)
Consumer Staples 10.0%		
Beverages 2.3%		
Brown-Forman Corp. "B"	3,126	310,349
Coca-Cola Co.	121,772	5,231,325
Coca-Cola Enterprises, Inc.	6,574	323,704
Constellation Brands, Inc. "A"	5,390	767,752
Dr. Pepper Snapple Group, Inc. (a)	5,909	550,719
Molson Coors Brewing Co. "B"	4,891	459,363
Monster Beverage Corp.*	4,692	698,920
PepsiCo, Inc.	45,310	4,527,375
		12,869,507
Food & Staples Retailing 2.4%		
Costco Wholesale Corp.	13,589	2,194,624
CVS Health Corp.	34,466	3,369,741
Kroger Co.	30,311	1,267,909
Sysco Corp.	16,464	675,024
Wal-Mart Stores, Inc.	48,803	2,991,624
Walgreens Boots Alliance, Inc.	27,164	2,313,150
Whole Foods Market, Inc.	10,600	355,100
		13,167,172
Food Products 1.7%		
Archer-Daniels-Midland Co.	18,449	676,709
Campbell Soup Co. (a)	5,617	295,173
ConAgra Foods, Inc.	13,396	564,775
General Mills, Inc.	18,652	1,075,474
Hormel Foods Corp.	4,215	333,322
Kellogg Co.	7,947	574,330
Keurig Green Mountain, Inc. (a)	3,613	325,098
Kraft Heinz Co.	18,524	1,347,806
McCormick & Co., Inc. (a)	3,556	304,251
Mead Johnson Nutrition Co.	6,132	484,122
Mondelez International, Inc. "A"	49,481	2,218,728
The Hershey Co.	4,437	396,091
The JM Smucker Co.	3,716	458,332
Tyson Foods, Inc. "A" (a)	9,130	486,903
		9,541,114
Household Products 1.9%		
Church & Dwight Co., Inc.	4,080	346,310
Clorox Co.	3,980	504,783
Colgate-Palmolive Co.	28,013	1,866,226
Kimberly-Clark Corp.	11,275	1,435,308
Procter & Gamble Co.	84,677	6,724,201
		10,876,828
Personal Products 0.1%		
Estee Lauder Companies, Inc. "A"	6,941	**611,225**
Tobacco 1.6%		
Altria Group, Inc.	61,031	3,552,614
Philip Morris International, Inc.	48,219	4,238,932
Reynolds American, Inc.	25,891	1,194,870
		8,986,416
Energy 6.5%		
Energy Equipment & Services 1.0%		
Baker Hughes, Inc.	13,619	628,517
Cameron International Corp.*	5,994	378,821
Diamond Offshore Drilling, Inc. (a)	1,919	40,491
Ensco PLC "A"	7,355	113,194
FMC Technologies, Inc.*	6,943	201,416
Halliburton Co.	26,705	909,038
Helmerich & Payne, Inc. (a)	3,449	184,694
National Oilwell Varco, Inc. (a)	11,782	394,579
Schlumberger Ltd.	39,220	2,735,595
Transocean Ltd. (a)	10,980	135,932
		5,722,277
Oil, Gas & Consumable Fuels 5.5%		
Anadarko Petroleum Corp.	15,917	773,248
Apache Corp.	11,811	525,235
Cabot Oil & Gas Corp.	12,766	225,831
Chesapeake Energy Corp. (a)	16,148	72,666
Chevron Corp.	58,494	5,262,120
Cimarex Energy Co.	2,914	260,453
Columbia Pipeline Group, Inc.	12,194	243,880
ConocoPhillips	38,134	1,780,476
CONSOL Energy, Inc. (a)	7,781	61,470
Devon Energy Corp.	12,063	386,016
EOG Resources, Inc.	17,117	1,211,712
EQT Corp.	4,617	240,684
Exxon Mobil Corp.	129,468	10,092,031
Hess Corp.	7,550	366,024
Kinder Morgan, Inc.	56,789	847,292
Marathon Oil Corp.	21,333	268,583
Marathon Petroleum Corp.	16,577	859,352
Murphy Oil Corp.	5,276	118,446
Newfield Exploration Co.*	5,164	168,140
Noble Energy, Inc.	13,315	438,463
Occidental Petroleum Corp.	23,769	1,607,022
ONEOK, Inc.	6,529	161,005
Phillips 66	14,804	1,210,967
Pioneer Natural Resources Co.	4,679	586,653
Range Resources Corp. (a)	5,132	126,299
Southwestern Energy Co.* (a)	11,993	85,270
Spectra Energy Corp.	20,946	501,447
Tesoro Corp.	3,721	392,082
Valero Energy Corp.	14,943	1,056,620
Williams Companies, Inc.	21,380	549,466
		30,478,953
Financials 16.4%		
Banks 6.0%		
Bank of America Corp.	323,844	5,450,295
BB&T Corp.	24,170	913,868
Citigroup, Inc.	92,683	4,796,345
Comerica, Inc.	5,469	228,768
Fifth Third Bancorp.	24,901	500,510
Huntington Bancshares, Inc.	25,120	277,827
JPMorgan Chase & Co.	114,589	7,566,312
KeyCorp	25,645	338,258
M&T Bank Corp.	5,011	607,233
People's United Financial, Inc. (a)	9,496	153,360
PNC Financial Services Group, Inc.	15,795	1,505,421
Regions Financial Corp.	40,873	392,381
SunTrust Banks, Inc.	15,962	683,812
U.S. Bancorp.	51,247	2,186,709
Wells Fargo & Co.	144,544	7,857,412
Zions Bancorp. (a)	6,302	172,045
		33,630,556
Capital Markets 2.1%		
Affiliated Managers Group, Inc.*	1,681	268,557
Ameriprise Financial, Inc.	5,378	572,327
Bank of New York Mellon Corp.	33,954	1,399,584
BlackRock, Inc.	3,926	1,336,881
Charles Schwab Corp.	37,389	1,231,220
E*TRADE Financial Corp.*	8,931	264,715
Franklin Resources, Inc.	11,726	431,751
Invesco Ltd.	13,228	442,873

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

	Shares	Value ($)
Legg Mason, Inc.	3,369	132,166
Morgan Stanley	47,107	1,498,474
Northern Trust Corp.	6,860	494,537
State Street Corp.	12,612	836,932
T. Rowe Price Group, Inc.	7,779	556,121
The Goldman Sachs Group, Inc.	12,328	2,221,875
		11,688,013
Consumer Finance 0.8%		
American Express Co.	26,075	1,813,516
Capital One Financial Corp.	16,568	1,195,878
Discover Financial Services	13,229	709,339
Navient Corp.	11,431	130,885
Synchrony Financial*	25,789	784,244
		4,633,862
Diversified Financial Services 2.0%		
Berkshire Hathaway, Inc. "B"*	58,297	7,697,536
CME Group, Inc.	10,570	957,642
Intercontinental Exchange, Inc.	3,695	946,881
Leucadia National Corp.	10,630	184,856
McGraw Hill Financial, Inc.	8,427	830,733
Moody's Corp.	5,314	533,207
Nasdaq, Inc.	3,478	202,315
		11,353,170
Insurance 2.7%		
ACE Ltd.	10,132	1,183,924
Aflac, Inc.	13,340	799,066
Allstate Corp.	12,043	747,750
American International Group, Inc.	38,479	2,384,544
Aon PLC	8,524	785,998
Assurant, Inc.	2,062	166,074
Chubb Corp.	7,106	942,540
Cincinnati Financial Corp.	4,545	268,928
Hartford Financial Services Group, Inc.	12,731	553,289
Lincoln National Corp.	7,781	391,073
Loews Corp.	8,606	330,470
Marsh & McLennan Companies, Inc.	16,238	900,397
MetLife, Inc.	34,458	1,661,220
Principal Financial Group, Inc.	8,599	386,783
Progressive Corp.	18,326	582,767
Prudential Financial, Inc.	13,966	1,136,972
The Travelers Companies, Inc.	9,463	1,067,994
Torchmark Corp.	3,475	198,631
Unum Group	7,463	248,443
XL Group PLC	9,146	358,340
		15,095,203
Real Estate Investment Trusts 2.7%		
American Tower Corp. (REIT)	13,199	1,279,643
Apartment Investment & Management Co. "A" (REIT)	4,860	194,546
AvalonBay Communities, Inc. (REIT)	4,223	777,581
Boston Properties, Inc. (REIT)	4,809	613,340
Crown Castle International Corp. (REIT)	10,316	891,818
Equinix, Inc. (REIT)	1,922	581,213
Equity Residential (REIT)	11,391	929,392
Essex Property Trust, Inc. (REIT)	2,054	491,748
General Growth Properties, Inc. (REIT)	18,187	494,868
HCP, Inc. (REIT)	14,573	557,271
Host Hotels & Resorts, Inc. (REIT)	23,462	359,907
Iron Mountain, Inc. (REIT) (a)	6,123	165,382
Kimco Realty Corp. (REIT)	12,656	334,878
Plum Creek Timber Co., Inc. (REIT)	5,458	260,456
Prologis, Inc. (REIT)	16,412	704,403
Public Storage (REIT)	4,568	1,131,493
Realty Income Corp. (REIT)	7,668	395,899
Simon Property Group, Inc. (REIT)	9,622	1,870,902
SL Green Realty Corp. (REIT)	3,088	348,882
The Macerich Co. (REIT)	4,172	336,639
Ventas, Inc. (REIT)	10,391	586,364
Vornado Realty Trust (REIT)	5,535	553,279
Welltower, Inc. (REIT)	11,012	749,146
Weyerhaeuser Co. (REIT)	16,016	480,160
		15,089,210
Real Estate Management & Development 0.1%		
CBRE Group, Inc. "A"*	9,158	**316,684**

Health Care 15.1%

	Shares	Value ($)
Biotechnology 3.7%		
AbbVie, Inc.	50,871	3,013,598
Alexion Pharmaceuticals, Inc.*	6,996	1,334,487
Amgen, Inc.	23,452	3,806,963
Baxalta, Inc.	16,887	659,100
Biogen, Inc.*	6,937	2,125,150
Celgene Corp.*	24,452	2,928,371
Gilead Sciences, Inc.	44,856	4,538,979
Regeneron Pharmaceuticals, Inc.*	2,416	1,311,574
Vertex Pharmaceuticals, Inc.*	7,662	964,109
		20,682,331
Health Care Equipment & Supplies 2.2%		
Abbott Laboratories	46,381	2,082,971
Baxter International, Inc.	17,058	650,763
Becton, Dickinson & Co.	6,586	1,014,837
Boston Scientific Corp.*	42,147	777,191
C.R. Bard, Inc.	2,270	430,029
DENTSPLY International, Inc.	4,365	265,610
Edwards Lifesciences Corp.*	6,696	528,850
Intuitive Surgical, Inc.*	1,161	634,092
Medtronic PLC	43,759	3,365,942
St. Jude Medical, Inc.	8,802	543,699
Stryker Corp.	9,790	909,882
Varian Medical Systems, Inc.*	3,078	248,702
Zimmer Biomet Holdings, Inc.	5,352	549,062
		12,001,630
Health Care Providers & Services 2.7%		
Aetna, Inc.	10,896	1,178,075
AmerisourceBergen Corp.	6,050	627,445
Anthem, Inc.	8,099	1,129,325
Cardinal Health, Inc.	10,258	915,732
Cigna Corp.	8,051	1,178,103
DaVita HealthCare Partners, Inc.*	5,251	366,047
Express Scripts Holding Co.*	21,040	1,839,106
HCA Holdings, Inc.*	9,847	665,953
Henry Schein, Inc.*	2,581	408,288
Humana, Inc.	4,642	828,643
Laboratory Corp. of America Holdings*	3,139	388,106
McKesson Corp.	7,134	1,407,039
Patterson Companies, Inc.	2,660	120,259
Quest Diagnostics, Inc.	4,411	313,799
Tenet Healthcare Corp.*	3,100	93,930
UnitedHealth Group, Inc.	29,637	3,486,497

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

	Shares	Value ($)
Universal Health Services, Inc. "B"	2,794	333,855
		15,280,202
Health Care Technology 0.1%		
Cerner Corp.* (a)	9,415	**566,501**
Life Sciences Tools & Services 0.6%		
Agilent Technologies, Inc.	10,443	436,622
Illumina, Inc.*	4,554	874,118
PerkinElmer, Inc.	3,520	188,566
Thermo Fisher Scientific, Inc.	12,402	1,759,224
Waters Corp.*	2,531	340,622
		3,599,152
Pharmaceuticals 5.8%		
Allergan PLC*	12,262	3,831,875
Bristol-Myers Squibb Co.	51,912	3,571,026
Eli Lilly & Co.	30,368	2,558,808
Endo International PLC*	6,564	401,848
Johnson & Johnson	86,109	8,845,116
Mallinckrodt PLC*	3,579	267,101
Merck & Co., Inc.	86,916	4,590,903
Mylan NV*	12,880	696,422
Perrigo Co. PLC	4,584	663,305
Pfizer, Inc.	192,065	6,199,858
Zoetis, Inc.	14,148	677,972
		32,304,234
Industrials 10.0%		
Aerospace & Defense 2.7%		
Boeing Co.	19,607	2,834,976
General Dynamics Corp.	9,241	1,269,344
Honeywell International, Inc.	23,980	2,483,608
L-3 Communications Holdings, Inc.	2,424	289,692
Lockheed Martin Corp.	8,207	1,782,150
Northrop Grumman Corp.	5,675	1,071,497
Precision Castparts Corp.	4,298	997,179
Raytheon Co.	9,388	1,169,088
Rockwell Collins, Inc.	4,079	376,492
Textron, Inc.	8,538	358,681
United Technologies Corp.	25,726	2,471,497
		15,104,204
Air Freight & Logistics 0.7%		
C.H. Robinson Worldwide, Inc.	4,519	280,268
Expeditors International of Washington, Inc.	5,891	265,684
FedEx Corp.	8,194	1,220,824
United Parcel Service, Inc. "B"	21,590	2,077,606
		3,844,382
Airlines 0.6%		
American Airlines Group, Inc.	19,740	835,989
Delta Air Lines, Inc.	24,369	1,235,265
Southwest Airlines Co.	20,173	868,649
United Continental Holdings, Inc.*	11,646	667,316
		3,607,219
Building Products 0.1%		
Allegion PLC	2,994	197,365
Masco Corp.	10,434	295,282
		492,647
Commercial Services & Supplies 0.4%		
ADT Corp. (a)	5,051	166,582
Cintas Corp.	2,720	247,656
Pitney Bowes, Inc.	5,977	123,425
Republic Services, Inc.	7,429	326,802
Stericycle, Inc.*	2,671	322,123

	Shares	Value ($)
Tyco International PLC	13,011	414,921
Waste Management, Inc.	12,939	690,554
		2,292,063
Construction & Engineering 0.1%		
Fluor Corp.	4,318	203,896
Jacobs Engineering Group, Inc.*	3,800	159,410
Quanta Services, Inc.*	5,198	105,259
		468,565
Electrical Equipment 0.4%		
AMETEK, Inc.	7,328	392,708
Eaton Corp. PLC	14,438	751,353
Emerson Electric Co. (a)	20,286	970,279
Rockwell Automation, Inc.	4,064	417,007
		2,531,347
Industrial Conglomerates 2.6%		
3M Co.	19,158	2,885,961
Danaher Corp.	18,544	1,722,367
General Electric Co.	293,691	9,148,475
Roper Technologies, Inc.	3,152	598,218
		14,355,021
Machinery 1.2%		
Caterpillar, Inc. (a)	18,108	1,230,620
Cummins, Inc.	5,050	444,450
Deere & Co. (a)	9,778	745,768
Dover Corp.	4,759	291,774
Flowserve Corp. (a)	3,946	166,048
Illinois Tool Works, Inc.	10,197	945,058
Ingersoll-Rand PLC	8,071	446,246
PACCAR, Inc.	11,105	526,377
Parker-Hannifin Corp. (a)	4,249	412,068
Pentair PLC	5,599	277,318
Snap-on, Inc.	1,822	312,345
Stanley Black & Decker, Inc.	4,656	496,935
Xylem, Inc.	5,641	205,897
		6,500,904
Professional Services 0.3%		
Dun & Bradstreet Corp.	1,124	116,817
Equifax, Inc.	3,698	411,846
Nielsen Holdings PLC	11,231	523,365
Robert Half International, Inc.	4,193	197,658
Verisk Analytics, Inc.*	4,901	376,789
		1,626,475
Road & Rail 0.7%		
CSX Corp.	30,398	788,828
J.B. Hunt Transport Services, Inc.	2,794	204,968
Kansas City Southern	3,419	255,297
Norfolk Southern Corp.	9,319	788,294
Ryder System, Inc. (a)	1,741	98,941
Union Pacific Corp.	26,525	2,074,255
		4,210,583
Trading Companies & Distributors 0.2%		
Fastenal Co. (a)	8,989	366,931
United Rentals, Inc.*	2,809	203,765
W.W. Grainger, Inc. (a)	1,796	363,851
		934,547
Information Technology 20.6%		
Communications Equipment 1.4%		
Cisco Systems, Inc.	157,989	4,290,191
F5 Networks, Inc.*	2,194	212,730
Harris Corp.	3,807	330,828
Juniper Networks, Inc.	11,176	308,458

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

	Shares	Value ($)
Motorola Solutions, Inc.	4,971	340,265
QUALCOMM, Inc.	46,768	2,337,699
		7,820,171
Electronic Equipment, Instruments & Components 0.4%		
Amphenol Corp. "A"	9,645	503,758
Corning, Inc.	36,787	672,466
FLIR Systems, Inc.	4,150	116,491
TE Connectivity Ltd.	12,017	776,418
		2,069,133
Internet Software & Services 4.3%		
Akamai Technologies, Inc.*	5,626	296,096
Alphabet, Inc. "A"*	9,066	7,053,439
Alphabet, Inc. "C"*	9,247	7,017,363
eBay, Inc.*	34,268	941,685
Facebook, Inc. "A"*	70,654	7,394,648
VeriSign, Inc.* (a)	3,004	262,429
Yahoo!, Inc.*	27,123	902,111
		23,867,771
IT Services 3.6%		
Accenture PLC "A"	19,481	2,035,765
Alliance Data Systems Corp.*	1,879	519,675
Automatic Data Processing, Inc.	14,275	1,209,378
Cognizant Technology Solutions Corp. "A"*	18,857	1,131,797
CSRA, Inc.	4,417	132,510
Fidelity National Information Services, Inc.	8,576	519,706
Fiserv, Inc.*	7,124	651,561
International Business Machines Corp.	27,785	3,823,772
MasterCard, Inc. "A"	30,770	2,995,767
Paychex, Inc.	10,011	529,482
PayPal Holdings, Inc.*	34,618	1,253,172
Teradata Corp.*	3,996	105,574
Total System Services, Inc.	5,281	262,994
Visa, Inc. "A" (a)	60,595	4,699,142
Western Union Co. (a)	15,684	280,900
Xerox Corp.	29,186	310,247
		20,461,442
Semiconductors & Semiconductor Equipment 2.4%		
Analog Devices, Inc.	9,791	541,638
Applied Materials, Inc.	35,704	666,594
Avago Technologies Ltd.	8,158	1,184,134
Broadcom Corp. "A"	17,457	1,009,364
First Solar, Inc.*	2,385	157,386
Intel Corp.	146,646	5,051,955
KLA-Tencor Corp.	4,910	340,509
Lam Research Corp.	4,947	392,891
Linear Technology Corp.	7,537	320,096
Microchip Technology, Inc. (a)	6,278	292,178
Micron Technology, Inc.*	33,752	477,928
NVIDIA Corp.	15,968	526,305
Qorvo, Inc.*	4,430	225,487
Skyworks Solutions, Inc.	5,895	452,913
Texas Instruments, Inc.	31,524	1,727,830
Xilinx, Inc.	8,056	378,390
		13,745,598
Software 4.4%		
Activision Blizzard, Inc.	15,708	608,057
Adobe Systems, Inc.*	15,518	1,457,761
Autodesk, Inc.*	7,096	432,359
CA, Inc.	9,785	279,460

	Shares	Value ($)
Citrix Systems, Inc.*	4,778	361,456
Electronic Arts, Inc.*	9,629	661,705
Intuit, Inc.	8,209	792,168
Microsoft Corp.	248,579	13,791,163
Oracle Corp.	99,615	3,638,936
Red Hat, Inc.*	5,706	472,514
salesforce.com, Inc.*	19,411	1,521,822
Symantec Corp.	21,226	445,746
		24,463,147
Technology Hardware, Storage & Peripherals 4.1%		
Apple, Inc.	173,499	18,262,505
EMC Corp.	60,310	1,548,761
Hewlett Packard Enterprise Co. (a)	55,842	848,798
HP, Inc.	56,619	670,369
NetApp, Inc.	9,180	243,545
SanDisk Corp.	6,222	472,810
Seagate Technology PLC	9,409	344,934
Western Digital Corp.	7,142	428,877
		22,820,599

Materials 2.7%

	Shares	Value ($)
Chemicals 2.1%		
Air Products & Chemicals, Inc.	6,068	789,507
Airgas, Inc.	2,046	283,003
CF Industries Holdings, Inc.	7,197	293,710
Dow Chemical Co.	34,974	1,800,461
E.I. du Pont de Nemours & Co.	27,266	1,815,916
Eastman Chemical Co.	4,620	311,896
Ecolab, Inc.	8,314	950,955
FMC Corp. (a)	4,189	163,916
International Flavors & Fragrances, Inc.	2,454	293,597
LyondellBasell Industries NV "A"	11,172	970,847
Monsanto Co.	13,720	1,351,694
PPG Industries, Inc.	8,376	827,716
Praxair, Inc.	8,854	906,650
The Mosaic Co.	10,465	288,729
The Sherwin-Williams Co.	2,442	633,943
		11,682,540
Construction Materials 0.1%		
Martin Marietta Materials, Inc.	2,090	285,452
Vulcan Materials Co.	4,119	391,182
		676,634
Containers & Packaging 0.3%		
Avery Dennison Corp.	2,786	174,571
Ball Corp.	4,271	310,630
International Paper Co.	13,008	490,401
Owens-Illinois, Inc.*	5,288	92,117
Sealed Air Corp.	6,090	271,614
WestRock Co.	8,085	368,838
		1,708,171
Metals & Mining 0.2%		
Alcoa, Inc.	40,415	398,896
Freeport-McMoRan, Inc. (a)	35,221	238,446
Newmont Mining Corp.	16,259	292,500
Nucor Corp.	9,948	400,904
		1,330,746

Telecommunication Services 2.4%

	Shares	Value ($)
Diversified Telecommunication Services		
AT&T, Inc. (a)	191,447	6,587,691
CenturyLink, Inc.	16,962	426,764
Frontier Communications Corp. (a)	37,080	173,164

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

	Shares	Value ($)
Level 3 Communications, Inc.*	9,035	491,142
Verizon Communications, Inc.	126,627	5,852,700
		13,531,461
Utilities 3.0%		
Electric Utilities 1.7%		
American Electric Power Co., Inc.	15,323	892,871
Duke Energy Corp.	21,436	1,530,316
Edison International	10,179	602,699
Entergy Corp.	5,603	383,021
Eversource Energy	9,892	505,184
Exelon Corp.	28,789	799,471
FirstEnergy Corp.	12,978	411,792
NextEra Energy, Inc.	14,281	1,483,653
Pepco Holdings, Inc.	8,014	208,444
Pinnacle West Capital Corp.	3,375	217,620
PPL Corp.	20,976	715,911
Southern Co.	28,283	1,323,362
Xcel Energy, Inc.	15,872	569,963
		9,644,307
Gas Utilities 0.0%		
AGL Resources, Inc.	3,747	**239,096**
Independent Power & Renewable Electricity Producers 0.1%		
AES Corp.	20,375	194,989
NRG Energy, Inc.	9,273	109,143
		304,132
Multi-Utilities 1.2%		
Ameren Corp.	7,453	322,193
CenterPoint Energy, Inc.	13,402	246,061
CMS Energy Corp.	8,769	316,386
Consolidated Edison, Inc.	9,146	587,813
Dominion Resources, Inc.	18,562	1,255,534
DTE Energy Co.	5,648	452,913
NiSource, Inc.	9,973	194,573
PG&E Corp.	15,308	814,233
Public Service Enterprise Group, Inc.	15,544	601,397
SCANA Corp.	4,357	263,555
Sempra Energy	7,377	693,512
TECO Energy, Inc.	7,274	193,852
WEC Energy Group, Inc. (a)	9,807	503,196
		6,445,218
Total Common Stocks (Cost $335,679,640)		**557,081,378**

	Principal Amount ($)	Value ($)
Government & Agency Obligations 0.1%		
U.S. Treasury Obligations		
U.S. Treasury Bills:		
0.175%**, 1/21/2016 (b)	15,000	14,999
0.048%**, 3/31/2016 (b)	550,000	549,768
Total Government & Agency Obligations (Cost $564,930)		**564,767**

	Shares	Value ($)
Securities Lending Collateral 5.1%		
Daily Assets Fund, 0.36% (c) (d) (Cost $28,790,180)	28,790,180	**28,790,180**
Cash Equivalents 0.4%		
Central Cash Management Fund, 0.25% (c) (Cost $1,984,717)	1,984,717	**1,984,717**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $367,019,467)†	105.1	**588,421,042**
Other Assets and Liabilities, Net	(5.1)	**(28,760,151)**
Net Assets	100.0	**559,660,891**

* Non-income producing security.

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

† The cost for federal income tax purposes was $378,801,254. At December 31, 2015, net unrealized appreciation for all securities based on tax cost was $209,619,788. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $235,375,825 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $25,756,037.

(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, 2015 amounted to $27,876,908, which is 5.0% of net assets.

(b) At December 31, 2015, 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, 2015, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Depreciation ($)
S&P 500 E-Mini Index	USD	3/18/2016	31	3,154,870	**(6,410)**

Currency Abbreviation	
USD	United States Dollar

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

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, 2015 in valuing the Fund's investments.

Assets	Level 1	Level 2	Level 3	Total
Common Stocks (e)	$557,081,378	$ —	$ —	$557,081,378
Government & Agency Obligations	—	564,767	—	564,767
Short-Term Investments (e)	30,774,897	—	—	30,774,897
Total	**$587,856,275**	**$ 564,767**	**$ —**	**$588,421,042**

Liabilities	Level 1	Level 2	Level 3	Total
Derivatives (f)				
Futures Contracts	$ (6,410)	$ —	$ —	$ (6,410)
Total	**$ (6,410)**	**$ —**	**$ —**	**$ (6,410)**

There have been no transfers between fair value measurement levels during the year ended December 31, 2015.

(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, 2015

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $336,244,570) — including $27,876,908 of securities loaned	$	557,646,145
Investment in Daily Assets Fund (cost $28,790,180)*		28,790,180
Investment in Central Cash Management Fund (cost $1,984,717)		1,984,717
Total investments in securities, at value (cost $367,019,467)		588,421,042
Cash		16,098
Receivable for Fund shares sold		10,896
Dividends receivable		750,459
Interest receivable		4,525
Foreign taxes recoverable		393
Other assets		9,984
Total assets	$	589,213,397
Liabilities		
Payable upon return of securities loaned		28,790,180
Payable for investments purchased		70,721
Payable for Fund shares redeemed		382,016
Payable for variation margin on futures contracts		31,116
Accrued management fee		89,356
Accrued Trustees' fees		6,229
Other accrued expenses and payables		182,888
Total liabilities		29,552,506
Net assets, at value	**$**	**559,660,891**
Net Assets Consist of		
Undistributed net investment income		10,615,081
Net unrealized appreciation (depreciation) on:		
Investments		221,401,575
Futures		(6,410)
Accumulated net realized gain (loss)		28,279,950
Paid-in capital		299,370,695
Net assets, at value	**$**	**559,660,891**
Class A		
Net Asset Value, offering and redemption price per share ($530,329,512 ÷ 27,337,468 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$**	**19.40**
Class B		
Net Asset Value, offering and redemption price per share ($12,310,868 ÷ 634,704 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$**	**19.40**
Class B2		
Net Asset Value, offering and redemption price per share ($17,020,511 ÷ 877,722 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$**	**19.39**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2015

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $1,253)	$	12,881,101
Interest		646
Income distributions — Central Cash Management Fund		3,457
Securities lending income, including income from Daily Assets Fund, net of borrower rebates		52,250
Total income		12,937,454
Expenses:		
Management fee		1,232,288
Administration fee		616,144
Services to shareholders		5,259
Record keeping fee (Class B and Class B2)		35,407
Distribution service fees (Class B and Class B2)		70,855
Custodian fee		40,480
Professional fees		77,699
Reports to shareholders		43,732
Trustees' fees and expenses		24,894
Other		43,401
Total expenses before expense reductions		2,190,159
Expense reductions		(60,454)
Total expenses after expense reductions		2,129,705
Net investment income (loss)		**10,807,749**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		40,411,863
Futures		523,959
		40,935,822
Change in net unrealized appreciation (depreciation) on:		
Investments		(44,725,505)
Futures		(142,149)
		(44,867,654)
Net gain (loss)		**(3,931,832)**
Net increase (decrease) in net assets resulting from operations	**$**	**6,875,917**

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

Statement of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2015	2014
Operations:		
Net investment income (loss)	$ 10,807,749	$ 10,405,558
Net realized gain (loss)	40,935,822	29,177,166
Change in net unrealized appreciation (depreciation)	(44,867,654)	37,616,286
Net increase (decrease) in net assets resulting from operations	6,875,917	77,199,010
Distributions to shareholders from:		
Net investment income:		
Class A	(9,872,144)	(11,057,697)
Class B	(139,339)	(84,385)
Class B2	(233,490)	(287,223)
Net realized gains:		
Class A	(27,498,227)	(19,839,875)
Class B	(461,402)	(173,737)
Class B2	(836,657)	(647,089)
Total distributions	(39,041,259)	(32,090,006)
Fund share transactions:		
Class A		
Proceeds from shares sold	24,313,549	27,216,371
Reinvestment of distributions	37,370,371	30,897,572
Cost of shares redeemed	(111,171,237)	(91,182,781)
Net increase (decrease) in net assets from Class A share transactions	(49,487,317)	(33,068,838)
Class B		
Proceeds from shares sold	6,669,770	2,195,802
Reinvestment of distributions	600,741	258,122
Cost of shares redeemed	(1,280,491)	(865,375)
Net increase (decrease) in net assets from Class B share transactions	5,990,020	1,588,549
Class B2		
Proceeds from shares sold	675,159	926,523
Reinvestment of distributions	1,070,147	934,312
Cost of shares redeemed	(2,843,635)	(4,285,608)
Net increase (decrease) in net assets from Class B2 share transactions	(1,098,329)	(2,424,773)
Increase (decrease) in net assets	(76,760,968)	11,203,942
Net assets at beginning of period	636,421,859	625,217,917
Net assets at end of period (including undistributed net investment income of $10,615,081 and $10,218,649, respectively)	**$ 559,660,891**	**$ 636,421,859**

Other Information	Years Ended December 31, 2015	2014
Class A		
Shares outstanding at beginning of period	29,911,141	31,567,788
Shares sold	1,225,463	1,399,940
Shares issued to shareholders in reinvestment of distributions	1,892,171	1,693,946
Shares redeemed	(5,691,307)	(4,750,533)
Net increase (decrease) in Class A shares	(2,573,673)	(1,656,647)
Shares outstanding at end of period	**27,337,468**	**29,911,141**
Class B		
Shares outstanding at beginning of period	337,768	255,427
Shares sold	331,792	112,884
Shares issued to shareholders in reinvestment of distributions	30,371	14,128
Shares redeemed	(65,227)	(44,671)
Net increase (decrease) in Class B shares	296,936	82,341
Shares outstanding at end of period	**634,704**	**337,768**
Class B2		
Shares outstanding at beginning of period	933,560	1,058,904
Shares sold	33,269	47,260
Shares issued to shareholders in reinvestment of distributions	54,075	51,111
Shares redeemed	(143,182)	(223,715)
Net increase (decrease) in Class B2 shares	(55,838)	(125,344)
Shares outstanding at end of period	**877,722**	**933,560**

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

Financial Highlights

Class A	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data					
Net asset value, beginning of period	**$20.41**	**$19.01**	**$15.01**	**$13.20**	**$13.17**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.35	.33	.30	.28	.23
Net realized and unrealized gain (loss)	(.10)	2.10	4.37	1.78	.03
Total from investment operations	.25	2.43	4.67	2.06	.26
Less distributions from:					
Net investment income	(.33)	(.37)	(.31)	(.25)	(.23)
Net realized gains	(.93)	(.66)	(.36)	—	—
Total distributions	(1.26)	(1.03)	(.67)	(.25)	(.23)
Net asset value, end of period	**$19.40**	**$20.41**	**$19.01**	**$15.01**	**$13.20**
Total Return (%)	1.13[b]	13.39[b]	31.93[b]	15.70	1.83
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	530	610	600	668	632
Ratio of expenses before expense reductions (%)	.34	.34	.34	.35	.33
Ratio of expenses after expense reductions (%)	.33	.33	.34	.35	.33
Ratio of net investment income (loss) (%)	1.77	1.70	1.76	1.95	1.74
Portfolio turnover rate (%)	3	3	4[c]	4	6

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	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data					
Net asset value, beginning of period	**$20.40**	**$19.01**	**$15.00**	**$13.19**	**$13.17**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.30	.28	.34	.25	.20
Net realized and unrealized gain (loss)	(.09)	2.09	4.29	1.78	.01
Total from investment operations	.21	2.37	4.63	2.03	.21
Less distributions from:					
Net investment income	(.28)	(.32)	(.26)	(.22)	(.19)
Net realized gains	(.93)	(.66)	(.36)	—	—
Total distributions	(1.21)	(.98)	(.62)	(.22)	(.19)
Net asset value, end of period	**$19.40**	**$20.40**	**$19.01**	**$15.00**	**$13.19**
Total Return (%)	.92[b]	13.05[b]	31.68[b]	15.42	1.50
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	12	7	5	47	45
Ratio of expenses before expense reductions (%)	.67	.62	.59	.60	.58
Ratio of expenses after expense reductions (%)	.58	.58	.58	.60	.58
Ratio of net investment income (loss) (%)	1.53	1.45	2.11	1.70	1.49
Portfolio turnover rate (%)	3	3	4[c]	4	6

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	2015	2014	2013	2012	2011
		Years Ended December 31,			
Selected Per Share Data					
Net asset value, beginning of period	**$20.40**	**$18.99**	**$14.99**	**$13.18**	**$13.15**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.28	.27	.23	.22	.18
Net realized and unrealized gain (loss)	(.10)	2.09	4.37	1.78	.02
Total from investment operations	.18	2.36	4.60	2.00	.20
Less distributions from:					
Net investment income	(.26)	(.29)	(.24)	(.19)	(.17)
Net realized gains	(.93)	(.66)	(.36)	—	—
Total distributions	(1.19)	(.95)	(.60)	(.19)	(.17)
Net asset value, end of period	**$19.39**	**$20.40**	**$18.99**	**$14.99**	**$13.18**
Total Return (%)	.76[b]	13.00[b]	31.44[b]	15.26[b]	1.43
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	17	19	20	19	18
Ratio of expenses before expense reductions (%)	.74	.74	.74	.75	.73
Ratio of expenses after expense reductions (%)	.68	.68	.72	.74	.73
Ratio of net investment income (loss) (%)	1.42	1.35	1.39	1.55	1.34
Portfolio turnover rate (%)	3	3	4[c]	4	6

[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 (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. Deutsche 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.

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. During the year ended December 31, 2015, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of December 31, 2015) on the cash collateral invested in Daily Assets Fund. 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, 2015, 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, 2015 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 investments in futures contracts and certain securities sold at a loss. As a result, net investment income (loss) and net realized gain (loss) on investment transactions for a reporting period may differ significantly from distributions during such period. Accordingly, the Fund may periodically make reclassifications among certain of its capital accounts without impacting the net asset value of the Fund.

At December 31, 2015, the Fund's components of distributable earnings (accumulated gains) on a tax basis were as follows:

Undistributed ordinary income	$ 11,085,462
Undistributed long-term capital gains	$ 39,563,699
Unrealized appreciation (depreciation) on investments	$ 209,619,788

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

	Years Ended December 31,	
	2015	**2014**
Distributions from ordinary income*	$ 10,895,561	$ 12,972,415
Distributions from long-term capital gains	$ 28,145,698	$ 19,117,591

* 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.

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 statement purposes and a recharacterization will be made within 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.

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

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, 2015, 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, 2015 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2015, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $3,155,000 to $8,552,000.

The following tables summarize the value of the Fund's derivative instruments held as of December 31, 2015 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)	$ (6,410)

The above derivative is located in the following Statement of Assets and Liabilities account:

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

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the year ended December 31, 2015 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)	$ 523,959

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)	$ (142,149)

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, 2015, purchases and sales of investment securities (excluding short-term investments) aggregated $19,175,828 and $82,438,316, 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 subadvisor. Northern Trust Investments, Inc. ("NTI") serves as subadvisor. As a subadvisor to the Fund, NTI makes investment decisions and buys and sells securities for the Fund. NTI is paid by the Advisor for the services NTI provides to 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, 2015, 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, 2015 through April 30, 2016, 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	.33%
Class B	.58%
Class B2	.68%

Effective May 1, 2016 through September 30, 2016, 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	.62%
Class B2	.72%

For the year ended December 31, 2015, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 40,957
Class B	9,365
Class B2	10,132
	$ 60,454

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, 2015, the Administration Fee was $616,144, of which $48,195 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, 2015, the Distribution Service Fees were as follows:

Distribution Service Fees	**Total Aggregated**	**Unpaid at December 31, 2015**
Class B	$ 25,872	$ 2,597
Class B2	44,983	3,669
	$ 70,855	**$ 6,266**

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, 2015, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	**Total Aggregated**	**Unpaid at December 31, 2015**
Class A	$ 481	$ 79
Class B	91	14
Class B2	61	10
	$ 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, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $17,859, of which $8,970 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 1940 Act, 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, 2015, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $4,543.

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 the one-month 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, 2015.

F. Ownership of the Fund

At December 31, 2015, 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 17%, respectively. At December 31, 2015, two participating insurance companies were beneficial owners of record of 10% or more of the total outstanding Class B shares of the Fund, owning 63% and 21%. At December 31, 2015, one participating insurance company was a beneficial owner of record of 96% of the total outstanding Class B2 shares of the Fund.

Report of Independent Registered Public Accounting Firm

To the Board of 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, 2015, 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, 2015 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 12, 2016

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, 2015 to December 31, 2015).

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, 2015

Actual Fund Return	**Class A**	**Class B**	**Class B2**
Beginning Account Value 7/1/15	$1,000.00	$1,000.00	$1,000.00
Ending Account Value 12/31/15	$1,000.50	$ 999.50	$ 998.50
Expenses Paid per $1,000*	$ 1.66	$ 2.92	$ 3.43

Hypothetical 5% Fund Return	**Class A**	**Class B**	**Class B2**
Beginning Account Value 7/1/15	$1,000.00	$1,000.00	$1,000.00
Ending Account Value 12/31/15	$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 $0.91 per share from net long-term capital gains during its year ended December 31, 2015.

Pursuant to Section 852 of the Internal Revenue Code, the Fund designates $43,619,000 as capital gain dividends for its year ended December 31, 2015.

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, 2015 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 2015.

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

— In September 2015, 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 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 from 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's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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.

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-advisers, 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 index(es) and a peer universe compiled 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 additional reporting from DIMA regarding such funds and, where appropriate, 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, 2014, the Fund's performance (Class A shares) was in the 1st quartile, 2nd 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, 2014). 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, 2014, 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 noted that the expense limitations agreed to by DIMA were expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable Deutsche U.S. registered funds ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Funds. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM 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 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 also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available. The Board did not consider the profitability of NTI with respect to the Fund. The Board noted that 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 investment 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 considered these benefits in reaching its conclusion that the Fund's management fees were reasonable.

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 the individual serving as 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	Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); 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)	106	—
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	106	—
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	106	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); 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; North Bennett Street School (Boston)	106	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)	106	—
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)	106	—
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	106	—

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
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)	106	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)	106	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)	106	—
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)	106	—

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 Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012)
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (since 2015); and Director and Vice President, DeAWM Trust Company (since 2016)
Melinda Morrow[6] (1970) Vice President, 2012–present	Director,[3] Deutsche Asset Management
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset Management; and Chairman, Director and President, DeAWM Trust Company (since 2013); formerly, Director, DeAWM Trust Company (2009–2013)
Caroline Pearson[7] (1962) Chief Legal Officer, 2010–present	Managing Director,[3] Deutsche Asset Management; Secretary, DeAWM Distributors, Inc; and Secretary, DeAWM Service Company
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director,[3] Deutsche Asset Management
Wayne Salit[6] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Hepsen Uzcan[6] (1974) Assistant Secretary, 2013–present	Director,[3] Deutsche Asset Management
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

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

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 Management

vit-equ500-2 (R-025817-5 2/16)

Deutsche
Asset Management

December 31, 2015

Annual Report

Deutsche Variable Series II

Deutsche Global Equity VIP

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

Stocks may decline in value. Investing in foreign securities, particularly those of emerging markets, presents certain risks, such as currency fluctuations, political and economic changes, and market risks. Emerging markets tend to be more volatile than the markets of more mature economies, and generally have less diverse and less mature economic structures and less stable political systems than those of developed countries. 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 Management represents the asset management activities conducted by Deutsche Bank AG or any of its subsidiaries.

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

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

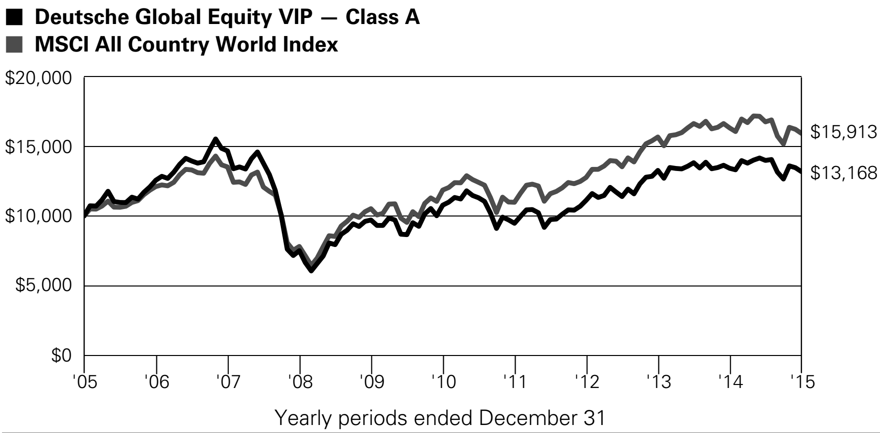
Performance Summary

December 31, 2015 (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, 2015 is 0.95% for Class A shares and may differ from the expense ratio disclosed in the Financial Highlights table in this report.

Growth of an Assumed $10,000 Investment in 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	$9,825	$11,856	$12,233	$13,168
	Average annual total return	–1.75%	5.84%	4.11%	2.79%
MSCI All Country World Index	Growth of $10,000	$9,764	$12,489	$13,438	$15,913
	Average annual total return	–2.36%	7.69%	6.09%	4.76%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2015 (Unaudited)

Global equities encountered difficult market conditions during 2015, with concerns about falling commodity prices and the direction of China's economy offsetting more favorable growth trends in the United States. The Fund's benchmark, the MSCI AC World Index, returned –2.36% during the year, while the Class A shares of the Fund outperformed with a return of –1.75% (unadjusted for contract charges).[1]

We continued to focus our efforts on identifying stocks that we believe are positioned for sustainable, above-average growth and that are trading below what we believe are their intrinsic valuations. In addition, we sought to deliver outperformance through the quality of our stock picking rather than making large "macro" bets or taking on excessive risk. This approach helped the Fund to outperform in the past year, during which investors demonstrated a willingness to pay a premium for stocks that could continue to produce rising earnings even in an environment of weak global growth.

Both sector allocations and security selection had a positive impact on the Fund's 12-month results. With regard to the former, the fund's performance was helped by its overweight positions in the health care and consumer staples sectors, as well as underweights in energy and financials.[2,3] It's important to keep in mind that the Fund's relative weightings are not "top-down" decisions, but rather a residual impact of our bottom-up stock selection process.

In terms of stock selection, we added value through the strength of the fund's investments in the health care sector. The Swiss drug developer Galenica AG — which rallied after the company announced a plan to recognize value through a break-up — was the largest contributor to the fund's performance in the group. The bioanalytical testing company Eurofins Scientific and the renal-care specialist Fresenius Medical Care AG & Co. made strong contributions to performance, as well. In addition, the fund's positions in Omnicare, Inc.* and Allergan PLC both outperformed after receiving takeover bids. Outside of health care, the industrial stock Pall Corp.* — which was also bid for during the year — was a leading contributor to performance. Our stock selection was less effective in the consumer discretionary sector, where positions in the Brazilian education provider Estacio Participacoes SA,* Harman International Industries, Inc. and Las Vegas Sands Corp.* detracted from the Fund's performance.[4]

As of December 31, 2015, approximately 49% of the portfolio was invested in the United States, 45.5% in the developed international markets and 2.5% in the emerging markets, with the remainder in cash and cash equivalents. While we continue to identify select opportunities in the emerging markets, we took steps to reduce this weighting during the latter half of the period. The performance of emerging-markets stocks continues to be driven primarily by macroeconomic factors rather than company-specific fundamentals, so we felt it was prudent to reduce the position in order to manage risk. We redeployed the proceeds of these into higher-quality, large-cap stocks, with a preference for European companies.

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

Effective January 1, 2016, the portfolio management team is as follows:

Brendan O'Neill, CFA
Mark Schumann, 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 "Underweight" means the Fund holds a lower weighting in a given sector or security than the benchmark. "Overweight" means it holds a higher weighting.

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

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

* Not held in the portfolio as of December 31, 2015.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/15**	**12/31/14**
Common Stocks	100%	96%
Cash Equivalents	0%	3%
Participatory Notes	—	1%
	100%	100%

Sector Diversification (As a % of Common Stocks and Participatory Notes)	**12/31/15**	**12/31/14**
Health Care	25%	19%
Consumer Staples	16%	14%
Information Technology	15%	10%
Financials	13%	11%
Industrials	10%	19%
Consumer Discretionary	9%	8%
Materials	6%	11%
Energy	5%	7%
Telecommunication Services	1%	1%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/15**	**12/31/14**
United States	50%	49%
Switzerland	7%	2%
Germany	6%	7%
Sweden	6%	4%
Canada	6%	7%
United Kingdom	5%	5%
France	3%	2%
Ireland	3%	4%
Norway	3%	3%
Luxembourg	2%	1%
Netherlands	2%	1%
Other	7%	15%
	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, 2015

	Shares	Value ($)
Common Stocks 97.8%		
Canada 5.5%		
Agnico Eagle Mines Ltd.	19,000	499,320
Alimentation Couche-Tard, Inc. "B"	20,000	880,393
Brookfield Asset Management, Inc. "A"	42,000	1,324,926
(Cost $2,124,911)		**2,704,639**
Denmark 1.0%		
Jyske Bank AS (Registered)* (Cost $520,321)	11,000	**498,642**
Finland 1.5%		
Sampo Oyj "A" (Cost $708,419)	14,500	**736,265**
France 3.0%		
JC Decaux SA	7,000	268,681
Pernod Ricard SA	8,000	916,319
Vivendi SA	12,000	259,762
(Cost $1,465,257)		**1,444,762**
Germany 6.2%		
BASF SE	6,500	497,645
Bayer AG (Registered)	5,000	635,506
Fresenius Medical Care AG & Co. KGaA	14,000	1,180,216
LANXESS AG	16,000	742,189
(Cost $2,852,086)		**3,055,556**
Ireland 2.8%		
Glanbia PLC	26,000	478,931
Kerry Group PLC "A" (a)	1,000	83,532
Kerry Group PLC "A" (a)	10,000	829,299
(Cost $1,152,453)		**1,391,762**
Israel 0.5%		
Mobileye NV* (b) (Cost $246,148)	6,000	**253,680**
Luxembourg 2.1%		
Eurofins Scientific (Cost $712,011)	3,000	**1,050,770**
Malaysia 0.7%		
IHH Healthcare Bhd. (Cost $292,971)	225,000	**344,597**
Mexico 0.9%		
Fomento Economico Mexicano SAB de CV (ADR) (Cost $452,951)	5,000	**461,750**
Netherlands 1.7%		
ING Groep NV (CVA)	19,000	253,649
Sensata Technologies Holding NV* (b)	12,000	552,720
(Cost $855,165)		**806,369**
Norway 2.7%		
Marine Harvest ASA (Cost $1,150,998)	98,000	**1,321,754**
Philippines 0.9%		
Universal Robina Corp. (Cost $482,548)	105,000	**415,779**
Russia 0.6%		
Yandex NV "A"* (d) (Cost $255,867)	19,000	**298,680**
Sweden 5.9%		
Assa Abloy AB "B"	33,500	701,501
Atlas Copco AB "A"	18,000	442,380
Meda AB "A"	55,000	694,555
Svenska Cellulosa AB "B"	18,000	522,516
Swedbank AB "A"	24,000	528,926
(Cost $2,893,184)		**2,889,878**
Switzerland 7.5%		
Galenica AG (Registered)	1,050	1,652,297
Lonza Group AG (Registered)*	5,000	812,662
Nestle SA (Registered)	12,515	930,533
UBS Group AG (Registered)	13,000	253,355
(Cost $2,352,312)		**3,648,847**
United Kingdom 5.1%		
Aon PLC (b)	7,000	645,470
AVEVA Group PLC	7,500	178,842
Compass Group PLC	34,000	589,321
Halma PLC	36,000	459,200
Smith & Nephew PLC	15,000	267,987
Spirax-Sarco Engineering PLC	7,714	373,839
(Cost $2,391,389)		**2,514,659**
United States 49.2%		
Acadia Healthcare Co., Inc.*	8,000	499,680
Allergan PLC*	2,300	718,750
Alliance Data Systems Corp.*	4,200	1,161,594
Amphenol Corp. "A"	27,000	1,410,210
Applied Materials, Inc.	33,000	616,110
Bristol-Myers Squibb Co.	8,000	550,320
CBRE Group, Inc. "A"*	14,000	484,120
Cepheid, Inc.*	8,000	292,240
Cerner Corp.*	13,000	782,210
Citrix Systems, Inc.*	8,500	643,025
Danaher Corp.	11,000	1,021,680
Dollar General Corp.	9,000	646,830
Ecolab, Inc.	7,000	800,660
Envision Healthcare Holdings, Inc.*	12,000	311,640
EOG Resources, Inc.	6,500	460,135
Evolent Health, Inc. "A"*	14,280	172,931
Express Scripts Holding Co.*	7,500	655,575
Exxon Mobil Corp.	6,500	506,675
General Electric Co. (c)	17,000	529,550
Harman International Industries, Inc.	6,000	565,260
HealthStream, Inc.*	17,000	374,000
JPMorgan Chase & Co.	19,000	1,254,570
LKQ Corp.*	13,000	385,190
Marcus & Millichap, Inc.*	15,000	437,100
MasterCard, Inc. "A"	13,000	1,265,680
Mead Johnson Nutrition Co.	7,000	552,650
NIKE, Inc. "B"	8,000	500,000
Noble Energy, Inc.	19,000	625,670
Palo Alto Networks, Inc.*	2,300	405,122
PayPal Holdings, Inc.*	17,000	615,400
Press Ganey Holdings, Inc.*	14,000	441,700
Rollins, Inc.	10,000	259,000
Schlumberger Ltd.	10,000	697,500
T-Mobile U.S., Inc.*	13,000	508,560
The Sherwin-Williams Co.	700	181,720
Time Warner, Inc.	8,000	517,360

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

	Shares	Value ($)
TJX Companies, Inc.	8,000	567,280
Union Pacific Corp.	6,000	469,200
United Technologies Corp.	6,000	576,420
Zoetis, Inc.	13,000	622,960
(Cost $22,969,205)		**24,086,277**
Total Common Stocks (Cost $43,878,196)		**47,924,666**

Securities Lending Collateral 0.7%

	Shares	Value ($)
Daily Assets Fund, 0.36% (e) (f) (Cost $349,250)	349,250	**349,250**

Cash Equivalents 0.2%

	Shares	Value ($)
Central Cash Management Fund, 0.25% (e) (Cost $100,911)	100,911	**100,911**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $44,328,357)†	98.7	**48,374,827**
Other Assets and Liabilities, Net	1.3	**633,558**
Net Assets	100.0	**49,008,385**

* Non-income producing security.

† The cost for federal income tax purposes was $44,515,300. At December 31, 2015, net unrealized appreciation for all securities based on tax cost was $3,859,527. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $6,497,700 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $2,638,173.

(a) Securities with the same description are the same corporate entity but trade on different stock exchanges.

(b) Listed on the New York Stock Exchange.

(c) 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, 2015 amounted to $342,650, which is 0.7% of net assets.

(d) Listed on the NASDAQ 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

CVA: Certificaten Van Aandelen (Certificate of Stock)

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, 2015 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				
Canada	$ 2,704,639	$ —	$ —	$ 2,704,639
Denmark	—	498,642	—	498,642
Finland	—	736,265	—	736,265
France	—	1,444,762	—	1,444,762
Germany	—	3,055,556	—	3,055,556
Ireland	—	1,391,762	—	1,391,762
Israel	253,680	—	—	253,680
Luxembourg	—	1,050,770	—	1,050,770
Malaysia	—	344,597	—	344,597
Mexico	461,750	—	—	461,750
Netherlands	552,720	253,649	—	806,369
Norway	—	1,321,754	—	1,321,754
Philippines	—	415,779	—	415,779
Russia	298,680	—	—	298,680
Sweden	—	2,889,878	—	2,889,878
Switzerland	—	3,648,847	—	3,648,847
United Kingdom	645,470	1,869,189	—	2,514,659
United States	24,086,277	—	—	24,086,277
Short-Term Investments (g)	450,161	—	—	450,161
Total	**$ 29,453,377**	**$ 18,921,450**	**$ —**	**$ 48,374,827**

There have been no transfers between fair value measurement levels during the year ended December 31, 2015.

(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, 2015

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $43,878,196) — including $342,650 of securities loaned	$	47,924,666
Investment in Daily Assets Fund (cost $349,250)*		349,250
Investment in Central Cash Management Fund (cost $100,911)		100,911
Total investments in securities, at value (cost $44,328,357)		48,374,827
Foreign currency, at value (cost $1,014,823)		1,016,840
Receivable for Fund shares sold		10,494
Dividends receivable		29,795
Interest receivable		173
Foreign taxes recoverable		55,328
Other assets		1,191
Total assets		49,488,648
Liabilities		
Payable upon return of securities loaned		349,250
Payable for Fund shares redeemed		4,968
Accrued management fee		29,908
Accrued Trustees' fees		1,125
Other accrued expenses and payables		95,012
Total liabilities		480,263
Net assets, at value	**$**	**49,008,385**
Net Assets Consist of		
Undistributed net investment income		312,027
Net unrealized appreciation (depreciation) on:		
Investments		4,046,470
Foreign currency		(2,650)
Accumulated net realized gain (loss)		(43,221,095)
Paid-in capital		87,873,633
Net assets, at value	**$**	**49,008,385**
Class A		
Net Asset Value, offering and redemption price per share ($49,008,385 ÷ 5,446,357 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**9.00**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2015

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $69,970)	$	917,607
Interest		733
Income distributions — Central Cash Management Fund		1,436
Securities lending income, including income from Daily Assets Fund, net of borrower rebates		14,178
Total income		933,954
Expenses:		
Management fee		407,655
Administration fee		62,716
Services to shareholders		725
Custodian fee		43,215
Professional fees		74,061
Reports to shareholders		12,037
Trustees' fees and expenses		4,439
Other		19,766
Total expenses before expense reductions		624,614
Expense reductions		(53,864)
Total expenses after expense reductions		570,750
Net investment income		**363,204**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		935,523
Foreign currency		(30,793)
		904,730
Change in net unrealized appreciation (depreciation) on:		
Investments		(2,107,379)
Foreign currency		3,101
		(2,104,278)
Net gain (loss)		**(1,199,548)**
Net increase (decrease) in net assets resulting from operations	**$**	**(836,344)**

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, 2015	2014
Operations:		
Net investment income	$ 363,204	$ 421,556
Net realized gain (loss)	904,730	3,328,692
Change in net unrealized appreciation (depreciation)	(2,104,278)	(2,963,485)
Net increase (decrease) in net assets resulting from operations	(836,344)	786,763
Distributions to shareholders from:		
Net investment income:		
Class A	(365,100)	(1,256,998)
Fund share transactions:		
Class A		
Proceeds from shares sold	1,395,898	2,233,568
Reinvestment of distributions	365,100	1,256,998
Payments for shares redeemed	(19,468,680)	(8,090,295)
Net increase (decrease) in net assets from Class A share transactions	(17,707,682)	(4,599,729)
Increase (decrease) in net assets	(18,909,126)	(5,069,964)
Net assets at beginning of period	67,917,511	72,987,475
Net assets at end of period (including undistributed net investment income of $312,027 and $345,800, respectively)	**$ 49,008,385**	**$ 67,917,511**

Other Information		
Class A		
Shares outstanding at beginning of period	7,372,593	7,869,570
Shares sold	147,455	240,333
Shares issued to shareholders in reinvestment of distributions	37,523	138,132
Shares redeemed	(2,111,214)	(875,442)
Net increase (decrease) in Class A shares	(1,926,236)	(496,977)
Shares outstanding at end of period	**5,446,357**	**7,372,593**

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

Financial Highlights

Class A	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data					
Net asset value, beginning of period	**$ 9.21**	**$ 9.27**	**$ 7.96**	**$ 6.98**	**$ 8.08**
Income (loss) from investment operations:					
Net investment income[a]	.05	.06	.14	.18	.19
Net realized and unrealized gain (loss)	(.21)	.04	1.37	1.01	(1.14)
Total from investment operations	(.16)	.10	1.51	1.19	(.95)
Less distributions from:					
Net investment income	(.05)	(.16)	(.20)	(.21)	(.15)
Net asset value, end of period	**$ 9.00**	**$ 9.21**	**$ 9.27**	**$ 7.96**	**$ 6.98**
Total Return (%)	(1.75)[b]	1.14	19.31[b]	17.34	(12.07)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	49	68	73	67	65
Ratio of expenses before expense reductions (%)	1.00	.95	1.06	1.02	1.03
Ratio of expenses after expense reductions (%)	.91	.95	.99	1.02	1.03
Ratio of net investment income (%)	.58	.59	1.69	2.46	2.44
Portfolio turnover rate (%)	79	78	139	18	26

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 (the "Fund") is a diversified series of Deutsche 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.

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. During the year ended December 31, 2015, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of December 31, 2015) on the cash collateral invested in Daily Assets Fund. 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, 2015, 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. The 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, a portion of which may be recoverable. Based upon the current interpretation of the tax rules and regulations, estimated tax liabilities and recoveries 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, 2015, the Fund had a net tax basis capital loss carryforward of approximately $42,785,000 of pre-enactment losses, which may be applied against any realized net taxable capital gains of each succeeding year until fully utilized or until December 31, 2016 ($3,621,000) and December 31, 2017 ($39,164,000), the respective expiration dates, whichever occurs first.

In addition, from November 1, 2015 through December 31, 2015, the Fund elected to defer qualified late year losses of approximately $249,000 of net short-term realized capital losses and treat them as arising in the fiscal year ending December 31, 2016.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2015 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, 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, 2015, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 312,027
Capital loss carryforwards	$ (42,785,000)
Unrealized appreciation (depreciation) on investments	$ 3,859,527

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

	Years Ended December 31, 2015	2014
Distributions from ordinary income*	$ 365,100	$ 1,256,998

* 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. Purchases and Sales of Securities

During the year ended December 31, 2015, purchases and sales of investment transactions (excluding short-term investments) aggregated $47,691,158 and $64,178,384, 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 $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, 2015, 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, 2015 through April 30, 2016, 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%.

For the year ended December 31, 2015, fees waived and/or expenses reimbursed were $53,864.

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, 2015, the Administration Fee was $62,716, of which $4,315 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, 2015, 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, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $9,662, of which $3,320 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 1940 Act, 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, 2015, the Fund incurred lending agent fees to Deutsche Bank AG in the amount of $1,233.

D. Ownership of the Fund

At December 31, 2015, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 74% and 26%.

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 the one-month 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, 2015.

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 (one of the funds constituting Deutsche Variable Series II) (the "Fund"), as of December 31, 2015, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the 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, 2015, 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 (one of the funds constituting Deutsche Variable Series II) at December 31, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Boston, Massachusetts
February 12, 2016

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, 2015 to December 31, 2015).

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, 2015

Actual Fund Return	**Class A**
Beginning Account Value 7/1/15	$1,000.00
Ending Account Value 12/31/15	$ 942.40
Expenses Paid per $1,000*	$ 4.46

Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 7/1/15	$1,000.00
Ending Account Value 12/31/15	$1,020.62
Expenses Paid per $1,000*	$ 4.63

* 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	.91%

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, 99% of the ordinary dividends (i.e., income dividends plus short-term capital gains) paid during the Fund's fiscal year ended December 31, 2015, 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 2015.

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

— In September 2015, 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 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 from 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's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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.

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 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 additional reporting from DIMA regarding such funds and, where appropriate, 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, 2014, the Fund's performance (Class A shares) was in the 4th 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, 2014. 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 (2nd quartile) of the applicable Lipper peer group (based on Lipper data provided as of December 31, 2014). 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, 2014, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board noted that the expense limitation agreed to by DIMA was expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable Deutsche U.S. registered funds ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Funds. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM 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 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 also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's investment 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. 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 considered these benefits in reaching its conclusion that the Fund's management fees were reasonable.

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 the individual serving as 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	Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); 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)	106	—
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	106	—
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	106	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); 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; North Bennett Street School (Boston)	106	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)	106	—
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)	106	—
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	106	—

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
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)	106	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)	106	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)	106	—
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)	106	—

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 Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012)
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (since 2015); and Director and Vice President, DeAWM Trust Company (since 2016)
Melinda Morrow[6] (1970) Vice President, 2012–present	Director,[3] Deutsche Asset Management
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset Management; and Chairman, Director and President, DeAWM Trust Company (since 2013); formerly, Director, DeAWM Trust Company (2009–2013)
Caroline Pearson[7] (1962) Chief Legal Officer, 2010–present	Managing Director,[3] Deutsche Asset Management; Secretary, DeAWM Distributors, Inc; and Secretary, DeAWM Service Company
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director,[3] Deutsche Asset Management
Wayne Salit[6] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Hepsen Uzcan[6] (1974) Assistant Secretary, 2013–present	Director,[3] Deutsche Asset Management
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

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

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 Management

VS2GE-2 (R-025828-5 2/16)

Deutsche
Asset Management

December 31, 2015

Annual Report

Deutsche Variable Series II

Deutsche Global Growth VIP

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

Stocks may decline in value. Smaller company stocks tend to be more volatile than medium-sized or large company stocks. Investing in foreign securities, particularly those of emerging markets, presents certain risks, such as currency fluctuations, political and economic changes, and market risks. Emerging markets tend to be more volatile than the markets of more mature economies, and generally have less diverse and less mature economic structures and less stable political systems than those of developed countries. 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 Management represents the asset management activities conducted by Deutsche Bank AG or any of its subsidiaries.

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

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

Performance Summary

December 31, 2015 (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, 2015 are 1.41% and 1.76% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

Growth of an Assumed $10,000 Investment in 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	$9,877	$12,071	$12,257	$14,481
	Average annual total return	–1.23%	6.48%	4.15%	3.77%
MSCI World Index	Growth of $10,000	$9,913	$13,177	$14,417	$16,257
	Average annual total return	–0.87%	9.63%	7.59%	4.98%

Deutsche Global Growth VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$9,845	$11,944	$12,043	$13,974
	Average annual total return	–1.55%	6.10%	3.79%	3.40%
MSCI World Index	Growth of $10,000	$9,913	$13,177	$14,417	$16,257
	Average annual total return	–0.87%	9.63%	7.59%	4.98%

The growth of $10,000 is cumulative.

The Fund’s Class A shares returned –1.23% during 2015 (unadjusted for contract charges), slightly behind the –0.87% return of the MSCI World Index.[1] The performance of the world equity markets was pressured by investor concerns about slowing global growth, falling commodity prices and the uncertainty surrounding U.S. interest-rate policy. U.S. and European large-cap stocks finished the year with negative returns, offsetting a gain in Japan. However, European small caps performed very well despite the impact of the euro’s weakness relative to the U.S. dollar.

Although our primary focus is on using bottom-up stock selection to identify attractive growth companies, certain elements of our broader positioning can also affect results. During the past year, for instance, the Fund’s relative performance was hurt by its overweight position in the international markets relative to the United States.[2] In addition, the Fund's modest allocation to the emerging markets — which lagged the developed markets by a wide margin — detracted from performance in relation to the benchmark (which holds developed markets only). On the plus side, the Fund's substantial underweight in the lagging energy sector, which underperformed due to the sharp decline in the prices of oil and natural gas, had a positive impact on results. The Fund's underweight in financials and overweight in health care, as well as its meaningful allocation to small-cap stocks, also aided performance. We believe the small-cap space is home to a high representation of the reasonably valued growth companies we seek.

Our individual stock selection in health care was an additional positive for Fund performance. The Swiss drug developer Galenica AG — which rallied after the company announced a plan to recognize value through a break-up — was the strongest contributor to the Fund's performance in the sector. The bioanalytical testing company Eurofins Scientific and the renal-care specialist Fresenius Medical Care AG & Co. KGaA made strong contributions to performance, as well. In addition, the Fund's positions in Omnicare, Inc.,* Allergan plc and Thoratec Corp.* all outperformed after receiving takeover bids. Outside of health care, the industrial stock Pall Corp.* — which was also bid for during the year — was the Fund's top contributor. On the negative side, the Fund's holdings in the consumer discretionary sector detracted significantly from returns due in part to the weak returns for the Brazilian education provider Estacio Participacoes SA,* Harman International Industries, Inc. and Time Warner Inc.[3]

Our broad-based strategy enables us to search for investment ideas in any region of the world, and we can invest in any segment of the market-cap spectrum — small, medium or large — to find reasonably valued companies with high barriers to entry, pricing power and the potential to deliver above-average earnings growth. We believe this flexible approach provides us with the latitude to identify companies that can generate earnings growth independent of broader economic conditions.

Joseph Axtell, CFA
Lead Portfolio Manager

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

Effective December 1, 2015, the portfolio management team is as follows:

Joseph Axtell, CFA
Sebastian P. Werner, PhD
Co-Lead Portfolio Managers

Rafaelina M. Lee
Mark Schumann, 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 MSCI World Index tracks the performance of stocks in select developed markets around the world, including the United States. Index returns assume reinvestment of all distributions and do not reflect fees or expenses. 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 benchmark. “Overweight” means it holds a higher weighting.

3 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, 2015.

Portfolio Summary (Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/15**	**12/31/14**
Common Stocks	97%	95%
Cash Equivalents	3%	4%
Preferred Stock	0%	—
Participatory Notes	—	1%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/15**	**12/31/14**
Health Care	21%	18%
Information Technology	15%	10%
Consumer Staples	14%	13%
Industrials	13%	20%
Financials	12%	11%
Consumer Discretionary	12%	12%
Materials	6%	9%
Energy	5%	6%
Telecommunication Services	2%	1%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/15**	**12/31/14**
United States	46%	47%
Germany	7%	7%
Switzerland	6%	3%
United Kingdom	6%	7%
Canada	6%	7%
Sweden	6%	3%
Ireland	3%	3%
Netherlands	2%	3%
Japan	2%	2%
Norway	2%	1%
France	2%	2%
Luxembourg	2%	1%
Finland	2%	1%
Hong Kong	1%	2%
Italy	1%	2%
Belgium	—	2%
Other	6%	7%
	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, 2015

	Shares	Value ($)
Common Stocks 96.4%		
Australia 0.2%		
G8 Education Ltd. (Cost $67,672)	23,426	**60,887**
Bermuda 0.2%		
Lazard Ltd. "A" (Cost $39,073)	1,682	**75,707**
Canada 5.7%		
Agnico Eagle Mines Ltd.	15,200	399,526
Alimentation Couche-Tard, Inc. "B"	15,500	682,305
Brookfield Asset Management, Inc. "A"	22,000	694,009
Quebecor, Inc. "B"	3,678	90,056
SunOpta, Inc.*	8,999	61,553
(Cost $1,507,850)		**1,927,449**
China 0.1%		
Minth Group Ltd. (Cost $36,546)	20,870	**41,520**
Denmark 0.5%		
TDC AS (Cost $241,676)	32,000	**160,289**
Finland 1.5%		
Cramo Oyj	3,879	80,069
Sampo Oyj "A"	8,700	441,759
(Cost $504,100)		**521,828**
France 2.1%		
Altran Technologies SA	2,700	36,234
Flamel Technologies SA (ADR)*	9,011	110,024
Parrot SA*	1,588	46,648
Pernod Ricard SA	4,400	503,975
(Cost $765,636)		**696,881**
Germany 7.0%		
BASF SE	3,200	244,994
Bayer AG (Registered)	2,400	305,043
Fresenius Medical Care AG & Co. KGaA	8,000	674,409
LANXESS AG	10,200	473,145
Merck KGaA	3,500	342,874
Patrizia Immobilien AG*	3,619	106,034
United Internet AG (Registered)	3,054	167,951
VIB Vermoegen AG	3,382	62,838
(Cost $2,200,218)		**2,377,288**
Hong Kong 1.0%		
AIA Group Ltd.	22,000	132,230
K Wah International Holdings Ltd.	95,323	40,946
REXLot Holdings Ltd.	1,009,635	42,249
Techtronic Industries Co., Ltd.	26,051	106,277
(Cost $345,648)		**321,702**
India 0.2%		
WNS Holdings Ltd. (ADR)* (Cost $56,052)	1,934	**60,321**
Indonesia 0.2%		
PT Arwana Citramulia Tbk	954,718	34,432
PT Multipolar Tbk	1,448,739	26,791
(Cost $152,038)		**61,223**
Ireland 2.4%		
Greencore Group PLC	17,786	92,815
Kerry Group PLC "A"	6,000	497,579
Paddy Power PLC	767	102,608
Ryanair Holdings PLC (ADR) (a)	1,534	132,630
(Cost $639,290)		**825,632**
Italy 0.6%		
Prysmian SpA	3,543	77,922
Telit Communications PLC*	9,287	29,178
Unipol Gruppo Finanziario SpA	20,500	106,007
(Cost $180,615)		**213,107**
Japan 2.2%		
Ai Holdings Corp. (b)	4,040	102,386
Avex Group Holdings, Inc.	3,467	41,238
Kusuri No Aoki Co., Ltd.	2,258	110,303
MISUMI Group, Inc.	4,811	66,520
Nippon Seiki Co., Ltd.	6,783	156,015
Syuppin Co., Ltd. (b)	1,800	18,719
Topcon Corp. (b)	4,300	72,714
United Arrows Ltd.	1,670	71,905
Universal Entertainment Corp.	4,103	74,802
UT Group Co., Ltd.*	8,369	40,872
(Cost $599,390)		**755,474**
Korea 0.1%		
Suprema HQ, Inc.* (Cost $38,845)	1,931	**26,843**
Luxembourg 1.9%		
Eurofins Scientific (Cost $412,550)	1,800	**630,462**
Malaysia 1.1%		
Hartalega Holdings Bhd.	53,094	73,533
IHH Healthcare Bhd.	127,000	194,506
Nirvana Asia Ltd. 144A	209,599	63,826
Tune Protect Group Bhd.	137,651	41,307
(Cost $365,583)		**373,172**
Mexico 0.9%		
Fomento Economico Mexicano SAB de CV (ADR) (Cost $293,461)	3,200	**295,520**
Netherlands 2.3%		
Brunel International NV	3,001	54,820
Core Laboratories NV (c)	628	68,289
ING Groep NV (CVA)	21,300	284,353
SBM Offshore NV*	5,125	64,904
Sensata Technologies Holding NV* (c)	6,300	290,178
(Cost $773,391)		**762,544**
Norway 2.2%		
Marine Harvest ASA (Cost $659,510)	56,000	**755,288**
Panama 0.2%		
Banco Latinoamericano de Comercio Exterior SA "E" (Cost $62,378)	2,791	**72,371**

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

	Shares	Value ($)
Philippines 0.8%		
Alliance Global Group, Inc.	136,456	46,746
Universal Robina Corp.	54,500	215,809
(Cost $335,923)		**262,555**
Russia 0.5%		
Yandex NV "A"* (a) (Cost $166,891)	11,500	**180,780**
Singapore 0.1%		
Lian Beng Group Ltd. (Cost $44,766)	107,364	**38,190**
Spain 0.3%		
Mediaset Espana Comunicacion SA (Cost $113,613)	10,000	**108,822**
Sweden 5.4%		
Assa Abloy AB "B"	22,000	460,688
Atlas Copco AB "A"	9,800	240,851
Meda AB "A"	33,400	421,784
Nobina AB 144A*	14,672	67,264
Svenska Cellulosa AB "B"	10,500	304,801
Swedbank AB "A"	14,200	312,948
(Cost $1,824,607)		**1,808,336**
Switzerland 6.2%		
Dufry AG (Registered)*	526	62,992
Galenica AG (Registered)	550	865,489
Lonza Group AG (Registered)*	2,500	406,331
Nestle SA (Registered)	8,000	594,827
UBS Group AG (Registered)	8,700	169,553
(Cost $1,661,893)		**2,099,192**
Thailand 0.1%		
Malee Sampran PCL (Foreign Registered) (Cost $39,005)	27,499	**21,779**
United Kingdom 6.2%		
Arrow Global Group PLC	20,883	81,197
AVEVA Group PLC	4,303	102,608
Babcock International Group PLC	9,341	140,063
Clinigen Healthcare Ltd.	8,100	84,901
Compass Group PLC	17,100	296,394
Crest Nicholson Holdings PLC	10,611	87,055
Domino's Pizza Group PLC	5,597	86,795
Halma PLC	19,000	242,355
Hargreaves Lansdown PLC	3,655	81,197
Howden Joinery Group PLC	12,751	98,950
IMI PLC	6,200	78,785
Jardine Lloyd Thompson Group PLC	3,521	48,036
Polypipe Group PLC	16,073	82,695
Reckitt Benckiser Group PLC	3,150	291,981
Rotork PLC	6,304	16,990
Smith & Nephew PLC	10,000	178,658
Spirax-Sarco Engineering PLC	1,718	83,258
(Cost $1,935,953)		**2,081,918**
United States 44.2%		
Acadia Healthcare Co., Inc.* (b)	4,000	249,840
Advance Auto Parts, Inc.	396	59,602
Affiliated Managers Group, Inc.*	216	34,508
Agilent Technologies, Inc.	3,500	146,335
Allergan plc*	1,200	375,000
Alliance Data Systems Corp.*	2,400	663,768
Amphenol Corp. "A"	14,000	731,220
AZZ, Inc.	1,162	64,572
Bank of America Corp.	15,300	257,499
Berry Plastics Group, Inc.*	1,789	64,726
Bristol-Myers Squibb Co.	4,100	282,039
Cardtronics, Inc.* (b)	2,112	71,069
Casey's General Stores, Inc.	896	107,923
Cerner Corp.* (b)	7,000	421,190
Citrix Systems, Inc.*	5,400	408,510
Danaher Corp.	6,100	566,568
Del Taco Restaurants, Inc.* (b)	4,873	51,897
Diamondback Energy, Inc.* (b)	546	36,527
DigitalGlobe, Inc.*	2,304	36,081
Dollar General Corp.	5,200	373,724
Ecolab, Inc.	4,400	503,272
Encore Capital Group, Inc.* (b)	1,189	34,576
EOG Resources, Inc.	4,900	346,871
Express Scripts Holding Co.*	4,100	358,381
Exxon Mobil Corp.	3,500	272,825
FCB Financial Holdings, Inc. "A"*	1,192	42,662
Fox Factory Holding Corp.*	4,633	76,584
Gentherm, Inc.*	1,952	92,525
Hain Celestial Group, Inc.* (b)	1,329	53,678
Harman International Industries, Inc.	3,100	292,051
Jack in the Box, Inc. (b)	987	75,713
Jarden Corp.*	922	52,665
JPMorgan Chase & Co.	11,500	759,345
Kindred Healthcare, Inc. (b)	3,320	39,541
Knowles Corp.* (b)	3,937	52,480
Ligand Pharmaceuticals, Inc.* (b)	546	59,197
MasterCard, Inc. "A"	8,000	778,880
Matador Resources Co.* (b)	2,019	39,916
MAXIMUS, Inc. (b)	1,368	76,950
Middleby Corp.*	909	98,054
Molina Healthcare, Inc.* (b)	1,182	71,074
NantKwest, Inc.* (b)	1,219	21,125
Nielsen Holdings PLC (b)	9,000	419,400
NIKE, Inc. "B"	6,000	375,000
Noble Energy, Inc.	11,800	388,574
Oaktree Capital Group LLC (b)	1,462	69,767
On Assignment, Inc.*	900	40,455
Orexigen Therapeutics, Inc.*	7,028	12,088
Pacira Pharmaceuticals, Inc.*	1,417	108,811
Palo Alto Networks, Inc.*	1,500	264,210
PAREXEL International Corp.*	745	50,749
PayPal Holdings, Inc.*	12,000	434,400
Polaris Industries, Inc. (b)	677	58,188
Primoris Services Corp. (b)	4,127	90,918
Providence Service Corp.*	2,590	121,523
Retrophin, Inc.*	2,954	56,983
Roadrunner Transportation Systems, Inc.*	2,531	23,867
Schlumberger Ltd.	6,900	481,275
Sinclair Broadcast Group, Inc. "A" (b)	2,242	72,955
South State Corp.	501	36,047
Stericycle, Inc.* (b)	1,300	156,780
T-Mobile U.S., Inc.*	8,400	328,608
Tenneco, Inc.*	1,418	65,100
The Sherwin-Williams Co.	625	162,250
Time Warner, Inc.	5,400	349,218
TiVo, Inc.*	5,677	48,993

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

	Shares	Value ($)
TJX Companies, Inc.	4,400	312,004
TriNet Group, Inc.*	2,206	42,686
Tristate Capital Holdings, Inc.*	5,159	72,174
Union Pacific Corp.	3,600	281,520
United Technologies Corp.	4,100	393,887
Urban Outfitters, Inc.*	1,638	37,265
VeriFone Systems, Inc.*	2,018	56,544
WABCO Holdings, Inc.*	930	95,102
Western Digital Corp.	938	56,327
WEX, Inc.*	463	40,929
Zeltiq Aesthetics, Inc.*	2,741	78,201
Zoe's Kitchen, Inc.*	1,359	38,025
(Cost $13,670,149)		**14,921,786**
Total Common Stocks (Cost $29,734,322)		**32,538,866**

Warrants 0.0%

France

	Shares	Value ($)
Parrot SA, Expiration Date 12/15/2022* (Cost $0)	1,848	**1,750**

Preferred Stock 0.1%

United States

	Shares	Value ($)
Providence Service Corp.* (Cost $13,600)	136	**16,001**

Securities Lending Collateral 6.2%

	Shares	Value ($)
Daily Assets Fund, 0.36% (d) (e) (Cost $2,100,763)	2,100,763	**2,100,763**

Cash Equivalents 3.3%

	Shares	Value ($)
Central Cash Management Fund, 0.25% (d) (Cost $1,093,411)	1,093,411	**1,093,411**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $32,942,096)†	106.0	**35,750,791**
Other Assets and Liabilities, Net	(6.0)	**(2,009,945)**
Net Assets	100.0	**33,740,846**

* Non-income producing security.

† The cost for federal income tax purposes was $33,184,615. At December 31, 2015, net unrealized appreciation for all securities based on tax cost was $2,566,176. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $4,703,004 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $2,136,828.

(a) Listed on the NASDAQ 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, 2015 amounted to $2,036,712, which is 6.0% of net assets.

(c) Listed on the New York Stock Exchange.

(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.

144A: Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.

ADR: American Depositary Receipt

CVA: Certificaten Van Aandelen (Certificate of Stock)

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, 2015 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	$ —	$ 60,887	$ —	$ 60,887
Bermuda	75,707	—	—	75,707
Canada	1,927,449	—	—	1,927,449
China	—	41,520	—	41,520
Denmark	—	160,289	—	160,289
Finland	—	521,828	—	521,828
France	110,024	586,857	—	696,881
Germany	—	2,377,288	—	2,377,288
Hong Kong	—	279,453	42,249	321,702
India	60,321	—	—	60,321
Indonesia	—	61,223	—	61,223
Ireland	132,630	693,002	—	825,632
Italy	—	213,107	—	213,107
Japan	—	755,474	—	755,474
Korea	—	—	26,843	26,843
Luxembourg	—	630,462	—	630,462
Malaysia	—	373,172	—	373,172
Mexico	295,520	—	—	295,520
Netherlands	358,467	404,077	—	762,544
Norway	—	755,288	—	755,288
Panama	72,371	—	—	72,371
Philippines	—	262,555	—	262,555
Russia	180,780	—	—	180,780
Singapore	—	38,190	—	38,190
Spain	—	108,822	—	108,822
Sweden	—	1,808,336	—	1,808,336
Switzerland	—	2,099,192	—	2,099,192
Thailand	—	21,779	—	21,779
United Kingdom	—	2,081,918	—	2,081,918
United States	14,921,786	—	—	14,921,786
Warrants	—	—	1,750	1,750
Preferred Stock	—	—	16,001	16,001
Short-Term Investments (f)	3,194,174	—	—	3,194,174
Total	**$ 21,329,229**	**$ 14,334,719**	**$ 86,843**	**$ 35,750,791**

During the period ended December 31, 2015, the amount of transfers between Level 2 and Level 3 was $94,941. The security was halted on the exchange and is valued in accordance with procedures approved by the Board. A significant difference between the value and the price of the security once it resumes trading on the securities exchange could have a material change in the fair value measurement.

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

(f) 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, 2015

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $29,747,922) — including $2,036,712 of securities loaned	$	32,556,617
Investment in Daily Assets Fund (cost $2,100,763)*		2,100,763
Investment in Central Cash Management Fund (cost $1,093,411)		1,093,411
Total investments in securities, at value (cost $32,942,096)		35,750,791
Foreign currency, at value (cost $230,469)		227,048
Receivable for Fund shares sold		3,733
Dividends receivable		18,776
Interest receivable		654
Foreign taxes recoverable		33,809
Other assets		1,321
Total assets		36,036,132
Liabilities		
Payable upon return of securities loaned		2,100,763
Payable for investments purchased		1,035
Payable for Fund shares redeemed		83,710
Accrued management fees		2,027
Accrued Trustees' fees		1,258
Other accrued expenses and payables		106,493
Total liabilities		2,295,286
Net assets, at value		**33,740,846**
Net Assets Consist of		
Undistributed net investment income		155,039
Net unrealized appreciation (depreciation) on:		
Investments		2,808,695
Foreign currency		(6,768)
Accumulated net realized gain (loss)		(41,621,811)
Paid-in capital		72,405,691
Net assets, at value		**33,740,846**
Class A		
Net Asset Value, offering and redemption price per share ($33,675,489 ÷ 3,116,107 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**10.81**
Class B		
Net Asset Value, offering and redemption price per share ($65,357 ÷ 6,040 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**10.82**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2015

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $44,857)	$	678,671
Income distributions — Central Cash Management Fund		1,207
Securities lending income, including income from Daily Assets Fund, net of borrower rebates		9,123
Total income		689,001
Expenses:		
Management fee		406,088
Administration fee		44,381
Services to shareholders		1,054
Record keeping fees (Class B)		9
Distribution service fee (Class B)		240
Custodian fee		66,319
Professional fees		79,267
Reports to shareholders		16,563
Trustees' fees and expenses		3,145
Other		23,982
Total expenses before expense reductions		641,048
Expense reductions		(241,260)
Total expenses after expense reductions		399,788
Net investment income (loss)		**289,213**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		224,633
Futures		(44,599)
Foreign currency		(26,757)
		153,277
Change in net unrealized appreciation (depreciation) on:		
Investments		(846,085)
Futures		17,264
Foreign currency		770
		(828,051)
Net gain (loss)		**(674,774)**
Net increase (decrease) in net assets resulting from operations	**$**	**(385,561)**

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, 2015	2014
Operations:		
Net investment income (loss)	$ 289,213	$ 355,555
Net realized gain (loss)	153,277	2,372,458
Change in net unrealized appreciation (depreciation)	(828,051)	(2,579,995)
Net increase (decrease) in net assets resulting from operations	(385,561)	148,018
Distributions to shareholders from:		
Net investment income:		
Class A	(371,824)	(509,707)
Class B	(513)	(15,999)
Total distributions	(372,337)	(525,706)
Fund share transactions:		
Class A		
Proceeds from shares sold	1,554,080	2,921,038
Reinvestment of distributions	371,824	509,707
Payments for shares redeemed	(14,574,128)	(7,205,720)
Net increase (decrease) in net assets from Class A share transactions	(12,648,224)	(3,774,975)
Class B		
Proceeds from shares sold	8,017	24,993
Reinvestment of distributions	513	15,999
Payments for shares redeemed	(52,359)	(2,651,803)
Net increase (decrease) in net assets from Class B share transactions	(43,829)	(2,610,811)
Increase (decrease) in net assets	(13,449,951)	(6,763,474)
Net assets at beginning of period	47,190,797	53,954,271
Net assets at end of period (including undistributed net investment income of $155,039 and $259,024, respectively)	**$ 33,740,846**	**$ 47,190,797**

Other Information		
Class A		
Shares outstanding at beginning of period	4,265,093	4,601,327
Shares sold	137,321	261,234
Shares issued to shareholders in reinvestment of distributions	31,944	46,464
Shares redeemed	(1,318,251)	(643,932)
Net increase (decrease) in Class A shares	(1,148,986)	(336,234)
Shares outstanding at end of period	**3,116,107**	**4,265,093**
Class B		
Shares outstanding at beginning of period	10,038	246,555
Shares sold	716	2,774
Shares issued to shareholders in reinvestment of distributions	44	1,453
Shares redeemed	(4,758)	(240,744)
Net increase (decrease) in Class B shares	(3,998)	(236,517)
Shares outstanding at end of period	**6,040**	**10,038**

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

Financial Highlights

Class A	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data					
Net asset value, beginning of period	**$11.04**	**$11.13**	**$ 9.24**	**$ 7.90**	**$ 9.28**
Income (loss) from investment operations:					
Net investment income[a]	.07	.08	.10	.12	.11
Net realized and unrealized gain (loss)	(.21)	(.06)	1.92	1.34	(1.43)
Total from investment operations	(.14)	.02	2.02	1.46	(1.32)
Less distributions from:					
Net investment income	(.09)	(.11)	(.13)	(.12)	(.06)
Net asset value, end of period	**$10.81**	**$11.04**	**$11.13**	**$ 9.24**	**$ 7.90**
Total Return (%)[b]	(1.32)	.21	22.08	18.60	(14.39)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	34	47	51	54	49
Ratio of expenses before expense reductions (%)	1.44	1.41	1.45	1.42	1.37
Ratio of expenses after expense reductions (%)	.90	.82	.88	.99	1.03
Ratio of net investment income (%)	.65	.71	1.00	1.40	1.24
Portfolio turnover rate (%)	64	63	171	107	127

a Based on average shares outstanding during the period.

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

Class B	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data					
Net asset value, beginning of period	**$11.05**	**$11.14**	**$ 9.25**	**$ 7.91**	**$ 9.29**
Income (loss) from investment operations:					
Net investment income[a]	.05	.02	.07	.09	.08
Net realized and unrealized gain (loss)	(.23)	(.04)	1.92	1.34	(1.44)
Total from investment operations	(.18)	(.02)	1.99	1.43	(1.36)
Less distributions from:					
Net investment income	(.05)	(.07)	(.10)	(.09)	(.02)
Net asset value, end of period	**$10.82**	**$11.05**	**$11.14**	**$ 9.25**	**$ 7.91**
Total Return (%)[b]	(1.64)	(.15)	21.62	18.16	(14.67)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	.1	.1	3	3	3
Ratio of expenses before expense reductions (%)	1.76	1.76	1.81	1.76	1.72
Ratio of expenses after expense reductions (%)	1.22	1.15	1.23	1.34	1.38
Ratio of net investment income (%)	.40	.14	.66	1.04	.88
Portfolio turnover rate (%)	64	63	171	107	127

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 (the "Fund") is a diversified series of Deutsche 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. The 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. During the year ended December 31, 2015, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of December 31, 2015) on the cash collateral invested in Daily Assets Fund. 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, 2015, 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 may invest 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, a portion of which may be recoverable. Based upon the current interpretation of the tax rules and regulations, estimated tax liabilities and recoveries 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, 2015, the Fund had a net tax basis capital loss carryforward of approximately $41,202,000 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 ($23,413,000) and December 31, 2017 ($17,789,000), the respective expiration dates, whichever occurs first.

From November 1, 2015 through December 31, 2015, the Fund elects to defer qualified late year losses of approximately $ 252,000 of net short-term realized capital losses and treat them as arising in the fiscal year ending December 31, 2016.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2015 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, 2015, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 230,507
Capital loss carryforwards	$ (41,202,000)
Unrealized appreciation (depreciation) on investments	$ 2,566,176

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

	Years Ended December 31, 2015	2014
Distributions from ordinary income*	$ 372,337	$ 525,706

* 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, 2015, 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.

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.

There were no open futures contracts at December 31, 2015. For the year ended December 31, 2015, the investment in futures contracts purchased had a total notional value generally indicative of a range from $0 to $870,000.

The amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the year ended December 31, 2015 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)	$ (44,599)

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, 2015, purchases and sales of investment transactions (excluding short-term investments) aggregated $27,163,842 and $38,998,141, respectively.

D. Related Parties

Management Agreement. Under the Investment Management Agreement with Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor"), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor directs the investments of the Fund in accordance with its investment objectives, policies and restrictions. The Advisor determines the securities, instruments and other contracts relating to investments to be purchased, sold or entered into by the Fund.

Pursuant to the Investment Management Agreement with the Advisor, the Fund pays a monthly management fee based on the Fund's average daily net assets, computed and accrued daily and payable monthly, at the following annual rates:

First $250 million	.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, 2015, 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, 2015 through April 30, 2016 and through September 30, 2016 for Class B, 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, 2015, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 240,739
Class B	521
	$ 241,260

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, 2015, the Administration Fee was $44,381, of which $2,977 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, 2015, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at December 31, 2015
Class A	$ 293	$ 49
Class B	56	9
	$ 349	**$ 58**

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, 2015, the Distribution Service Fee aggregated $240, of which $14 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, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $11,858, of which $4,547 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 1940 Act, 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. Ownership of the Fund

At December 31, 2015, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 67% and 25%. Two participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, owning 70% and 30%.

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 the one-month 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, 2015.

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 (one of the funds constituting Deutsche Variable Series II) (the "Fund"), as of December 31, 2015, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the 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, 2015, 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 Growth VIP (one of the funds constituting Deutsche Variable Series II) at December 31, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Boston, Massachusetts
February 12, 2016

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, 2015 to December 31, 2015).

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, 2015

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/15	$1,000.00	$1,000.00
Ending Account Value 12/31/15	$ 949.10	$ 947.50
Expenses Paid per $1,000*	$ 4.42	$ 5.99

Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/15	$1,000.00	$1,000.00
Ending Account Value 12/31/15	$1,020.67	$1,019.06
Expenses Paid per $1,000*	$ 4.58	$ 6.21

* 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	.90%	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)

For corporate shareholders, 41% of the ordinary dividends (i.e., income dividends plus short-term capital gains) paid during the Fund's fiscal year ended December 31, 2015, 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 2015.

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

— In September 2015, 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 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 from 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's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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.

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 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 additional reporting from DIMA regarding such funds and, where appropriate, 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, 2014, the Fund's performance (Class A shares) was in the 4th 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, 2014. 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, 2014). 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, 2014, 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 noted that the expense limitations agreed to by DIMA were expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable Deutsche U.S. registered funds ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Funds. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM 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 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 also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's investment 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 considered these benefits in reaching its conclusion that the Fund's management fees were reasonable.

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 the individual serving as 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	Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); 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)	106	—
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	106	—
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	106	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); 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; North Bennett Street School (Boston)	106	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)	106	—
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)	106	—
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	106	—

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
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)	106	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)	106	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)	106	—
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)	106	—

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 Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012)
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (since 2015); and Director and Vice President, DeAWM Trust Company (since 2016)
Melinda Morrow[6] (1970) Vice President, 2012–present	Director,[3] Deutsche Asset Management
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset Management; and Chairman, Director and President, DeAWM Trust Company (since 2013); formerly, Director, DeAWM Trust Company (2009–2013)
Caroline Pearson[7] (1962) Chief Legal Officer, 2010–present	Managing Director,[3] Deutsche Asset Management; Secretary, DeAWM Distributors, Inc; and Secretary, DeAWM Service Company
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director,[3] Deutsche Asset Management
Wayne Salit[6] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Hepsen Uzcan[6] (1974) Assistant Secretary, 2013–present	Director,[3] Deutsche Asset Management
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

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

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 Management

VS2GG-2 (R-025830-6 2/16)

Deutsche
Asset Management

December 31, 2015

Annual Report

Deutsche Variable Series II

Deutsche Global Income Builder VIP

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

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. Stocks may decline in value. Smaller company stocks tend to be more volatile than medium-sized or large company stocks. 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. Investing in foreign securities, particularly those of emerging markets, presents certain risks, such as currency fluctuations, political and economic changes, and market risks. Emerging markets tend to be more volatile than the markets of more mature economies, and generally have less diverse and less mature economic structures and less stable political systems than those of developed countries. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. 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. 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. The Fund may lend securities to approved institutions. 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. See the prospectus for details.

Deutsche Asset Management represents the asset management activities conducted by Deutsche Bank AG or any of its subsidiaries.

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

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

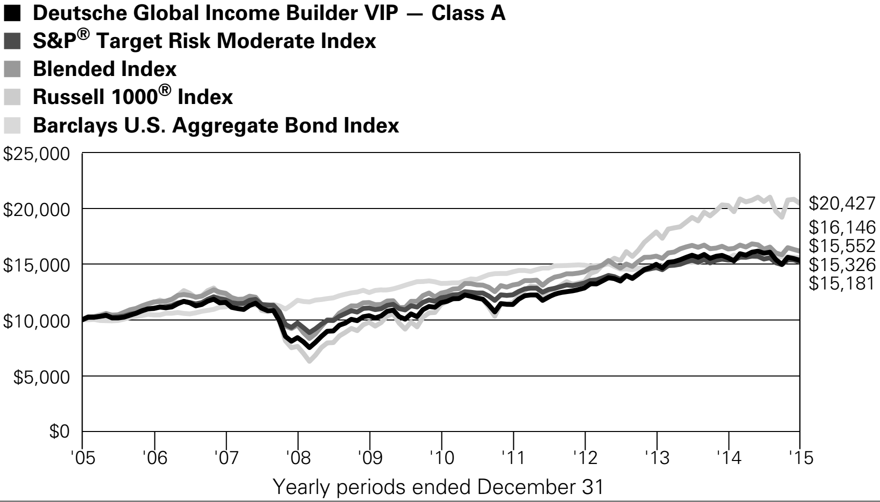
Performance Summary

December 31, 2015 (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, 2015 is 0.62% 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 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.

The Blended Index consists of an equally weighted blend (50%/50%) of the MSCI World High Dividend Yield Index and Barclays U.S. Universal Index.

MSCI World High Dividend Yield Index includes securities that offer a meaningfully higher-than-average dividend yield relative to the MSCI World Index and pass dividend sustainability and persistence screens. The index offers broad market coverage, and is free-float market capitalization-weighted to ensure that its performance can be replicated in institutional and retail portfolios. The index is calculated using closing local market prices and translates into US dollars using the London close foreign exchange rates.

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 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.

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

On May 1, 2015, the S&P Target Risk Moderate Index replaced the Russell 1000 Index as the comparative broad based securities market index because the Advisor believes that the S&P Target Risk Moderate Index more closely reflects the fund's investment strategies. On May 1, 2015, the Blended Index replaced the Barclays U.S. Aggregate Bond Index and the S&P Target Risk Moderate Index as the sole additional comparative index. The Advisor believes the Blended Index provides additional comparative performance information and represents the fund's overall strategic asset allocations.

Comparative Results

Deutsche Global Income Builder VIP		**1-Year**	**3-Year**	**5-Year**	**10-Year**
Class A	Growth of $10,000	$9,856	$11,935	$13,292	$15,326
	Average annual total return	–1.44%	6.07%	5.86%	4.36%
S&P® Target Risk Moderate Index	Growth of $10,000	$9,894	$11,420	$12,681	$15,181
	Average annual total return	–1.06%	4.53%	4.87%	4.26%
Blended Index	Growth of $10,000	$9,879	$11,293	$13,035	$16,146
	Average annual total return	–1.21%	4.14%	5.44%	4.91%
Russell 1000® Index	Growth of $10,000	$10,092	$15,212	$17,975	$20,427
	Average annual total return	0.92%	15.01%	12.44%	7.40%
Barclays U.S. Aggregate Bond Index	Growth of $10,000	$10,055	$10,439	$11,732	$15,552
	Average annual total return	0.55%	1.44%	3.25%	4.51%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2015 (Unaudited)

The Fund returned –1.44% during the 12 months ended December 31, 2015 (Class A shares, unadjusted for contract charges), underperforming the –1.06% return of S&P® Target Risk Moderate Index.[1] Its other benchmark — the Blended Index — returned –1.21%, in a reflection of the challenging conditions for financial assets in 2015.[2] The Fund closed the period with allocations of approximately 59% of assets to stocks and 35% to bonds. In comparison, the Fund began the year with 53% of the portfolio allocated to global equities and 36% allocated to bonds, with the remainder in cash. This tilt in favor of equities reflected our belief that the environment of positive global growth and rising short-term interest rates in the United States would favor stocks over bonds.

The Fund's equity portfolio lagged the return of the Russell 1000 Index, with both sector allocations and stock selection playing a part. With regard to the former, an underweight in information technology and an overweight in utilities more than offset the benefit of holding a below-benchmark weighting in the poorly performing energy sector.[3] In terms of stock selection, the Fund's relative performance was hurt by a shortfall in the consumer discretionary, information technology and financial sectors. We added value through effective stock selection in the energy sector, however. With regard to our broader approach, we emphasized individual stocks that we saw as offering the optimal combination of strong fundamentals and reasonable valuations. At the close of the period, this approach led us to hold the largest overweight positions in the financials, utilities and telecommunications services sectors. Information technology and health care were the Fund's two largest sector underweights.

The Fund's bond portfolio also finished behind the benchmark, with its allocation to high-yield debt playing the largest role in its underperformance. Our weighting in high yield aided performance during the 2012 to 2014 interval, and we continued to favor the asset class coming into the reporting period due to the backdrop of positive domestic growth. This positioning detracted from returns in 2015, however, due to the substantial underperformance for high yield relative to the rest of the market. On the plus side, the Fund's investment-grade allocation performed well in the environment of falling yields. Here, we continued to favor structured products (mortgage-backed securities, asset-backed securities and commercial mortgage-backed securities) over investment-grade corporate bonds — a plus given corporates' underperformance.

The Fund employed derivatives during the period to manage its currency, interest-rate and asset-class exposures. In some cases, derivatives were used to hedge existing positions; in others, they were used to take opportunistic positions in a more efficient manner than buying securities outright. On balance, the Fund's use of derivatives for non-hedging purposes contributed positively to performance during the past year, particularly within the currency space.

Di Kumble, CFA	Philip G. Condon	John D. Ryan
William Chepolis, CFA	Gary Russell, CFA	Darwei Kung

Portfolio Managers

Effective February 1, 2016, the portfolio management team is as follows:

Di Kumble, CFA	John D. Ryan
Gary Russell, CFA	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 Blended Index consists of an equally weighted blend (50%/50%) of the MSCI World High Dividend Yield Index and Barclays U.S. Universal Index.

MSCI World High Dividend Yield Index includes securities that offer a meaningfully higher-than-average dividend yield relative to the MSCI World Index and pass dividend sustainability and persistence screens. The index offers broad market coverage, and is free-float market capitalization-weighted to ensure that its performance can be replicated in institutional and retail portfolios. The index is calculated using closing local market prices and translates into US dollars using the London close foreign exchange rates.

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.

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

3 "Underweight" means the Fund holds a lower weighting in a given sector or security than the benchmark. "Overweight" means the Fund holds a higher weighting.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/15**	**12/31/14**
Equity	**59%**	**53%**
Common Stocks	59%	53%
Fixed Income	**35%**	**36%**
Corporate Bonds	20%	25%
Government & Agency Obligations	8%	8%
Mortgage-Backed Securities Pass-Throughs	3%	1%
Collateralized Mortgage Obligations	2%	1%
Asset-Backed	1%	1%
Commercial Mortgage-Backed Securities	1%	0%
Municipal Bonds and Notes	0%	0%
Cash Equivalents	**6%**	**11%**
	100%	100%

Sector Diversification (As a % of Equities, Corporate Bonds, Preferred Securities, Convertible Bonds and Other Investments)	**12/31/15**	**12/31/14**
Financials	30%	22%
Information Technology	19%	9%
Consumer Discretionary	9%	12%
Industrials	8%	10%
Health Care	7%	8%
Consumer Staples	7%	8%
Utilities	7%	5%
Telecommunication Services	6%	10%
Energy	4%	10%
Materials	3%	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 60.7%		
Consumer Discretionary 6.6%		
Auto Components 0.9%		
Aisin Seiki Co., Ltd.	2,664	115,526
Bridgestone Corp.	7,805	269,642
Cie Generale des Etablissements Michelin	243	23,257
Delphi Automotive PLC	1,454	124,651
Denso Corp.	79	3,810
Goodyear Tire & Rubber Co.	8,400	274,428
Johnson Controls, Inc.	1,959	77,361
Lear Corp.	1,300	159,679
Magna International, Inc.	2,352	95,392
Sumitomo Electric Industries Ltd.	16,605	237,045
Sumitomo Rubber Industries Ltd.	12,693	165,380
Toyota Industries Corp.	79	4,264
Yokohama Rubber Co., Ltd.	11,500	176,941
		1,727,376
Automobiles 1.8%		
Bayerische Motoren Werke (BMW) AG	1,177	123,591
Daihatsu Motor Co., Ltd.	7,600	103,260
Daimler AG (Registered)	3,365	282,068
Ford Motor Co.	29,568	416,613
Fuji Heavy Industries Ltd.	5,600	232,900
General Motors Co.	17,940	610,139
Honda Motor Co., Ltd.	10,350	334,375
Isuzu Motors Ltd.	15,700	170,532
Mazda Motor Corp.	3,700	77,151
Mitsubishi Motors Corp.	9,338	79,628
Nissan Motor Co., Ltd.	46,585	493,363
Renault SA	3,343	337,628
Toyota Motor Corp.	6,190	383,025
		3,644,273
Hotels, Restaurants & Leisure 0.5%		
Carnival Corp.	4,858	264,664
Compass Group PLC	710	12,306
Dawn Holdings, Inc.* (a)	1	1,166
McDonald's Corp.	3,056	361,036
Royal Caribbean Cruises Ltd.	799	80,867
Starbucks Corp.	2,742	164,602
Yum! Brands, Inc.	1,959	143,105
		1,027,746
Household Durables 0.4%		
Barratt Developments PLC	16,567	152,486
Mohawk Industries, Inc.*	784	148,482
Persimmon PLC*	6,152	183,831
Sekisui House Ltd.	13,454	228,139
Toll Brothers, Inc.*	500	16,650
Whirlpool Corp.	446	65,504
		795,092
Internet & Catalog Retail 0.1%		
Amazon.com, Inc.*	300	**202,767**
Leisure Products 0.0%		
Hasbro, Inc.	921	**62,039**
Media 1.5%		
CBS Corp. "B"	1,176	55,425
Comcast Corp. "A"	12,388	699,055
Discovery Communications, Inc. "A"* (b)	4,200	112,056
Discovery Communications, Inc. "C"*	6,500	163,930
News Corp. "A"	5,485	73,280
Omnicom Group, Inc.	627	47,439
Scripps Networks Interactive, Inc. "A" (b)	2,273	125,492
SES SA	5	139
Shaw Communications, Inc. "B"	7,444	128,039
Sky PLC	10,533	172,692
Thomson Reuters Corp.	4,231	160,256
Time Warner Cable, Inc.	1,254	232,730
Time Warner, Inc.	4,047	261,719
Twenty-First Century Fox, Inc. "A"	3,056	83,001
Twenty-First Century Fox, Inc. "B"	4,701	128,008
Viacom, Inc. "B"	4,681	192,670
Walt Disney Co. (b)	2,283	239,898
WPP PLC	4,538	104,741
		2,980,570
Multiline Retail 0.3%		
Canadian Tire Corp., Ltd. "A"	157	13,407
Dollar General Corp.	1,959	140,793
Kohl's Corp.	3,291	156,750
Macy's, Inc.	2,194	76,746
Target Corp.	3,683	267,423
		655,119
Specialty Retail 0.8%		
Advance Auto Parts, Inc.	1,200	180,612
AutoZone, Inc.*	314	232,960
Bed Bath & Beyond, Inc.*	941	45,403
Best Buy Co., Inc.	4,800	146,160
Foot Locker, Inc.	2,600	169,234
GameStop Corp. "A" (b)	4,092	114,740
Home Depot, Inc.	2,038	269,526
Lowe's Companies, Inc.	1,332	101,285
O'Reilly Automotive, Inc.* (b)	314	79,574
Staples, Inc.	17,900	169,513
The Gap, Inc. (b)	862	21,291
TJX Companies, Inc.	1,567	111,116
		1,641,414
Textiles, Apparel & Luxury Goods 0.3%		
Michael Kors Holdings Ltd.*	706	28,282
NIKE, Inc. "B"	1,128	70,500
Swatch Group AG (Bearer)	205	71,330
Swatch Group AG (Registered)	1,724	116,943
VF Corp.	2,642	164,464
Yue Yuen Industrial (Holdings) Ltd.	18,804	63,894
		515,413
Consumer Staples 5.6%		
Beverages 0.9%		
Anheuser-Busch InBev SA	450	55,707
Carlsberg AS "B"	1,729	153,212
Coca-Cola Co.	6,268	269,273
Constellation Brands, Inc. "A"	2,100	299,124
Diageo PLC	2,821	77,322
Dr. Pepper Snapple Group, Inc. (b)	2,586	241,015
Heineken Holding NV	1,747	134,884
Heineken NV	355	30,153
Molson Coors Brewing Co. "B"	1,299	122,002
PepsiCo, Inc.	3,567	356,415
		1,739,107

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

	Shares	Value ($)
Food & Staples Retailing 1.5%		
Alimentation Couche-Tard, Inc. "B"	3,152	138,750
Casino Guichard-Perrachon SA (b)	524	24,261
Costco Wholesale Corp.	1,332	215,118
CVS Health Corp.	4,342	424,517
Empire Co., Ltd. "A"	9,402	174,899
George Weston Ltd.	1,848	142,824
ICA Gruppen AB	4,973	180,396
J Sainsbury PLC	52,473	200,456
Koninklijke Ahold NV	4,417	93,482
Kroger Co.	7,954	332,716
Loblaw Companies Ltd.	1,756	82,921
Metro, Inc.	3,996	111,878
Seven & I Holdings Co., Ltd.	1,567	72,145
Sysco Corp.	3,761	154,201
Wal-Mart Stores, Inc.	6,112	374,666
Walgreens Boots Alliance, Inc.	2,245	191,173
Wesfarmers Ltd.	3,813	115,307
Woolworths Ltd.	4,247	75,387
		3,105,097
Food Products 1.8%		
Archer-Daniels-Midland Co.	5,328	195,431
Aryzta AG	4,014	205,022
Bunge Ltd.	3,296	225,051
Campbell Soup Co. (b)	4,100	215,455
Chocoladefabriken Lindt & Spruengli AG	23	143,587
ConAgra Foods, Inc.	4,466	188,286
General Mills, Inc.	4,780	275,615
Hormel Foods Corp. (b)	2,038	161,165
Kellogg Co.	2,899	209,511
Kraft Heinz Co.	3,100	225,556
McCormick & Co., Inc.	941	80,512
Mondelez International, Inc. "A"	7,679	344,326
Nestle SA (Registered)	4,850	360,614
Tate & Lyle PLC	6,434	56,903
The Hershey Co.	706	63,025
The JM Smucker Co.	1,567	193,274
Tyson Foods, Inc. "A" (b)	7,052	376,083
Wilmar International Ltd.	81,412	168,259
		3,687,675
Household Products 0.6%		
Church & Dwight Co., Inc.	1,803	153,039
Clorox Co.	784	99,435
Colgate-Palmolive Co.	2,429	161,820
Kimberly-Clark Corp.	2,038	259,437
Procter & Gamble Co.	4,566	362,586
Reckitt Benckiser Group PLC	1,733	160,636
		1,196,953
Tobacco 0.8%		
Altria Group, Inc.	5,410	314,916
British American Tobacco PLC	4,589	255,505
Imperial Tobacco Group PLC	4,735	250,574
Japan Tobacco, Inc.	5,877	216,261
Philip Morris International, Inc.	3,918	344,431
Reynolds American, Inc.	5,268	243,118
		1,624,805
Energy 2.9%		
Energy Equipment & Services 0.3%		
Ensco PLC "A"	13,500	207,765
Halliburton Co.	1,254	42,686
National Oilwell Varco, Inc.	1,754	58,741
Petrofac Ltd.	4,379	51,416
Schlumberger Ltd.	2,273	158,542
		519,150
Oil, Gas & Consumable Fuels 2.6%		
BP PLC	58,111	304,955
Chevron Corp.	3,480	313,061
ConocoPhillips	836	39,033
Enbridge, Inc.	392	13,032
Eni SpA	9,313	139,749
Exxon Mobil Corp.	4,701	366,443
HollyFrontier Corp.	4,689	187,044
Idemitsu Kosan Co., Ltd.	13,827	222,767
Imperial Oil Ltd.	3,274	106,665
JX Holdings, Inc.	42,185	178,257
Marathon Petroleum Corp.	7,242	375,425
Neste Oyj	4,216	125,984
Occidental Petroleum Corp.	1,569	106,080
OMV AG	11,767	334,979
Phillips 66	4,075	333,335
Royal Dutch Shell PLC "A"	17,458	394,549
Royal Dutch Shell PLC "B"	14,953	341,419
Spectra Energy Corp.	3,448	82,545
Statoil ASA	6,006	84,111
Tesoro Corp.	3,415	359,839
TonenGeneral Sekiyu KK	6,000	50,656
TOTAL SA	5,089	228,578
TransCanada Corp.	2,273	74,233
Valero Energy Corp.	7,163	506,496
		5,269,235
Financials 15.9%		
Banks 6.6%		
Aozora Bank Ltd.	34,174	119,629
Australia & New Zealand Banking Group Ltd.	8,236	166,720
Banco Bilbao Vizcaya Argentaria SA	9,682	70,833
Bank Hapoalim BM	89,396	462,031
Bank Leumi Le-Israel BM*	101,200	351,140
Bank of America Corp.	18,553	312,247
Bank of East Asia Ltd.	21,938	81,530
Bank of Montreal	5,328	300,651
Bank of Nova Scotia	5,646	228,378
Barclays PLC	73,958	239,278
BB&T Corp.	6,190	234,044
Bendigo & Adelaide Bank Ltd.	5,567	48,304
BNP Paribas SA	4,637	263,717
BOC Hong Kong (Holdings) Ltd.	93,627	284,559
CaixaBank SA	27,919	97,967
Canadian Imperial Bank of Commerce (b)	4,075	268,555
CIT Group, Inc.	2,682	106,475
Citigroup, Inc.	10,048	519,984
Citizens Financial Group, Inc.	12,900	337,851
Comerica, Inc.	1,097	45,888
Commonwealth Bank of Australia	2,037	126,251
Credit Agricole SA	24,735	293,026
Danske Bank AS	11,160	300,511
DBS Group Holdings Ltd.	20,371	238,949
Fifth Third Bancorp.	9,903	199,050
HSBC Holdings PLC	57,583	456,234
Huntington Bancshares, Inc.	17,000	188,020
ING Groep NV (CVA)	3,416	45,603
JPMorgan Chase & Co.	6,967	460,031
KBC Groep NV	3,263	204,400

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

	Shares	Value ($)
KeyCorp	12,301	162,250
Lloyds Banking Group PLC	166,742	180,168
M&T Bank Corp.	1,959	237,392
Mitsubishi UFJ Financial Group, Inc.	36,354	227,287
Mizrahi Tefahot Bank Ltd.	7,499	89,674
Mizuho Financial Group, Inc.	132,273	266,437
National Australia Bank Ltd.	6,869	150,426
National Bank of Canada	5,205	151,632
Natixis SA	12,868	73,028
Nordea Bank AB	21,868	240,906
Oversea-Chinese Banking Corp., Ltd.	25,855	159,939
People's United Financial, Inc. (b)	14,025	226,504
PNC Financial Services Group, Inc.	1,480	141,059
Regions Financial Corp.	31,810	305,376
Resona Holdings, Inc.	47,156	229,112
Royal Bank of Canada	4,858	260,331
Shinsei Bank Ltd.	74,000	137,285
Skandinaviska Enskilda Banken AB "A"	13,319	140,383
Societe Generale	6,354	294,490
Sumitomo Mitsui Financial Group, Inc.	9,207	350,639
SunTrust Banks, Inc.	9,077	388,859
Svenska Handelsbanken AB "A"	4,464	59,321
Swedbank AB "A"	8,410	185,345
The Chugoku Bank Ltd.	7,600	101,478
The Toronto-Dominion Bank (b)	8,229	322,571
U.S. Bancorp.	8,070	344,347
United Overseas Bank Ltd.	9,402	129,589
Wells Fargo & Co.	8,569	465,811
Westpac Banking Corp.	6,452	157,035
Yamaguchi Financial Group, Inc.	5,021	59,499
		13,290,029
Capital Markets 0.8%		
3i Group PLC	33,208	235,483
Ameriprise Financial, Inc.	627	66,725
Bank of New York Mellon Corp.	3,369	138,870
BlackRock, Inc.	314	106,923
Credit Suisse Group AG (Registered)	13,132	283,017
Morgan Stanley	8,070	256,707
State Street Corp.	1,724	114,405
The Goldman Sachs Group, Inc.	1,097	197,712
UBS Group AG (Registered)	6,904	134,551
		1,534,393
Consumer Finance 0.4%		
Ally Financial, Inc.*	11,200	208,768
American Express Co.	549	38,183
Capital One Financial Corp.	3,526	254,507
Discover Financial Services	1,959	105,042
Navient Corp.	13,299	152,273
		758,773
Diversified Financial Services 0.8%		
Berkshire Hathaway, Inc. "B"*	1,534	202,549
CME Group, Inc.	2,038	184,643
EXOR SpA	778	35,461
Groupe Bruxelles Lambert SA	2,548	217,238
Industrivarden AB "C"	13,942	238,379
Intercontinental Exchange, Inc.	314	80,466
Investor AB "B"	6,167	227,428
Leucadia National Corp.	7,127	123,938
Nasdaq, Inc.	1,176	68,408
Pargesa Holding SA (Bearer)	2,284	145,139
Voya Financial, Inc.	4,800	177,168
		1,700,817
Insurance 6.0%		
ACE Ltd.	3,526	412,013
Aegon NV	58,081	330,001
Aflac, Inc.	4,578	274,222
Ageas	7,367	341,759
Alleghany Corp.*	471	225,105
Allianz SE (Registered)	1,307	231,592
Allstate Corp.	4,382	272,078
American International Group, Inc.	7,444	461,305
Aon PLC	471	43,431
Arch Capital Group Ltd.*	2,586	180,373
Assicurazioni Generali SpA	11,479	210,757
Assurant, Inc.	3,134	252,412
Aviva PLC	16,269	123,625
AXA SA	10,958	300,963
Axis Capital Holdings Ltd.	5,314	298,753
Baloise Holding AG (Registered)	3,275	416,650
Chubb Corp.	313	41,516
CNP Assurances	6,858	92,699
Direct Line Insurance Group PLC	28,200	169,679
Everest Re Group Ltd.	2,269	415,431
Fairfax Financial Holdings Ltd.	400	189,900
FNF Group	4,700	162,949
Great-West Lifeco, Inc.	4,466	111,448
Hannover Rueck SE	1,060	121,303
Hartford Financial Services Group, Inc.	6,626	287,966
Legal & General Group PLC	1,991	7,865
Lincoln National Corp.	4,351	218,681
Loews Corp.	5,877	225,677
Manulife Financial Corp.	4,100	61,454
Mapfre SA	24,168	60,535
Marsh & McLennan Companies, Inc.	1,097	60,829
MetLife, Inc.	6,836	329,564
Muenchener Rueckversicherungs-Gesellschaft AG (Registered)	1,302	261,018
NN Group NV	12,080	428,949
Old Mutual PLC	11,627	30,660
PartnerRe Ltd.	2,506	350,188
Power Corp. of Canada	7,229	151,194
Power Financial Corp.	4,075	93,681
Principal Financial Group, Inc.	1,097	49,343
Progressive Corp.	4,936	156,965
Prudential Financial, Inc.	4,051	329,792
RenaissanceRe Holdings Ltd.	2,026	229,323
Sampo Oyj "A"	3,489	177,161
SCOR SE	5,240	197,487
Sompo Japan Nipponkoa Holdings, Inc.	10,000	329,051
Suncorp Group Ltd.	9,529	83,956
Swiss Life Holding AG (Registered)	1,932	522,910
Swiss Re AG	5,155	505,147
The Travelers Companies, Inc.	1,618	182,607
Tokio Marine Holdings, Inc.	4,300	167,493
Torchmark Corp.	2,821	161,248
Unum Group	7,757	258,231
XL Group PLC	6,504	254,827
Zurich Insurance Group AG	1,371	353,128
		12,206,894

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

	Shares	Value ($)
Real Estate Investment Trusts 0.8%		
AvalonBay Communities, Inc. (REIT)	800	147,304
Crown Castle International Corp. (REIT)	1,600	138,320
Dexus Property Group (REIT)	12,966	70,527
H&R Real Estate Investment Trust (REIT) (Units)	5,686	82,391
HCP, Inc. (REIT)	3,600	137,664
Two Harbors Investment Corp. (REIT)	92,262	747,322
Vicinity Centres (REIT)	44,060	89,898
Welltower, Inc. (REIT)	3,100	210,893
		1,624,319
Real Estate Management & Development 0.4%		
Henderson Land Development Co., Ltd.	16,251	99,251
New World Development Co., Ltd.	47,793	47,050
Sun Hung Kai Properties Ltd.	12,536	151,414
Swire Pacific Ltd. "A"	13,320	150,312
Swiss Prime Site AG (Registered)	1,681	131,147
Wharf Holdings Ltd.	7,835	43,582
Wheelock & Co., Ltd.	41,103	174,126
		796,882
Thrifts & Mortgage Finance 0.1%		
New York Community Bancorp., Inc. (b)	8,699	**141,968**
Health Care 5.9%		
Biotechnology 1.7%		
AbbVie, Inc.	5,441	322,325
Actelion Ltd. (Registered)	584	81,087
Alexion Pharmaceuticals, Inc.*	941	179,496
Amgen, Inc.	2,283	370,599
Baxalta, Inc.	6,664	260,096
Biogen, Inc.*	1,127	345,256
Celgene Corp.*	3,142	376,286
CSL Ltd.	4,391	336,363
Gilead Sciences, Inc.	4,914	497,248
Medivation, Inc.*	3,600	174,024
Regeneron Pharmaceuticals, Inc.*	500	271,435
United Therapeutics Corp.*	1,200	187,932
		3,402,147
Health Care Equipment & Supplies 0.5%		
Abbott Laboratories	5,642	253,382
Baxter International, Inc.	2,664	101,632
Becton, Dickinson & Co.	1,165	179,515
Medtronic PLC	3,683	283,296
Stryker Corp.	1,190	110,599
Zimmer Biomet Holdings, Inc.	549	56,322
		984,746
Health Care Providers & Services 1.3%		
Aetna, Inc.	2,718	293,870
AmerisourceBergen Corp.	1,411	146,335
Anthem, Inc.	2,553	355,990
Cardinal Health, Inc.	1,959	174,880
Cigna Corp.	1,408	206,033
DaVita HealthCare Partners, Inc.*	2,100	146,391
Express Scripts Holding Co.*	3,134	273,943
HCA Holdings, Inc.*	1,213	82,035
Humana, Inc.	894	159,588
Laboratory Corp. of America Holdings*	862	106,578
McKesson Corp.	1,019	200,977
Quest Diagnostics, Inc.	2,331	165,827
UnitedHealth Group, Inc.	3,201	376,566
		2,689,013
Life Sciences Tools & Services 0.2%		
Thermo Fisher Scientific, Inc.	2,038	**289,090**
Pharmaceuticals 2.2%		
Allergan PLC*	1,387	433,438
Astellas Pharma, Inc.	9,100	130,671
AstraZeneca PLC	1,718	117,123
Bristol-Myers Squibb Co.	3,369	231,754
Eli Lilly & Co.	3,213	270,727
GlaxoSmithKline PLC	11,399	230,905
Jazz Pharmaceuticals PLC*	1,100	154,616
Johnson & Johnson	3,605	370,306
Merck & Co., Inc.	5,563	293,838
Mylan NV*	1,176	63,586
Novartis AG (Registered)	3,719	319,649
Novo Nordisk AS ''B"	3,854	224,401
Perrigo Co. PLC	392	56,722
Pfizer, Inc.	13,555	437,555
Roche Holding AG (Genusschein)	1,112	306,437
Sanofi	1,531	130,723
Shire PLC	2,965	205,048
Teva Pharmaceutical Industries Ltd.	5,337	348,775
Valeant Pharmaceuticals International, Inc.*	1,200	121,899
		4,448,173
Industrials 5.9%		
Aerospace & Defense 0.8%		
BAE Systems PLC	11,961	88,092
Boeing Co.	1,489	215,295
General Dynamics Corp.	1,067	146,563
Honeywell International, Inc.	2,821	292,171
L-3 Communications Holdings, Inc.	281	33,582
Lockheed Martin Corp.	767	166,554
Northrop Grumman Corp.	938	177,104
Precision Castparts Corp.	27	6,264
Raytheon Co.	1,464	182,312
Rockwell Collins, Inc.	941	86,854
Thales SA	506	38,050
United Technologies Corp.	2,586	248,437
		1,681,278
Air Freight & Logistics 0.2%		
FedEx Corp.	784	116,808
Royal Mail PLC	23,937	156,738
United Parcel Service, Inc. "B"	1,176	113,167
		386,713
Airlines 1.3%		
American Airlines Group, Inc.	7,700	326,095
ANA Holdings, Inc.	11,000	31,846
Cathay Pacific Airways Ltd.	127,791	221,064
Delta Air Lines, Inc.	6,644	336,784
Deutsche Lufthansa AG (Registered)*	21,868	346,471
easyJet PLC	3,918	100,604
Japan Airlines Co., Ltd.	9,500	341,386
Qantas Airways Ltd.	79,684	236,990
Singapore Airlines Ltd.	6,474	51,132
Southwest Airlines Co.	6,653	286,478
United Continental Holdings, Inc.*	6,808	390,099
		2,668,949

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

	Shares	Value ($)
Building Products 0.0%		
Congoleum Corp.*	3,800	**0**
Commercial Services & Supplies 0.2%		
G4S PLC	30	100
Quad Graphics, Inc.	13	121
Republic Services, Inc.	5,171	227,472
Tyco International PLC	2,351	74,973
Waste Management, Inc.	2,194	117,094
		419,760
Construction & Engineering 0.1%		
Chicago Bridge & Iron Co. NV	3,000	**116,970**
Electrical Equipment 0.2%		
ABB Ltd. (Registered)*	8,638	154,646
AMETEK, Inc.	1,332	71,382
Eaton Corp. PLC	421	21,909
Emerson Electric Co.	2,273	108,718
		356,655
Industrial Conglomerates 0.7%		
3M Co.	824	124,127
CK Hutchison Holdings Ltd.	16,996	228,317
Danaher Corp.	2,664	247,432
General Electric Co. (b)	9,038	281,534
Keppel Corp., Ltd.	21,000	95,948
NWS Holdings Ltd.	24,000	35,669
Roper Technologies, Inc.	862	163,599
Sembcorp Industries Ltd.	21,938	47,057
Siemens AG (Registered)	1,248	122,742
		1,346,425
Machinery 0.4%		
AGCO Corp.	1,261	57,237
Caterpillar, Inc.	862	58,581
Deere & Co.	296	22,576
Illinois Tool Works, Inc.	549	50,881
Mitsubishi Heavy Industries Ltd.	27,000	118,326
PACCAR, Inc.	1,254	59,440
Schindler Holding AG (Registered)	503	84,687
SKF AB "B"	29	470
Stanley Black & Decker, Inc.	1,332	142,164
Yangzijiang Shipbuilding Holdings Ltd.	286,107	221,568
		815,930
Marine 0.6%		
A P Moller-Maersk AS "A"	298	387,001
A P Moller-Maersk AS "B"	263	344,949
Mitsui O.S.K Lines Ltd.	80,000	203,180
Nippon Yusen Kabushiki Kaisha	83,050	202,661
		1,137,791
Professional Services 0.1%		
Adecco SA (Registered)	393	26,750
Nielsen Holdings PLC	4,145	193,157
		219,907
Road & Rail 0.3%		
Canadian National Railway Co.	236	13,193
CSX Corp.	3,840	99,648
East Japan Railway Co.	1,097	104,030
MTR Corp., Ltd.	27,814	137,732
Norfolk Southern Corp.	862	72,917
Union Pacific Corp.	2,194	171,571
West Japan Railway Co.	1,261	87,743
		686,834

	Shares	Value ($)
Trading Companies & Distributors 1.0%		
ITOCHU Corp.	41,839	498,673
Marubeni Corp.	108,549	561,590
Mitsubishi Corp.	14,728	246,995
Mitsui & Co., Ltd.	28,151	336,661
Sumitomo Corp.	32,366	332,359
W.W. Grainger, Inc. (b)	627	127,024
		2,103,302

Information Technology 7.2%

	Shares	Value ($)
Communications Equipment 0.7%		
Cisco Systems, Inc.	17,899	486,047
Harris Corp.	1,569	136,346
Juniper Networks, Inc.	7,764	214,286
Motorola Solutions, Inc.	790	54,076
QUALCOMM, Inc.	5,970	298,411
Telefonaktiebolaget LM Ericsson "B"	19,294	186,437
		1,375,603
Electronic Equipment, Instruments & Components 0.7%		
Amphenol Corp. "A"	1,568	81,897
Arrow Electronics, Inc.*	2,528	136,967
Avnet, Inc.	6,660	285,314
Corning, Inc.	9,440	172,563
Flextronics International Ltd.*	14,608	163,756
Hitachi Ltd.	40,485	231,315
Murata Manufacturing Co., Ltd.	706	101,547
TE Connectivity Ltd.	4,388	283,509
		1,456,868
Internet Software & Services 0.8%		
Alphabet, Inc. "A"*	492	382,781
Alphabet, Inc. "C"*	485	368,057
eBay, Inc.*	7,642	210,002
Facebook, Inc. "A"*	3,269	342,133
LinkedIn Corp. "A"*	127	28,585
VeriSign, Inc.*	521	45,515
Yahoo!, Inc.*	3,400	113,084
		1,490,157
IT Services 1.9%		
Accenture PLC "A"	2,475	258,637
Alliance Data Systems Corp.*	549	151,837
Atos SE	1,677	141,318
Automatic Data Processing, Inc.	3,232	273,815
CGI Group, Inc. "A"*	4,701	188,217
Cognizant Technology Solutions Corp. "A"*	3,291	197,526
Fidelity National Information Services, Inc.	3,898	236,219
Fiserv, Inc.*	2,161	197,645
Fujitsu Ltd.	26,000	130,615
International Business Machines Corp.	3,056	420,567
Itochu Techno-Solutions Corp.	1,200	23,945
MasterCard, Inc. "A"	3,134	305,126
Paychex, Inc.	3,056	161,632
PayPal Holdings, Inc.*	2,942	106,500
Total System Services, Inc.	2,250	112,050
Vantiv, Inc. "A"*	3,369	159,758
Visa, Inc. "A" (b)	4,184	324,469
Western Union Co. (b)	12,458	223,123
Xerox Corp.	22,704	241,343
		3,854,342

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

	Shares	Value ($)
Semiconductors & Semiconductor Equipment 0.8%		
Analog Devices, Inc.	2,586	143,057
Avago Technologies Ltd.	1,646	238,917
Broadcom Corp. "A"	1,409	81,468
Intel Corp.	10,673	367,685
KLA-Tencor Corp.	456	31,624
Lam Research Corp.	64	5,083
Marvell Technology Group Ltd.	4,623	40,775
Maxim Integrated Products, Inc.	4,388	166,744
Microchip Technology, Inc. (b)	691	32,159
Micron Technology, Inc.*	8,893	125,925
Qorvo, Inc.*	1,800	91,620
Skyworks Solutions, Inc.	2,500	192,075
Texas Instruments, Inc.	1,646	90,217
		1,607,349
Software 1.2%		
Activision Blizzard, Inc.	5,827	225,563
Adobe Systems, Inc.*	2,200	206,668
ANSYS, Inc.*	784	72,520
CA, Inc.	7,236	206,660
Electronic Arts, Inc.*	3,600	247,392
Intuit, Inc.	1,034	99,781
Microsoft Corp.	7,549	418,819
Nexon Co., Ltd.	3,794	61,720
NICE Systems Ltd.	2,086	119,436
Oracle Corp.	6,713	245,226
SAP SE	751	59,923
Symantec Corp.	8,041	168,861
Synopsys, Inc.*	5,407	246,613
The Sage Group PLC	1,325	11,773
VMware, Inc. "A"*	784	44,351
		2,435,306
Technology Hardware, Storage & Peripherals 1.1%		
Apple, Inc.	5,178	545,036
Canon, Inc.	6,974	212,317
EMC Corp.	8,058	206,929
Hewlett Packard Enterprise Co. (b)	27,206	413,531
HP, Inc.	13,806	163,463
NetApp, Inc.	2,586	68,607
Ricoh Co., Ltd.	26,547	274,703
Seagate Technology PLC	3,683	135,019
Seiko Epson Corp.	8,500	131,766
Western Digital Corp.	1,959	117,638
		2,269,009
Materials 2.3%		
Chemicals 1.1%		
Ashland, Inc.	862	88,527
BASF SE	8	612
Celanese Corp. "A"	2,200	148,126
CF Industries Holdings, Inc.	1,180	48,156
Dow Chemical Co.	3,784	194,800
E.I. du Pont de Nemours & Co.	1,489	99,167
Ecolab, Inc.	392	44,837
GEO Specialty Chemicals, Inc.*	19,324	8,862
Hitachi Chemical Co., Ltd.	4,900	78,379
Israel Chemicals Ltd.	17,163	69,738
Kuraray Co., Ltd.	16,800	204,460
LyondellBasell Industries NV "A"	2,873	249,664
Mitsubishi Chemical Holdings Corp.	36,400	233,090
Mitsubishi Gas Chemical Co., Inc.	42,000	215,139
Monsanto Co.	1,019	100,392
Praxair, Inc.	549	56,218
Solvay SA	986	105,516
Sumitomo Chemical Co., Ltd.	41,000	237,507
The Mosaic Co.	5,000	137,950
		2,321,140
Construction Materials 0.1%		
Fletcher Building Ltd.	8,805	44,154
LafargeHolcim Ltd. (Registered)	1,257	62,803
		106,957
Containers & Packaging 0.1%		
International Paper Co.	2,874	108,350
WestRock Co.	437	19,936
		128,286
Metals & Mining 0.9%		
Fresnillo PLC	16,365	171,545
Goldcorp, Inc.	5,485	63,385
JFE Holdings, Inc.	800	12,556
Kobe Steel Ltd.	112,000	122,978
Mitsubishi Materials Corp.	18,804	59,301
Newcrest Mining Ltd.*	20,967	197,507
Newmont Mining Corp.	15,683	282,137
Nippon Steel & Sumitomo Metal Corp.	11,700	233,252
Nucor Corp.	4,075	164,222
Randgold Resources Ltd.	2,259	138,104
Silver Wheaton Corp.	9,011	112,011
Sumitomo Metal Mining Co., Ltd.	15,000	181,685
		1,738,683
Paper & Forest Products 0.1%		
Stora Enso Oyj "R"	15,190	138,530
UPM-Kymmene Oyj	5,432	101,491
		240,021
Telecommunication Services 3.7%		
Diversified Telecommunication Services 2.9%		
AT&T, Inc. (b)	21,649	744,942
BCE, Inc.	7,365	284,551
Bezeq Israeli Telecommunication Corp., Ltd.	118,667	261,925
BT Group PLC	57,981	403,126
Deutsche Telekom AG (Registered)	10,731	193,860
Elisa Oyj	800	30,090
HKT Trust & HKT Ltd. (Units)	256,000	328,689
Inmarsat PLC	1,663	27,907
Level 3 Communications, Inc.*	3,600	195,696
Nippon Telegraph & Telephone Corp.	12,500	501,293
Orange SA	11,104	187,292
PCCW Ltd.	220,633	129,606
Proximus SA	1,992	64,920
Singapore Telecommunications Ltd.	76,045	199,671
Spark New Zealand Ltd.	56,978	128,580
Swisscom AG (Registered)	606	303,807
TDC AS	33,026	165,428
Telecom Italia SpA (RSP)	102,205	104,926
Telefonica SA	14,181	156,527
Telenor ASA	8,848	147,973
TeliaSonera AB	86,807	431,614
Telstra Corp., Ltd.	66,244	269,897
TELUS Corp.	7,287	201,489
Verizon Communications, Inc.	10,902	503,890
		5,967,699

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	Shares	Value ($)
Wireless Telecommunication Services 0.8%		
KDDI Corp.	14,300	374,420
NTT DoCoMo, Inc.	16,169	332,464
Rogers Communications, Inc. "B"	6,503	224,271
SoftBank Group Corp.	471	23,942
T-Mobile U.S., Inc.*	11,800	461,616
Vodafone Group PLC	40,930	133,407
		1,550,120

Utilities 4.7%

	Shares	Value ($)
Electric Utilities 2.6%		
American Electric Power Co., Inc.	4,388	255,689
Cheung Kong Infrastructure Holdings Ltd.	12,556	115,998
CLP Holdings Ltd.	36,469	310,236
Duke Energy Corp.	5,407	386,006
E.ON SE	3,110	30,168
Edison International	6,256	370,418
EDP — Energias de Portugal SA	53,479	192,649
Enel SpA	13,335	56,227
Entergy Corp.	2,971	203,098
Eversource Energy	7,169	366,121
Exelon Corp.	17,503	486,058
FirstEnergy Corp.	4,936	156,619
Iberdrola SA	14,717	104,514
NextEra Energy, Inc.	2,743	284,970
OGE Energy Corp.	6,660	175,091
Pepco Holdings, Inc.	5,200	135,252
Pinnacle West Capital Corp.	2,555	164,746
PPL Corp.	6,112	208,603
Southern Co.	6,245	292,204
SSE PLC	7,389	166,291
Tohoku Electric Power Co., Inc.	17,000	213,986
Tokyo Electric Power Co., Inc.*	62,700	363,128
Xcel Energy, Inc.	6,738	241,962
		5,280,034
Gas Utilities 0.2%		
AGL Resources, Inc.	2,900	185,049
Enagas SA	22	622
Osaka Gas Co., Ltd.	31,000	112,029
Tokyo Gas Co., Ltd.	22,000	104,020
		401,720
Independent Power & Renewable Eletricity Producers 0.3%		
AES Corp.	19,014	181,964
Calpine Corp.*	5,700	82,479
Electric Power Development Co., Ltd.	2,602	93,253
Meridian Energy Ltd.	64,380	105,083
NRG Energy, Inc.	8,000	94,160
		556,939
Multi-Utilities 1.5%		
AGL Energy Ltd.	4,141	54,326
Alliant Energy Corp.	2,508	156,625
Ameren Corp.	5,955	257,435
Atco Ltd. "I"	3,000	77,401
CenterPoint Energy, Inc.	8,900	163,404
Centrica PLC	42,247	136,061
CMS Energy Corp.	2,664	96,117
Consolidated Edison, Inc.	4,310	277,004
Dominion Resources, Inc.	3,291	222,603
DTE Energy Co.	2,194	175,937
Engie SA	5,853	104,045
National Grid PLC	19,631	271,625
PG&E Corp.	6,738	358,394
Public Service Enterprise Group, Inc.	5,720	221,307
SCANA Corp. (b)	3,605	218,066
Sempra Energy	1,567	147,314
WEC Energy Group, Inc. (b)	3,866	198,364
		3,136,028
Water Utilities 0.1%		
American Water Works Co., Inc.	2,803	**167,479**
Total Common Stocks (Cost $113,066,962)		**122,285,329**

Preferred Stocks 0.2%

	Shares	Value ($)
Consumer Discretionary		
Bayerische Motoren Werke (BMW) AG	2,955	248,643
Porsche Automobil Holding SE	2,398	131,439
Total Preferred Stocks (Cost $354,060)		**380,082**

Rights 0.0%

	Shares	Value ($)
Consumer Staples		
Safeway Casa Ley, Expiration Date 1/30/2018*	7,499	7,611
Safeway PDC LLC, Expiration Date 1/30/2017*	7,499	366
Total Rights (Cost $7,977)		**7,977**

Warrant 0.0%

	Shares	Value ($)
Materials		
Hercules Trust II, Expiration Date 3/31/2029* (Cost $30,283)	170	**290**

Corporate Bonds 20.8%

	Principal Amount ($)(c)	Value ($)
Consumer Discretionary 3.5%		
1011778 B.C. Unlimited Liability Co., 144A, 4.625%, 1/15/2022	35,000	35,088
Ally Financial, Inc.:		
3.25%, 2/13/2018	105,000	104,475
4.125%, 3/30/2020	85,000	84,575
AmeriGas Finance LLC:		
6.75%, 5/20/2020	110,000	106,975
7.0%, 5/20/2022	195,000	188,662
APX Group, Inc., 6.375%, 12/1/2019	50,000	47,875
Asbury Automotive Group, Inc., 144A, 6.0%, 12/15/2024	35,000	36,138
Ashtead Capital, Inc., 144A, 6.5%, 7/15/2022	80,000	83,400
Ashton Woods U.S.A. LLC, 144A, 6.875%, 2/15/2021	80,000	68,000
Avis Budget Car Rental LLC:		
144A, 5.25%, 3/15/2025	135,000	127,913
5.5%, 4/1/2023 (b)	50,000	50,125
Bed Bath & Beyond, Inc.:		
4.915%, 8/1/2034	80,000	71,373
5.165%, 8/1/2044	100,000	84,701
Block Communications, Inc., 144A, 7.25%, 2/1/2020	20,000	19,900
Boyd Gaming Corp., 6.875%, 5/15/2023	40,000	41,100

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

	Principal Amount ($)(c)	Value ($)
Caleres, Inc., 6.25%, 8/15/2023	35,000	34,475
CCO Holdings LLC:		
144A, 5.125%, 5/1/2023	115,000	115,000
144A, 5.375%, 5/1/2025 (b)	85,000	84,575
144A, 5.875%, 5/1/2027	140,000	139,300
CCO Safari II LLC:		
144A, 4.908%, 7/23/2025	15,000	14,985
144A, 6.484%, 10/23/2045	10,000	10,016
Cequel Communications Holdings I LLC:		
144A, 5.125%, 12/15/2021	385,000	346,500
144A, 6.375%, 9/15/2020	200,000	195,500
Churchill Downs, Inc., 144A, 5.375%, 12/15/2021	27,996	28,066
Clear Channel Worldwide Holdings, Inc.:		
Series A, 6.5%, 11/15/2022	65,000	62,725
Series B, 6.5%, 11/15/2022	370,000	360,750
Series A, 7.625%, 3/15/2020	10,000	9,100
Cogeco Cable, Inc., 144A, 4.875%, 5/1/2020	5,000	4,988
CVS Health Corp., 5.125%, 7/20/2045	25,000	26,336
D.R. Horton, Inc., 4.0%, 2/15/2020	35,000	35,200
Dana Holding Corp., 5.5%, 12/15/2024	80,000	77,600
Delphi Corp., 5.0%, 2/15/2023	70,000	74,060
Discovery Communications LLC, 4.875%, 4/1/2043	10,000	8,231
DISH DBS Corp.:		
4.25%, 4/1/2018	70,000	70,175
5.0%, 3/15/2023	715,000	620,262
7.875%, 9/1/2019	270,000	293,625
Dollar Tree, Inc.:		
144A, 5.25%, 3/1/2020	145,000	149,712
144A, 5.75%, 3/1/2023	122,500	126,788
Fiat Chrysler Automobiles NV, 4.5%, 4/15/2020	300,000	303,750
General Motors Co., 4.0%, 4/1/2025	600,000	568,423
General Motors Financial Co., Inc., 3.2%, 7/13/2020	30,000	29,538
Global Partners LP, 7.0%, 6/15/2023	70,000	57,400
Group 1 Automotive, Inc.:		
5.0%, 6/1/2022	95,000	94,050
144A, 5.25%, 12/15/2023	110,000	108,900
HD Supply, Inc., 11.5%, 7/15/2020	130,000	143,975
Hot Topic, Inc., 144A, 9.25%, 6/15/2021	40,000	35,400
Live Nation Entertainment, Inc., 144A, 7.0%, 9/1/2020	90,000	93,150
MDC Partners, Inc., 144A, 6.75%, 4/1/2020	40,000	41,200
Mediacom Broadband LLC, 6.375%, 4/1/2023	35,000	34,213
MGM Resorts International:		
6.625%, 12/15/2021	250,000	255,937
6.75%, 10/1/2020 (b)	130,000	133,575
Numericable-SFR, 144A, 6.0%, 5/15/2022	200,000	194,000
Pinnacle Entertainment, Inc., 6.375%, 8/1/2021	45,000	47,306
Quebecor Media, Inc., 5.75%, 1/15/2023	50,000	50,375
Sabre GLBL, Inc., 144A, 5.375%, 4/15/2023 (b)	5,000	4,975
Seminole Hard Rock Entertainment, Inc., 144A, 5.875%, 5/15/2021	35,000	34,913
Serta Simmons Bedding LLC, 144A, 8.125%, 10/1/2020	55,000	57,475
Sirius XM Radio, Inc., 144A, 5.875%, 10/1/2020 (b)	60,000	62,850
Spectrum Brands, Inc., 144A, 5.75%, 7/15/2025	35,000	35,875
Springs Industries, Inc., 6.25%, 6/1/2021	85,000	84,150
Starz LLC, 5.0%, 9/15/2019	40,000	40,500
Suburban Propane Partners LP, 5.75%, 3/1/2025	50,000	40,500
Time Warner Cable, Inc., 7.3%, 7/1/2038	45,000	48,787
TRI Pointe Holdings, Inc., 4.375%, 6/15/2019	50,000	48,875
Unitymedia Hessen GmbH & Co., KG, 144A, 5.5%, 1/15/2023	200,000	199,500
Viking Cruises Ltd.:		
144A, 6.25%, 5/15/2025	70,000	57,400
144A, 8.5%, 10/15/2022	50,000	47,375
		6,992,636

Consumer Staples 0.7%

	Principal Amount ($)(c)	Value ($)
Aramark Services, Inc., 144A, 5.125%, 1/15/2024 (b)	35,000	35,656
Chiquita Brands International, Inc., 7.875%, 2/1/2021	20,000	20,950
Constellation Brands, Inc., 4.75%, 12/1/2025	15,000	15,281
Cott Beverages, Inc.:		
5.375%, 7/1/2022	160,000	156,800
6.75%, 1/1/2020	80,000	82,600
JBS U.S.A. LLC:		
144A, 5.75%, 6/15/2025	55,000	47,850
144A, 7.25%, 6/1/2021	145,000	143,913
144A, 8.25%, 2/1/2020 (b)	370,000	370,000
Minerva Luxembourg SA, 144A, 12.25%, 2/10/2022	250,000	252,500
Pilgrim's Pride Corp., 144A, 5.75%, 3/15/2025 (b)	55,000	53,488
Reynolds American, Inc.:		
4.45%, 6/12/2025	10,000	10,458
5.85%, 8/15/2045	10,000	11,117
Smithfield Foods, Inc., 6.625%, 8/15/2022	5,000	5,188
The WhiteWave Foods Co., 5.375%, 10/1/2022	80,000	84,600
Tonon Luxembourg SA, 144A, 7.25%, 1/24/2020* (b)	207,250	20,725
		1,311,126

Energy 2.3%

	Principal Amount ($)(c)	Value ($)
Antero Resources Corp.:		
5.125%, 12/1/2022	140,000	106,400
5.375%, 11/1/2021	60,000	48,000
144A, 5.625%, 6/1/2023	55,000	42,900
Baytex Energy Corp.:		
144A, 5.125%, 6/1/2021	30,000	20,175
144A, 5.625%, 6/1/2024	35,000	23,450
Blue Racer Midstream LLC, 144A, 6.125%, 11/15/2022	30,000	20,700
California Resources Corp.:		
5.0%, 1/15/2020	7,000	2,494
6.0%, 11/15/2024	12,000	3,660
144A, 8.0%, 12/15/2022	48,000	25,260

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	Principal Amount ($)(c)	Value ($)
Carrizo Oil & Gas, Inc., 6.25%, 4/15/2023	75,000	60,750
Chesapeake Energy Corp., 5.75%, 3/15/2023 (b)	150,000	43,500
Concho Resources, Inc., 5.5%, 4/1/2023 (b)	175,000	161,875
Crestwood Midstream Partners LP, 144A, 6.25%, 4/1/2023	25,000	17,438
DCP Midstream LLC, 144A, 9.75%, 3/15/2019	200,000	203,650
Delek & Avner Tamar Bond Ltd., 144A, 5.082%, 12/30/2023	350,000	352,187
Endeavor Energy Resources LP:		
144A, 7.0%, 8/15/2021	43,000	38,270
144A, 8.125%, 9/15/2023	90,000	81,000
EP Energy LLC, 6.375%, 6/15/2023 (b)	65,000	32,500
Gulfport Energy Corp., 6.625%, 5/1/2023	30,000	25,050
Hilcorp Energy I LP:		
144A, 5.0%, 12/1/2024	65,000	53,950
144A, 5.75%, 10/1/2025	100,000	87,000
Holly Energy Partners LP, 6.5%, 3/1/2020	10,000	9,900
Kinder Morgan, Inc.:		
3.05%, 12/1/2019	145,000	134,199
5.55%, 6/1/2045	90,000	70,257
Laredo Petroleum, Inc., 6.25%, 3/15/2023	85,000	73,950
MEG Energy Corp., 144A, 7.0%, 3/31/2024	230,000	163,300
Memorial Resource Development Corp., 5.875%, 7/1/2022	65,000	56,875
Murphy Oil U.S.A., Inc., 6.0%, 8/15/2023	85,000	89,250
Newfield Exploration Co., 5.375%, 1/1/2026	40,000	33,100
Noble Holding International Ltd., 4.0%, 3/16/2018	10,000	9,055
Northern Oil & Gas, Inc., 8.0%, 6/1/2020	105,000	69,825
Oasis Petroleum, Inc.:		
6.875%, 3/15/2022	190,000	121,600
6.875%, 1/15/2023	70,000	43,400
Offshore Drilling Holding SA, 144A, 8.375%, 9/20/2020 (b)	300,000	213,750
ONEOK Partners LP, 4.9%, 3/15/2025 (b)	40,000	33,690
Pacific Exploration & Production Corp., 144A, 5.375%, 1/26/2019	200,000	38,000
Parsley Energy LLC, 144A, 7.5%, 2/15/2022	10,000	9,550
Range Resources Corp., 144A, 4.875%, 5/15/2025	60,000	45,600
Regency Energy Partners LP, 5.0%, 10/1/2022	45,000	39,864
Reliance Industries Ltd., 144A, 4.125%, 1/28/2025	250,000	244,799
Rice Energy, Inc., 144A, 7.25%, 5/1/2023	15,000	10,950
RSP Permian, Inc.:		
144A, 6.625%, 10/1/2022	30,000	27,600
6.625%, 10/1/2022	165,000	151,800
Sabine Pass Liquefaction LLC:		
5.625%, 2/1/2021	175,000	161,000
144A, 5.625%, 3/1/2025	90,000	76,162
5.75%, 5/15/2024	200,000	174,000
Seven Generations Energy Ltd., 144A, 6.75%, 5/1/2023	20,000	16,800
Sunoco LP:		
144A, 5.5%, 8/1/2020	40,000	37,900
144A, 6.375%, 4/1/2023	40,000	37,600
Talisman Energy, Inc., 3.75%, 2/1/2021	120,000	108,803
Talos Production LLC, 144A, 9.75%, 2/15/2018	50,000	21,500
Targa Resources Partners LP, 4.125%, 11/15/2019	30,000	24,975
Transocean, Inc., 4.3%, 10/15/2022	370,000	196,100
Transportadora de Gas Internacional SA ESP, 144A, 5.7%, 3/20/2022	200,000	200,500
Whiting Petroleum Corp.:		
5.75%, 3/15/2021 (b)	60,000	43,740
6.25%, 4/1/2023 (b)	270,000	194,400
Williams Partners LP:		
4.0%, 9/15/2025 (b)	40,000	29,950
6.125%, 7/15/2022	15,000	14,190
WPX Energy, Inc., 8.25%, 8/1/2023	75,000	60,000
		4,538,143
Financials 2.9%		
AerCap Ireland Capital Ltd., 3.75%, 5/15/2019	80,000	79,900
Alliance Data Systems Corp., 144A, 5.25%, 12/1/2017	60,000	60,600
Banco Continental SAECA, 144A, 8.875%, 10/15/2017	200,000	203,500
Bank of America Corp., 3.875%, 8/1/2025	600,000	609,077
Barclays Bank PLC, 7.625%, 11/21/2022	250,000	284,687
BBVA Bancomer SA:		
144A, 6.008%, 5/17/2022	500,000	495,625
144A, 6.75%, 9/30/2022	150,000	165,000
CBL & Associates LP, (REIT), 4.6%, 10/15/2024	255,000	240,353
CIT Group, Inc., 5.25%, 3/15/2018	10,000	10,325
CNO Financial Group, Inc.:		
4.5%, 5/30/2020	20,000	20,400
5.25%, 5/30/2025	40,000	40,700
Corp. Financiera de Desarrollo SA, 144A, 4.75%, 2/8/2022	250,000	253,750
E*TRADE Financial Corp., 4.625%, 9/15/2023	55,000	55,894
Equinix, Inc.:		
(REIT), 5.375%, 4/1/2023	175,000	178,500
(REIT), 5.875%, 1/15/2026	25,000	25,750
Everest Reinsurance Holdings, Inc., 4.868%, 6/1/2044	100,000	94,277
Hospitality Properties Trust, (REIT), 5.0%, 8/15/2022	230,000	236,256
HSBC Holdings PLC:		
5.625%, 12/29/2049	255,000	255,319
6.375%, 12/29/2049	30,000	29,625
International Lease Finance Corp.:		
3.875%, 4/15/2018	100,000	100,750
6.25%, 5/15/2019	410,000	439,212
8.75%, 3/15/2017	40,000	42,600
JPMorgan Chase & Co., 3.9%, 7/15/2025 (b)	600,000	618,313
Legg Mason, Inc., 5.625%, 1/15/2044	75,000	74,498

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	Principal Amount ($)(c)	Value ($)
Macquarie Group Ltd., 144A, 6.0%, 1/14/2020	235,000	259,367
Massachusetts Mutual Life Insurance Co., 144A, 4.5%, 4/15/2065	10,000	8,944
MPT Operating Partnership LP, (REIT), 6.375%, 2/15/2022	40,000	40,800
Nationwide Financial Services, Inc., 144A, 5.3%, 11/18/2044	135,000	135,146
Omega Healthcare Investors, Inc., (REIT), 4.95%, 4/1/2024	130,000	131,291
The Goldman Sachs Group, Inc., 3.75%, 5/22/2025 (b)	600,000	604,001
		5,794,460

Health Care 2.4%

	Principal Amount ($)(c)	Value ($)
AbbVie, Inc., 3.6%, 5/14/2025	635,000	626,704
Actavis Funding SCS, 4.75%, 3/15/2045	2,000	1,950
Alere, Inc., 144A, 6.375%, 7/1/2023	60,000	56,100
Community Health Systems, Inc., 6.875%, 2/1/2022 (b)	620,000	588,225
Concordia Healthcare Corp., 144A, 7.0%, 4/15/2023	30,000	26,025
Endo Finance LLC, 144A, 5.875%, 1/15/2023	80,000	78,400
Endo Ltd., 144A, 6.0%, 2/1/2025	55,000	54,175
Fresenius Medical Care U.S. Finance II, Inc.:		
144A, 5.625%, 7/31/2019	10,000	10,775
144A, 6.5%, 9/15/2018	10,000	11,000
HCA, Inc.:		
5.875%, 2/15/2026	65,000	65,244
6.5%, 2/15/2020	880,000	958,760
7.5%, 2/15/2022	725,000	802,937
Hologic, Inc., 144A, 5.25%, 7/15/2022	30,000	30,600
IMS Health, Inc., 144A, 6.0%, 11/1/2020	60,000	61,800
LifePoint Health, Inc., 5.875%, 12/1/2023	45,000	45,675
Mallinckrodt International Finance SA:		
4.75%, 4/15/2023	110,000	97,350
144A, 4.875%, 4/15/2020	45,000	43,313
Tenet Healthcare Corp.:		
144A, 4.012%**, 6/15/2020 (b)	55,000	53,625
6.25%, 11/1/2018	230,000	242,075
6.75%, 6/15/2023 (b)	115,000	106,662
Valeant Pharmaceuticals International, 144A, 6.375%, 10/15/2020	90,000	86,850
Valeant Pharmaceuticals International, Inc.:		
144A, 5.375%, 3/15/2020	105,000	98,700
144A, 5.875%, 5/15/2023	95,000	84,788
144A, 6.125%, 4/15/2025	285,000	254,362
144A, 7.5%, 7/15/2021	450,000	448,875
		4,934,970

Industrials 1.4%

	Principal Amount ($)(c)	Value ($)
ADT Corp.:		
3.5%, 7/15/2022 (b)	50,000	44,750
5.25%, 3/15/2020 (b)	130,000	136,500
6.25%, 10/15/2021 (b)	95,000	99,232
Aerojet Rocketdyne Holdings, Inc., 7.125%, 3/15/2021	120,000	124,800
Artesyn Embedded Technologies, Inc., 144A, 9.75%, 10/15/2020	70,000	62,125
Belden, Inc., 144A, 5.5%, 9/1/2022	85,000	81,812
Bombardier, Inc.:		
144A, 5.75%, 3/15/2022	328,000	228,780
144A, 7.5%, 3/15/2025	30,000	21,000
DigitalGlobe, Inc., 144A, 5.25%, 2/1/2021	35,000	29,400
EnerSys, 144A, 5.0%, 4/30/2023	15,000	14,925
FTI Consulting, Inc., 6.0%, 11/15/2022	50,000	52,375
Gates Global LLC, 144A, 6.0%, 7/15/2022	65,000	46,800
Masonite International Corp., 144A, 5.625%, 3/15/2023	60,000	61,950
Meritor, Inc., 6.75%, 6/15/2021	55,000	50,600
Mersin Uluslararasi Liman Isletmeciligi AS, 144A, 5.875%, 8/12/2020	500,000	511,540
Nortek, Inc., 8.5%, 4/15/2021	155,000	160,828
OPE KAG Finance Sub, Inc., 144A, 7.875%, 7/31/2023	70,000	69,563
Oshkosh Corp., 5.375%, 3/1/2025	10,000	9,800
Ply Gem Industries, Inc., 6.5%, 2/1/2022	60,000	54,000
SBA Communications Corp., 5.625%, 10/1/2019	50,000	52,125
Titan International, Inc., 6.875%, 10/1/2020 (b)	50,000	37,250
United Rentals North America, Inc.:		
4.625%, 7/15/2023	45,000	44,888
6.125%, 6/15/2023 (b)	10,000	10,225
7.375%, 5/15/2020	25,000	26,375
7.625%, 4/15/2022	620,000	662,594
Wise Metals Group LLC, 144A, 8.75%, 12/15/2018	95,000	71,962
XPO Logistics, Inc., 144A, 6.5%, 6/15/2022 (b)	70,000	64,750
		2,830,949

Information Technology 0.8%

	Principal Amount ($)(c)	Value ($)
ACI Worldwide, Inc., 144A, 6.375%, 8/15/2020	30,000	30,900
Activision Blizzard, Inc., 144A, 5.625%, 9/15/2021	330,000	345,675
Audatex North America, Inc., 144A, 6.0%, 6/15/2021	15,000	15,113
BMC Software Finance, Inc., 144A, 8.125%, 7/15/2021	30,000	19,950
Cardtronics, Inc., 5.125%, 8/1/2022	55,000	53,075
CDW LLC, 6.0%, 8/15/2022	130,000	137,150
EarthLink Holdings Corp., 7.375%, 6/1/2020	70,000	71,225
Fidelity National Information Services, Inc., 3.625%, 10/15/2020	33,000	33,430
First Data Corp., 144A, 6.75%, 11/1/2020	237,000	248,554
Hewlett Packard Enterprise Co.:		
144A, 4.9%, 10/15/2025	35,000	34,321
144A, 6.35%, 10/15/2045	20,000	18,987
Infor U.S., Inc., 144A, 6.5%, 5/15/2022 (b)	60,000	50,700
Informatica LLC, 144A, 7.125%, 7/15/2023 (b)	30,000	27,150
KLA-Tencor Corp., 4.65%, 11/1/2024	100,000	100,615

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		Principal Amount ($)(c)	Value ($)
Micron Technology, Inc., 144A, 5.25%, 8/1/2023		90,000	80,775
NXP BV, 144A, 3.75%, 6/1/2018		90,000	90,450
Open Text Corp., 144A, 5.625%, 1/15/2023		75,000	74,250
Riverbed Technology, Inc., 144A, 8.875%, 3/1/2023		40,000	37,000
Seagate HDD Cayman, 144A, 5.75%, 12/1/2034		220,000	153,950
			1,623,270
Materials 2.1%			
Anglo American Capital PLC:			
144A, 4.125%, 4/15/2021		200,000	137,000
144A, 4.125%, 9/27/2022		165,000	107,456
ArcelorMittal, 5.125%, 6/1/2020		20,000	16,600
Ball Corp.:			
4.375%, 12/15/2020		20,000	20,313
5.25%, 7/1/2025		70,000	71,575
Berry Plastics Corp., 5.5%, 5/15/2022		320,000	318,800
Cascades, Inc., 144A, 5.5%, 7/15/2022		50,000	48,500
Cemex SAB de CV, 144A, 6.5%, 12/10/2019		200,000	193,000
Chemours Co.:			
144A, 6.625%, 5/15/2023		50,000	35,000
144A, 7.0%, 5/15/2025		25,000	17,063
Clearwater Paper Corp., 144A, 5.375%, 2/1/2025		70,000	67,725
First Quantum Minerals Ltd.:			
144A, 6.75%, 2/15/2020		61,000	39,345
144A, 7.0%, 2/15/2021		111,000	69,652
Glencore Funding LLC, 144A, 4.125%, 5/30/2023		50,000	36,875
Gold Fields Orogen Holdings BVI Ltd., 144A, 4.875%, 10/7/2020		250,000	186,250
Hexion, Inc., 6.625%, 4/15/2020		380,000	295,450
Kaiser Aluminum Corp., 8.25%, 6/1/2020		40,000	41,800
Novelis, Inc., 8.75%, 12/15/2020		955,000	876,212
Plastipak Holdings, Inc., 144A, 6.5%, 10/1/2021		70,000	67,550
Platform Specialty Products Corp., 144A, 6.5%, 2/1/2022 (b)		80,000	69,200
Reynolds Group Issuer, Inc., 5.75%, 10/15/2020		1,145,000	1,164,683
Tronox Finance LLC:			
6.375%, 8/15/2020 (b)		55,000	33,099
144A, 7.5%, 3/15/2022		70,000	40,600
WR Grace & Co-Conn:			
144A, 5.125%, 10/1/2021		40,000	40,400
144A, 5.625%, 10/1/2024		20,000	20,200
Yamana Gold, Inc., 4.95%, 7/15/2024		250,000	211,996
			4,226,344
Telecommunication Services 4.3%			
America Movil SAB de CV, 7.125%, 12/9/2024	MXN	2,000,000	112,565
AT&T, Inc.:			
2.45%, 6/30/2020		40,000	39,393
3.4%, 5/15/2025		670,000	643,930
Bharti Airtel International Netherlands BV, 144A, 5.35%, 5/20/2024		1,000,000	1,049,786

	Principal Amount ($)(c)	Value ($)
CenturyLink, Inc.:		
Series V, 5.625%, 4/1/2020	25,000	24,719
Series T, 5.8%, 3/15/2022	105,000	96,233
CommScope, Inc., 144A, 4.375%, 6/15/2020	35,000	35,263
CyrusOne LP, 6.375%, 11/15/2022	90,000	92,700
Digicel Group Ltd.:		
144A, 7.125%, 4/1/2022	250,000	187,500
144A, 8.25%, 9/30/2020	200,000	165,000
Frontier Communications Corp.:		
6.25%, 9/15/2021	60,000	50,850
6.875%, 1/15/2025 (b)	240,000	197,700
7.125%, 1/15/2023	390,000	336,375
8.5%, 4/15/2020	290,000	290,725
Hughes Satellite Systems Corp., 7.625%, 6/15/2021	190,000	201,400
Intelsat Jackson Holdings SA:		
5.5%, 8/1/2023	265,000	208,025
7.25%, 10/15/2020	540,000	472,500
Level 3 Financing, Inc.:		
5.375%, 8/15/2022	265,000	268,975
144A, 5.375%, 5/1/2025	55,000	54,725
6.125%, 1/15/2021	100,000	103,500
7.0%, 6/1/2020	185,000	193,325
MTN Mauritius Investments Ltd., 144A, 4.755%, 11/11/2024	300,000	261,000
Plantronics, Inc., 144A, 5.5%, 5/31/2023	30,000	29,850
Sprint Communications, Inc.:		
6.0%, 11/15/2022	85,000	59,925
144A, 7.0%, 3/1/2020	85,000	85,213
Sprint Corp., 7.125%, 6/15/2024	285,000	205,556
T-Mobile U.S.A., Inc.:		
6.375%, 3/1/2025	146,000	147,460
6.625%, 11/15/2020	655,000	680,866
UPCB Finance IV Ltd., 144A, 5.375%, 1/15/2025	285,000	268,612
UPCB Finance V Ltd., 144A, 7.25%, 11/15/2021	252,000	267,750
Verizon Communications, Inc., 3.5%, 11/1/2024 (b)	600,000	592,620
Wind Acquisition Finance SA, 144A, 6.5%, 4/30/2020	50,000	52,313
Windstream Services LLC:		
7.75%, 10/15/2020 (b)	1,075,000	905,687
7.875%, 11/1/2017	130,000	132,991
Zayo Group LLC:		
6.0%, 4/1/2023	80,000	75,600
6.375%, 5/15/2025	70,000	65,100
		8,655,732
Utilities 0.4%		
Calpine Corp.:		
5.375%, 1/15/2023 (b)	85,000	76,287
5.75%, 1/15/2025 (b)	85,000	75,013
Dynegy, Inc.:		
7.375%, 11/1/2022	70,000	60,900
7.625%, 11/1/2024	135,000	115,398
Empresa Electrica Angamos SA, 144A, 4.875%, 5/25/2029	200,000	178,417
NGL Energy Partners LP, 5.125%, 7/15/2019 (b)	65,000	51,350
NRG Energy, Inc., 6.25%, 5/1/2024 (b)	360,000	302,472

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	Principal Amount ($)(c)	Value ($)
Talen Energy Supply LLC, 144A, 4.625%, 7/15/2019	35,000	26,250
		886,087
Total Corporate Bonds (Cost $45,570,355)		**41,793,717**

Asset-Backed 0.5%

Miscellaneous

	Principal Amount ($)(c)	Value ($)
ARES CLO Ltd., "D", Series 2012-3A, 144A, 4.939%**, 1/17/2024	250,000	246,474
Hilton Grand Vacations Trust, "B", Series 2014-AA, 144A, 2.07%, 11/25/2026	335,734	327,647
PennyMac LLC, "A1", Series 2015-NPL1, 144A, 4.0%, 3/25/2055	473,285	470,799
Total Asset-Backed (Cost $1,049,035)		**1,044,920**

Mortgage-Backed Securities Pass-Throughs 3.0%

	Principal Amount ($)(c)	Value ($)
Federal Home Loan Mortgage Corp., 6.0%, 3/1/2038	5,931	6,695
Federal National Mortgage Association:		
4.0%, 8/1/2042 (d)	2,200,000	2,327,978
4.5%, 9/1/2035	16,539	17,862
6.0%, 1/1/2024	21,930	24,754
6.5%, with various maturities from 5/1/2017 until 1/1/2038	3,338	3,441
Government National Mortgage Association, 3.5%, 11/1/2043 (d)	3,500,000	3,648,614
Total Mortgage-Backed Securities Pass-Throughs (Cost $6,010,670)		**6,029,344**

Commercial Mortgage-Backed Securities 0.5%

	Principal Amount ($)(c)	Value ($)
Del Coronado Trust, "M", Series 2013-HDMZ, 144A, 5.331%**, 3/15/2018	120,000	119,784
FHLMC Multifamily Structured Pass-Through Certificates, "X1", Series K043, Interest Only, 0.549%**, 12/25/2024	4,989,855	206,419
GMAC Commercial Mortgage Securities, Inc., "G", Series 2004-C1, 144A, 5.455%, 3/10/2038	502,681	500,243
JPMBB Commercial Mortgage Securities Trust, "A3", Series 2014-C19, 3.669%, 4/15/2047	125,000	128,226
Total Commercial Mortgage-Backed Securities (Cost $967,157)		**954,672**

Collateralized Mortgage Obligations 1.6%

	Principal Amount ($)(c)	Value ($)
Federal Home Loan Mortgage Corp.:		
"HI", Series 3979, Interest Only, 3.0%, 12/15/2026	459,649	42,406
"IK", Series 4048, Interest Only, 3.0%, 5/15/2027	569,782	63,423
"LI", Series 3720, Interest Only, 4.5%, 9/15/2025	899,723	109,905
"PI", Series 3843, Interest Only, 4.5%, 5/15/2038	468,574	43,998
"SP", Series 4047, Interest Only, 6.32%***, 12/15/2037	501,566	71,961
"H", Series 2278, 6.5%, 1/15/2031	133	138
Federal National Mortgage Association:		
"WO", Series 2013-27, Principal Only, Zero Coupon, 12/25/2042	220,000	130,904
"4", Series 406, Interest Only, 4.0%, 9/25/2040	163,771	31,971
"KZ", Series 2010-134, 4.5%, 12/25/2040	386,803	402,502
"I", Series 2003-84, Interest Only, 6.0%, 9/25/2033	179,747	35,052
"PI", Series 2006-20, Interest Only, 6.258%***, 11/25/2030	315,785	45,351
Freddie Mac Structured Agency Credit Risk Debt Notes, "M3", Series 2014-DN4, 4.771%**, 10/25/2024	240,000	238,090
Government National Mortgage Association:		
"QI", Series 2011-112, Interest Only, 4.0%, 5/16/2026	425,623	41,013
"GC", Series 2010-101, 4.0%, 8/20/2040	500,000	538,988
"PI", Series 2015-40, Interest Only, 4.0%, 4/20/2044	548,020	70,493
"NI", Series 2011-80, Interest Only, 4.5%, 5/16/2038	476,322	26,385
"BI", Series 2010-30, Interest Only, 4.5%, 7/20/2039	81,371	10,752
"ND", Series 2010-130, 4.5%, 8/16/2039	600,000	654,447
"PI", Series 2014-108, Interest Only, 4.5%, 12/20/2039	126,479	20,930
"IP", Series 2014-11, Interest Only, 4.5%, 1/20/2043	352,144	53,091
"PZ", Series 2010-106, 4.75%, 8/20/2040	383,484	415,320
"IQ", Series 2011-18, Interest Only, 5.5%, 1/16/2039	181,470	20,493
"IV", Series 2009-69, Interest Only, 5.5%, 8/20/2039	358,532	66,332
"IN", Series 2009-69, Interest Only, 5.5%, 8/20/2039	365,876	65,493
"IJ", Series 2009-75, Interest Only, 6.0%, 8/16/2039	278,944	47,647
"AI", Series 2007-38, Interest Only, 6.116%***, 6/16/2037	63,330	9,698
Total Collateralized Mortgage Obligations (Cost $2,898,259)		**3,256,783**

Government & Agency Obligations 8.2%

Other Government Related (e) 0.1%

	Principal Amount ($)(c)	Value ($)
Perusahaan Penerbit SBSN, 144A, 4.325%, 5/28/2025	200,000	**190,760**

Sovereign Bonds 2.6%

		Principal Amount ($)(c)	Value ($)
Dominican Republic, 144A, 5.5%, 1/27/2025		100,000	96,250
Government of Indonesia, Series FR56, 8.375%, 9/15/2026	IDR	1,340,000,000	94,690
Republic of Angola, 144A, 9.5%, 11/12/2025		450,000	418,500

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		Principal Amount ($)(c)	Value ($)
Republic of El Salvador:			
144A, 6.375%, 1/18/2027		100,000	84,500
144A, 7.65%, 6/15/2035		100,000	85,250
Republic of Hungary, Series 19/A, 6.5%, 6/24/2019	HUF	16,900,000	65,973
Republic of Namibia, 144A, 5.25%, 10/29/2025		250,000	232,500
Republic of Slovenia, 144A, 5.5%, 10/26/2022		200,000	223,237
Republic of South Africa:			
Series R204, 8.0%, 12/21/2018	ZAR	2,200,000	138,869
Series R186, 10.5%, 12/21/2026	ZAR	9,700,000	662,347
Republic of Sri Lanka:			
144A, 5.125%, 4/11/2019		200,000	189,940
144A, 6.85%, 11/3/2025		280,000	263,754
Republic of Uruguay, 5.1%, 6/18/2050		40,000	34,500
United Mexican States:			
4.6%, 1/23/2046		500,000	442,500
Series M 10, 8.5%, 12/13/2018	MXN	35,000,000	2,233,993
			5,266,803

U.S. Government Sponsored Agencies 0.9%

	Principal Amount ($)(c)	Value ($)
Federal National Mortgage Association, 3.0%, 11/15/2027	1,000,000	983,232
Tennessee Valley Authority, 4.25%, 9/15/2065	778,000	760,080
		1,743,312

U.S. Treasury Obligations 4.6%

	Principal Amount ($)(c)	Value ($)
U.S. Treasury Bills:		
0.215%****, 2/11/2016 (f)	972,000	971,865
0.42%****, 6/2/2016 (f)	448,000	447,192
0.42%****, 6/2/2016 (f)	156,000	155,719
0.195%****, 2/11/2016 (f)	355,000	354,951
U.S. Treasury Bonds:		
3.125%, 8/15/2044	142,000	145,123
3.625%, 2/15/2044	176,000	197,986
5.375%, 2/15/2031	571,000	774,307
U.S. Treasury Inflation-Indexed Note, 0.375%, 7/15/2025	1,684,939	1,631,319
U.S. Treasury Notes:		
1.0%, 8/31/2016 (g) (h)	3,749,000	3,756,614
1.0%, 9/30/2016	500,000	500,996
1.25%, 1/31/2020	180,000	177,230
2.0%, 8/15/2025	80,000	78,003
2.5%, 5/15/2024	170,000	173,712
		9,365,017
Total Government & Agency Obligations (Cost $17,268,734)		**16,565,892**

Municipal Bonds and Notes 0.1%

	Principal Amount ($)(c)	Value ($)
Kentucky, Asset/Liability Commission, General Fund Revenue, 3.165%, 4/1/2018 (Cost $231,438)	231,439	**235,433**

Convertible Bond 0.1%

Materials

	Principal Amount ($)(c)	Value ($)
GEO Specialty Chemicals, Inc., 144A, 7.5% PIK, 10/30/2018 (Cost $210,326)	213,294	**250,343**

Preferred Security 0.0%

Materials

	Principal Amount ($)(c)	Value ($)
Hercules, Inc., 6.5%, 6/30/2029 (Cost $21,046)	40,000	**33,800**

	Shares	Value ($)
Securities Lending Collateral 5.3%		
Daily Assets Fund, 0.36% (i) (j) (Cost $10,667,039)	10,667,039	**10,667,039**
Cash Equivalents 6.2%		
Central Cash Management Fund, 0.25% (i) (Cost $12,560,425)	12,560,425	**12,560,425**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $210,913,766)†	107.2	**216,066,046**
Other Assets and Liabilities, Net	(7.2)	**(14,469,166)**
Net Assets	100.0	**201,596,880**

* 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, 2015.

*** These securities are shown at their current rate as of December 31, 2015.

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

† The cost for federal income tax purposes was $211,432,854. At December 31, 2015, net unrealized appreciation for all securities based on tax cost was $4,633,192. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $18,132,590 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $13,499,398.

(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	1,166	.00

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

(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, 2015 amounted to $10,261,634, which is 5.1% 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, 2015, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

(g) At December 31, 2015, this security has been pledged, in whole or in part, as collateral for open over-the-counter derivatives.

(h) At December 31, 2015, 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.

REIT: Real Estate Investment Trust

RSP: Risparmio (Convertible Savings Shares)

SBSN: Surat Berharga Syariah Negara (Islamic Based Government Securities)

Included in the portfolio are investments in mortgage- or asset-backed securities which are interests in separate pools of mortgages or assets. Effective maturities of these investments may be shorter than stated maturities due to prepayments. Some separate investments in the Federal National Mortgage Association issues which have similar coupon rates have been aggregated for presentation purposes in this investment portfolio.

At December 31, 2015, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation/ (Depreciation) ($)
10 Year U.S. Treasury Note	USD	3/21/2016	21	2,644,031	(12,003)
Ultra Long U.S. Treasury Bond	USD	3/21/2016	73	11,584,188	75,592
Total net unrealized appreciation					**63,589**

At December 31, 2015, open futures contracts sold were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation/ (Depreciation) ($)
10 Year U.S. Treasury Note	USD	3/21/2016	93	11,709,281	52,916
Ultra Long U.S. Treasury Bond	USD	3/21/2016	53	8,410,438	(53,107)
Total net unrealized depreciation					**(191)**

At December 31, 2015, 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 — 3-Month LIBOR	5/9/2016 5/11/2026	2,100,000[1]	5/5/2016	23,572	(3)
Receive Fixed — 5.132% – Pay Floating — 3-Month LIBOR	3/17/2016 3/17/2026	2,100,000[1]	3/15/2016	15,173	—
Receive Fixed — 5.132% – Pay Floating — 3-Month LIBOR	3/17/2016 3/17/2026	2,100,000[2]	3/15/2016	24,780	—
Total Call Options				**63,525**	**(3)**

Options on Interest Rate Swap Contracts	Swap Effective/ Expiration Date	Contract Amount	Option Expiration Date	Premiums Received ($)	Value ($) (k)
Put Options					
Pay Fixed — 1.132% – Receive Floating — 3-Month LIBOR	3/17/2016 3/17/2026	2,100,000[1]	3/15/2016	15,172	(61)
Pay Fixed — 1.132% – Receive Floating — 3-Month LIBOR	3/17/2016 3/17/2026	2,100,000[2]	3/15/2016	5,355	(62)
Pay Fixed — 2.0% – Receive Floating — 3-Month LIBOR	8/15/2016 8/15/2046	3,400,000[1]	8/11/2016	65,280	(30,052)
Pay Fixed — 2.22% – Receive Floating — 3-Month LIBOR	7/13/2016 7/13/2046	3,400,000[3]	7/11/2016	63,920	(46,644)
Pay Fixed — 2.48% – Receive Floating — 3-Month LIBOR	5/9/2016 5/11/2026	2,100,000[1]	5/5/2016	23,574	(57,531)
Total Put Options				**173,301**	**(134,350)**
Total				**236,826**	**(134,353)**

(k) Unrealized appreciation on written options on interest rate swap contracts at December 31, 2015 was $102,473.

At December 31, 2015, open credit default swap contracts purchased were as follows:

Bilateral Swaps

Effective/ Expiration Dates	Notional Amount ($)	Fixed Cash Flows Paid	Underlying Reference Obligation	Value ($)	Upfront Payments Paid ($)	Unrealized Depreciation ($)
9/21/2015 12/20/2020	5,880,000[2]	1.0%	Markit CDX Emerging Markets Index	656,763	690,061	**(33,298)**

Centrally Cleared Swaps

Effective/ Expiration Dates	Notional Amount ($)	Fixed Cash Flows Paid	Underlying Reference Obligation	Value ($)	Unrealized Depreciation ($)
3/20/2015 6/20/2020	5,841,000	5.0%	Markit CDX North America High Yield Index	(219,057)	**(22,424)**

At December 31, 2015, open credit default swap contracts sold were as follows:

Bilateral Swaps

Effective/ Expiration Dates	Notional Amount ($) (m)	Fixed Cash Flows Received	Underlying Debt Obligation/ Quality Rating (l)	Value ($)	Upfront Payments Paid ($)	Unrealized Appreciation ($)
3/20/2015 6/20/2020	70,000[4]	5.0%	CCO Holdings LLC, 7.375%, 6/1/2020, BB–	9,995	6,013	**3,982**

(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.

(m) 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.

At December 31, 2015, 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 9/17/2035	400,000	Fixed — 2.938%	Floating — 3-Month LIBOR	(27,437)	(19,454)
12/4/2015 12/4/2045	4,900,000	Fixed — 2.615%	Floating — 3-Month LIBOR	(11,602)	94,728
12/16/2015 9/16/2020	17,900,000	Floating — 3-Month LIBOR	Fixed — 2.214%	448,792	456,656
Total net unrealized appreciation					**531,930**

Counterparties:

1 Nomura International PLC

2 BNP Paribas

3 Citigroup, Inc.

4 Barclays Bank PLC

LIBOR: London Interbank Offered Rate; 3-Month LIBOR rate at December 31, 2015 is 0.61%.

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

As of December 31, 2015, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
BRL	5,760,000	USD	1,476,978	1/5/2016	21,054	Macquarie Bank Ltd.
USD	240,000	BRL	960,000	1/11/2016	2,158	Macquarie Bank Ltd.
BRL	960,000	USD	246,470	1/11/2016	4,312	Macquarie Bank Ltd.
BRL	1,920,000	USD	493,573	1/11/2016	9,257	Nomura International PLC
BRL	1,920,000	USD	494,663	1/11/2016	10,347	BNP Paribas
BRL	1,920,000	USD	501,961	1/11/2016	17,644	Morgan Stanley
EUR	5,316,352	USD	6,103,013	1/19/2016	323,428	JPMorgan Chase Securities, Inc.
USD	1,631,369	NZD	2,491,000	1/19/2016	70,966	Citigroup, Inc.
USD	1,646,260	EUR	1,549,000	1/19/2016	37,710	JPMorgan Chase Securities, Inc.
EUR	7,506,985	USD	8,248,991	1/19/2016	87,896	Morgan Stanley
USD	5,368,714	EUR	4,980,000	1/19/2016	45,211	Barclays Bank PLC
USD	999,767	MXN	17,400,000	1/20/2016	8,734	BNP Paribas
ZAR	17,400,000	USD	1,138,270	1/20/2016	16,158	JPMorgan Chase Securities, Inc.
ZAR	34,800,000	USD	2,336,794	1/20/2016	92,569	BNP Paribas
ZAR	9,720,000	USD	636,537	1/28/2016	10,627	JPMorgan Chase Securities, Inc.
MXN	41,366,000	USD	2,401,879	1/28/2016	5,681	JPMorgan Chase Securities, Inc.
CNY	6,400,000	USD	971,943	2/25/2016	5,107	Australia & New Zealand Banking Group Ltd.
Total unrealized appreciation					**768,859**	

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
USD	1,463,405	BRL	5,760,000	1/5/2016	(7,481)	Macquarie Bank Ltd.
USD	1,236,007	MXN	20,637,860	1/11/2016	(39,066)	JPMorgan Chase Securities, Inc.
MXN	20,637,862	ZAR	17,400,000	1/11/2016	(72,975)	Nomura International PLC
USD	493,891	BRL	1,920,000	1/11/2016	(9,574)	Nomura International PLC
NZD	2,491,000	USD	1,675,885	1/19/2016	(26,450)	BNP Paribas
USD	2,769,955	EUR	2,526,985	1/19/2016	(22,785)	Morgan Stanley
USD	4,126,117	EUR	3,767,352	1/19/2016	(30,503)	Citigroup, Inc.
USD	2,281,706	ZAR	34,800,000	1/20/2016	(37,481)	BNP Paribas
USD	435,906	COP	1,350,000,000	1/20/2016	(11,289)	BNP Paribas
USD	434,643	COP	1,350,000,000	1/20/2016	(10,026)	Morgan Stanley
USD	1,054,545	INR	69,600,000	1/29/2016	(6,596)	Morgan Stanley
USD	996,419	CNY	6,400,000	2/25/2016	(29,583)	Australia & New Zealand Banking Group Ltd.
Total unrealized depreciation					**(303,809)**	

Currency Abbreviations

BRL	Brazilian Real	INR	Indian Rupee
CNY	Chinese Yuan	MXN	Mexican Peso
COP	Colombian Peso	NZD	New Zealand Dollar
EUR	Euro	USD	United States Dollar
HUF	Hungarian Forint	ZAR	South African Rand
IDR	Indonesian Rupiah		

For information on the Fund's policy and additional disclosures regarding futures contracts, credit default swaps, 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.

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, 2015 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 (n)				
Consumer Discretionary	$ 8,530,756	$ 4,719,887	$ 1,166	$ 13,251,809
Consumer Staples	8,323,564	3,030,073	—	11,353,637
Energy	3,330,965	2,457,420	—	5,788,385
Financials	17,122,859	14,931,216	—	32,054,075
Health Care	9,381,987	2,431,182	—	11,813,169
Industrials	5,748,287	6,192,227	—	11,940,514
Information Technology	12,801,819	1,686,815	—	14,488,634
Materials	1,917,878	2,608,347	8,862	4,535,087
Telecommunication Services	2,616,455	4,901,364	—	7,517,819
Utilities	7,007,939	2,534,261	—	9,542,200
Preferred Stocks	—	380,082	—	380,082
Rights (n)	—	—	7,977	7,977
Warrants	—	—	290	290
Fixed Income Investments (n)				
Corporate Bonds	—	41,793,717	—	41,793,717
Asset-Backed	—	1,044,920	—	1,044,920
Mortgage-Backed Securities Pass-Throughs	—	6,029,344	—	6,029,344
Commercial Mortgage-Backed Securities	—	954,672	—	954,672
Collateralized Mortgage Obligations	—	3,256,783	—	3,256,783
Government & Agency Obligations	—	16,565,892	—	16,565,892
Municipal Bonds and Notes	—	235,433	—	235,433
Convertible Bond	—	—	250,343	250,343
Preferred Security	—	33,800	—	33,800
Short-Term Investments (n)	23,227,464	—	—	23,227,464
Derivatives (o)				
Futures Contracts	128,508	—	—	128,508
Credit Default Swap Contracts	—	3,982	—	3,982
Interest Rate Swap Contracts	—	551,384	—	551,384
Forward Foreign Currency Exchange Contracts	—	768,859	—	768,859
Total	**$100,138,481**	**$117,111,660**	**$ 268,638**	**$217,518,779**

Liabilities	Level 1	Level 2	Level 3	Total
Derivatives (o)				
Futures Contracts	$ (65,110)	$ —	$ —	$ (65,110)
Written Options	—	(134,353)	—	(134,353)
Credit Default Swap Contracts	—	(55,722)	—	(55,722)
Interest Rate Swap Contracts	—	(19,454)	—	(19,454)
Forward Foreign Currency Exchange Contracts	—	(303,809)	—	(303,809)
Total	**$ (65,110)**	**$ (513,338)**	**$ —**	**$ (578,448)**

There have been no transfers between fair value measurement levels during the year ended December 31, 2015.

(n) See Investment Portfolio for additional detailed categorizations.

(o) 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, 2015

Assets	
Investments:	
Investments in non-affiliated securities, at value (cost $187,686,302) — including $10,261,634 of securities loaned	$ 192,838,582
Investment in Daily Assets Fund (cost $10,667,039)*	10,667,039
Investments in Central Cash Management Fund (cost $12,560,425)	12,560,425
Total investments in securities, at value (cost $210,913,766)	216,066,046
Cash	33,263
Foreign currency, at value (cost $463,541)	458,609
Receivable for Fund shares sold	27,223
Dividends receivable	192,705
Interest receivable	812,872
Receivable for variation margin on futures contracts	2,759
Unrealized appreciation on bilateral swap contracts	3,982
Unrealized appreciation on forward foreign currency exchange contracts	768,859
Upfront payments paid on bilateral swap contracts	696,074
Foreign taxes recoverable	54,282
Other assets	4,957
Total assets	219,121,631
Liabilities	
Payable upon return of securities loaned	10,667,039
Payable for Fund shares redeemed	87,491
Payable for investments purchased — when-issued securities	5,989,630
Payable for variation margin on centrally cleared swaps	7,272
Options written, at value (premium received $236,826)	134,353
Unrealized depreciation on bilateral swap contracts	33,298
Unrealized depreciation on forward foreign currency exchange contracts	303,809
Accrued management fee	64,315
Accrued Trustees' fees	3,815
Other accrued expenses and payables	233,729
Total liabilities	17,524,751
Net assets, at value	**$ 201,596,880**
Net Assets Consist of	
Undistributed net investment income	7,214,311
Net unrealized appreciation (depreciation) on:	
Investments	5,152,280
Swap contracts	480,190
Futures	63,398
Foreign currency	455,028
Written options	102,473
Accumulated net realized gain (loss)	(6,429,412)
Paid-in capital	194,558,612
Net assets, at value	**$ 201,596,880**
Class A	
Net Asset Value, offering and redemption price per share $201,596,880 ÷ 8,792,358 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 22.93**

* 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, 2015

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $187,859)	$	3,591,327
Interest (net of foreign taxes withheld of $812)		3,993,591
Income distributions from affiliated Funds		360,649
Securities lending income, including income from Daily Assets Fund, net of borrower rebates		65,740
Total income		8,011,307
Expenses:		
Management fee		862,360
Administration fee		233,070
Services to shareholders		1,672
Custodian fee		84,227
Professional fees		98,498
Reports to shareholders		42,163
Trustees' fees and expenses		9,416
Other		77,426
Total expenses before expense reductions		1,408,832
Expense reductions		(47,724)
Total expenses after expense reductions		1,361,108
Net investment income		**6,650,199**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		(3,979,615)
Sale of affiliated Fund		(266,711)
Swap contracts		(1,803,459)
Futures		(760,742)
Written options		38,095
Foreign currency		1,443,102
		(5,329,330)
Change in net unrealized appreciation (depreciation) on:		
Investments		(6,013,289)
Swap contracts		488,597
Futures		109,317
Written options		890,799
Foreign currency		431,806
		(4,092,770)
Net gain (loss)		**(9,422,100)**
Net increase (decrease) in net assets resulting from operations	**$**	**(2,771,901)**

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, 2015	2014
Operations:		
Net investment income	$ 6,650,199	$ 7,379,735
Net realized gain (loss)	(5,329,330)	7,258,440
Change in net unrealized appreciation (depreciation)	(4,092,770)	(4,653,232)
Net increase (decrease) in net assets resulting from operations	(2,771,901)	9,984,943
Distributions to shareholders from:		
Net investment income: Class A	(7,355,308)	(8,047,271)
Net realized gains: Class A	(6,214,133)	(26,528,998)
Total distributions	(13,569,441)	(34,576,269)
Fund share transactions:		
Class A		
Proceeds from shares sold	5,276,855	5,731,970
Shares issued to shareholders in reinvestment of distributions	13,569,441	34,576,269
Payments for shares redeemed	(48,078,303)	(37,629,458)
Net increase (decrease) in net assets from Class A share transactions	(29,232,007)	2,678,781
Increase (decrease) in net assets	(45,573,349)	(21,912,545)
Net assets at beginning of period	247,170,229	269,082,774
Net assets at end of period (including undistributed net investment income of $7,214,311 and $7,197,938, respectively)	**$ 201,596,880**	**$ 247,170,229**

Other Information		
Class A		
Shares outstanding at beginning of period	10,040,081	9,857,478
Shares sold	219,508	223,936
Shares issued to shareholders in reinvestment of distributions	562,580	1,433,510
Shares redeemed	(2,029,811)	(1,474,843)
Net increase (decrease) in Class A shares	(1,247,723)	182,603
Shares outstanding at end of period	8,792,358	10,040,081

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

Financial Highlights

Class A	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data					
Net asset value, beginning of period	**$24.62**	**$27.30**	**$23.90**	**$21.49**	**$22.13**
Income (loss) from investment operations:					
Net investment income[a]	.68	.72	.78	.57	.46
Net realized and unrealized gain (loss)	(.97)	.25	3.14	2.20	(.75)
Total from investment operations	(.29)	.97	3.92	2.77	(.29)
Less distributions from:					
Net investment income	(.76)	(.85)	(.52)	(.36)	(.35)
Net realized gains	(.64)	(2.80)	—	—	—
Total distributions	(1.40)	(3.65)	(.52)	(.36)	(.35)
Net asset value, end of period	**$22.93**	**$24.62**	**$27.30**	**$23.90**	**$21.49**
Total Return (%)	(1.44)[b]	3.83	16.63	12.98	(1.42)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	202	247	269	260	264
Ratio of expenses before expense reductions (%)	.60	.62	.60	.59	.58
Ratio of expenses after expense reductions (%)	.58	.62	.60	.59	.58
Ratio of net investment income (loss) (%)	2.85	2.83	3.07	2.48	2.09
Portfolio turnover rate (%)	92	88	182	188	109

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 Income Builder VIP (the "Fund") is a diversified series of Deutsche 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.

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. The 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. During the year ended December 31, 2015, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of December 31, 2015) on the cash collateral invested in Daily Assets Fund. 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, 2015, 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, a portion of which may be recoverable based upon the current interpretation of the tax rules and regulations. Estimated tax liabilities and recoveries 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, 2015, the Fund had $5,928,000 of tax basis capital loss carryforwards, which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($4,404,000) and long-term losses ($1,524,000).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2015 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, 2015, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 7,761,156
Capital loss carryforwards	$ (5,928,000)
Unrealized appreciation (depreciation) on investments	$ 4,633,192

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

	Years Ended December 31, 2015	2014
Distributions from ordinary income*	$ 11,705,848	$ 12,402,934
Distributions from long-term capital gains	$ 1,863,593	$ 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, 2015, 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, 2015 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2015, the investment in interest rate swap contracts had a total notional amount generally indicative of a range from approximately $23,200,000 to $39,937,000.

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, 2015, the Fund entered into credit default swap agreements to gain exposure to the underlying issuer's credit quality characteristics or to hedge the risk of default or other specified credit events on portfolio assets.

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, 2015 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2015, the investment in credit default swap contracts purchased had a total notional value generally indicative of a range from $0 to approximately $11,721,000 and the investment on the credit default swap contracts sold had a total notional value of generally indicative of a range from $0 to approximately $205,000.

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, 2015, 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, 2015 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2015, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $4,501,000 to $14,392,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from approximately $20,120,000 to $52,895,000.

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, 2015, 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, 2015, the investment in written option contracts had a total value generally indicative of a range from approximately $134,000 to $1,758,000.

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, 2015, 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, 2015 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2015, the investment in forward currency contracts short vs. U.S. dollars had a total contract value generally indicative of a range from approximately $20,741,000 to $46,081,000, and the investment in forward currency contracts long vs. U.S. dollars had a total contract value generally indicative of a range from approximately $14,253,000 to $35,894,000. The investment in forward currency contracts long vs. other foreign currencies sold had a total contract value generally indicative of a range from approximately $1,251,000 to $21,540,000.

The following tables summarize the value of the Fund's derivative instruments held as of December 31, 2015 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)	$ —	$ 551,384	$ 128,508	$ 679,892
Credit Contracts (b)	—	3,982	—	3,982
Foreign Exchange Contracts (c)	768,859	—	—	768,859
	$ 768,859	**$ 555,366**	**$ 128,508**	**$ 1,452,733**

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 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)	$ (134,353)	$ —	$ (19,454)	$ (65,110)	$ (218,917)
Credit Contracts (c)	—	—	(55,722)	—	(55,722)
Foreign Exchange Contracts (d)	—	(303,809)	—	—	(303,809)
	$ (134,353)	**$ (303,809)**	**$ (75,176)**	**$ (65,110)**	**$ (578,448)**

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 bilateral swap contracts and centrally cleared swap contracts

(d) 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, 2015 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)	$ 38,095	$ —	$ (1,722,148)	$ (760,742)	$ (2,444,795)
Credit Contracts (a)	—	—	(81,311)	—	(81,311)
Foreign Exchange Contracts (b)	—	1,454,584	—	—	1,454,584
	$ 38,095	**$ 1,454,584**	**$ (1,803,459)**	**$ (760,742)**	**$ (1,071,522)**

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)	$ 890,799	$ —	$ 540,337	$ 109,317	$ 1,540,453
Credit Contracts (a)	—	—	(51,740)	—	(51,740)
Foreign Exchange Contracts (b)	—	426,125	—	—	426,125
	$ 890,799	**$ 426,125**	**$ 488,597**	**$ 109,317**	**$ 1,914,838**

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, 2015, 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.	$ 5,107	$ (5,107)	$ —	$ —	$ —
Barclays Bank PLC	49,193	—	—	—	49,193
BNP Paribas	111,650	(108,580)	—	—	3,070
Citigroup, Inc.	70,966	(70,966)	—	—	—
JPMorgan Chase Securities, Inc.	393,604	(39,066)	—	—	354,538
Macquarie Bank Ltd.	27,524	(7,481)	—	—	20,043
Morgan Stanley	105,540	(39,407)	—	—	66,133
Nomura International PLC	9,257	(9,257)	—	—	—
	$ 772,841	**$ (279,864)**	**$ —**	**$ —**	**$ 492,977**

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.	$ 29,583	$ (5,107)	$ —	$ —	$ 24,476
BNP Paribas	108,580	(108,580)	—	—	—
Citigroup, Inc.	77,147	(70,966)	—	(6,181)	—
JPMorgan Chase Securities, Inc.	39,066	(39,066)	—	—	—
Macquarie Bank Ltd.	7,481	(7,481)	—	—	—
Morgan Stanley	39,407	(39,407)	—	—	—
Nomura International PLC	170,196	(9,257)	—	(46,093)	114,846
	$ 471,460	**$ (279,864)**	**$ —**	**$ (52,274)**	**$ 139,322**

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

C. Purchases and Sales of Securities

During the year ended December 31, 2015, purchases and sales of investment transactions (excluding short-term investments and U.S. Treasury obligations) aggregated $199,229,186 and $217,750,556, respectively. Purchases and sales of U.S. Treasury obligations aggregated $6,548,057 and $7,736,653, respectively.

For the year ended December 31, 2015, transactions for written options on interest rate swap contracts were as follows:

	Contract Amount	**Premium**
Outstanding, beginning of period	37,000,000	$ 517,417
Options written	6,800,000	129,200
Options closed	(4,900,000)	(106,330)
Options exercised	(8,900,000)	(143,657)
Options expired	(10,600,000)	(159,804)
Outstanding, end of period	**19,400,000**	**$ 236,826**

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, 2015, 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.

The Fund did not impose a portion of its management fee by an amount equal to the amount of management fee borne by the Fund as a shareholder of the Deutsche Floating Rate Fund. For the year ended December 31, 2015, the Advisor waived $47,724 of its management fee.

For the period from January 1, 2015 through September 30, 2016, 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, 2015, the Administration Fee was $233,070, of which $17,382 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, 2015, the amounts charged to the Fund by DSC aggregated $399, 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, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $18,027, of which $7,788 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 1940 Act, 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, 2015, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $5,753.

E. Ownership of the Fund

At December 31, 2015, two participating insurance companies were owners of record of 10% or more of the total outstanding shares of the Fund, each owning 58% and 21%.

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 the one-month 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, 2015.

G. Transactions with Affiliates

The Deutsche Funds in which the Fund invests are considered to be affiliated investments. A summary of the Fund's transactions with affiliated Deutsche Funds during the year ended December 31, 2015 is as follows:

Affiliate	Value ($) at 12/31/2014	Purchases Cost ($)	Sales Cost ($)	Realized Gain/ (Loss) ($)	Income Distributions ($)	Value ($) at 12/31/2015
Deutsche Floating Rate Fund	—	14,914,998	14,648,287	(266,711)	351,667	—
Central Cash Management Fund	26,756,478	153,176,351	167,372,404	—	8,982	12,560,425
Total	**26,756,478**	**168,091,349**	**182,020,691**	**(266,711)**	**360,649**	**12,560,425**

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 (one of the funds constituting Deutsche Variable Series II) (the "Fund"), as of December 31, 2015, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the 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, 2015, 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 (one of the funds constituting Deutsche Variable Series II) at December 31, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Boston, Massachusetts
February 12, 2016

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, 2015 to December 31, 2015).

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, 2015

Actual Fund Return	**Class A**
Beginning Account Value 7/1/15	$1,000.00
Ending Account Value 12/31/15	$ 960.60
Expenses Paid per $1,000*	$ 2.87
Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 7/1/15	$1,000.00
Ending Account Value 12/31/15	$1,022.28
Expenses Paid per $1,000*	$ 2.96

* 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	.58%

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 $0.19 per share from net long-term capital gains during its year ended December 31, 2015.

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, 2015 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 2015.

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

— In September 2015, 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 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 from 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's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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.

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 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 additional reporting from DIMA regarding such funds and, where appropriate, 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, 2014, the Fund's performance (Class A shares) was in the 3rd 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 three- and five-year periods and has underperformed its benchmark in the one-year period ended December 31, 2014.

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, 2014). 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, 2014, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board noted that the expense limitation agreed to by DIMA was expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to a comparable Deutsche U.S. registered fund ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Fund. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM 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 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 also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's investment 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. 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 considered these benefits in reaching its conclusion that the Fund's management fees were reasonable.

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 the individual serving as 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	Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); 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)	106	—
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	106	—
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	106	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); 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; North Bennett Street School (Boston)	106	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)	106	—
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)	106	—
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	106	—

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
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)	106	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)	106	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)	106	—
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)	106	—

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 Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012)
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (since 2015); and Director and Vice President, DeAWM Trust Company (since 2016)
Melinda Morrow[6] (1970) Vice President, 2012–present	Director,[3] Deutsche Asset Management
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset Management; and Chairman, Director and President, DeAWM Trust Company (since 2013); formerly, Director, DeAWM Trust Company (2009–2013)
Caroline Pearson[7] (1962) Chief Legal Officer, 2010–present	Managing Director,[3] Deutsche Asset Management; Secretary, DeAWM Distributors, Inc; and Secretary, DeAWM Service Company
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director,[3] Deutsche Asset Management
Wayne Salit[6] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Hepsen Uzcan[6] (1974) Assistant Secretary, 2013–present	Director,[3] Deutsche Asset Management
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

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

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 Management

VS2GIB-2 (R-025825-5 2/16)

Deutsche
Asset Management

December 31, 2015

Annual Report

Deutsche Variable Series I

Deutsche Global Small Cap VIP

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

Stocks may decline in value. Smaller company stocks tend to be more volatile than medium-sized or large company stocks. Investing in foreign securities, particularly those of emerging markets, presents certain risks, such as currency fluctuations, political and economic changes, and market risks. Emerging markets tend to be more volatile than the markets of more mature economies, and generally have less diverse and less mature economic structures and less stable political systems than those of developed countries. The Fund may lend securities to approved institutions. See the prospectus for details.

Deutsche Asset Management represents the asset management activities conducted by Deutsche Bank AG or any of its subsidiaries.

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

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

Performance Summary

December 31, 2015 (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, 2015 are 1.13% and 1.41% 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	$10,116	$13,184	$13,705	$17,177
	Average annual total return	1.16%	9.65%	6.51%	5.56%
S&P Developed Small Cap Index	Growth of $10,000	$10,065	$13,641	$14,723	$18,652
	Average annual total return	0.65%	10.90%	8.04%	6.43%

Deutsche Global Small Cap VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,086	$13,092	$13,538	$16,715
	Average annual total return	0.86%	9.40%	6.25%	5.27%
S&P Developed Small Cap Index	Growth of $10,000	$10,065	$13,641	$14,723	$18,652
	Average annual total return	0.65%	10.90%	8.04%	6.43%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2015 (Unaudited)

Deutsche Global Small Cap VIP returned 1.16% in 2015 (Class A shares, unadjusted for contract charges), outpacing the 0.65% return of the S&P® Developed SmallCap Index.[1]

The past year was characterized by an environment of positive, but slow, global economic growth. While the U.S. economy remained healthy and Europe showed signs of emerging from its recession, these factors were offset by worries about the potential for a slowdown in China. Tepid global growth prompted investors to seek companies capable of delivering strong, organic earnings gains independent of economic trends, which contributed to outperformance for small-cap stocks relative to large caps. Small caps in Europe and Japan performed particularly well, even when the impact of negative currency translation was taken into account. Domestic small companies lagged somewhat despite the backdrop of improving economic growth and U.S. dollar strength, which may reflect the higher valuations in the U.S. market vs. the rest of the world.

While our primary emphasis is on individual stock selection, country and sector allocations can also have an impact on the Fund's results. During the past year, for instance, the Fund was helped by having an overweight position in Europe and a corresponding underweight in North America.[2] At the sector level, the Fund benefited from its underweight positions in the poor-performing energy and material segments, both of which were hit hard by the sharp downturn in commodity prices. Overweight positions in the health care and consumer staples sectors also aided performance.[3] On the negative side, the Fund lost some ground through its underweight position in the financial sector. The Fund has held this underweight since the financial crisis of 2008, and it had a positive impact on performance in subsequent years before detracting during the past 12 months. An overweight in the industrials sector also cost the Fund some performance.

Our individual stock selection made a robust contribution to the Fund's 12-month results.[4] The Fund delivered the largest margin of outperformance in the consumer discretionary, energy and health care sectors. The leading individual contributors for the year were Kusuri No Aoki Co., Ltd., a Japanese drugstore operator that grew by expanding its product offerings and adding new locations, and PATRIZIA Immobilien AG, which benefited from a well-received transition of its business to real-estate property management. Thoratec Corp.,* which was taken over at a premium, also contributed positively to Fund performance.

We continue to find compelling opportunities in the small-cap space. While small companies remain expensive based on their own history, they have fallen to levels that we believe are attractive relative to large caps. As a result, we are finding a wider range of opportunities to purchase fast-growing, high-quality companies at reasonable valuations. Europe and Asia, in particular, feature a wealth of stocks whose values we believe fail to reflect their underlying growth potential. We believe this creates a favorable opportunity set for the Fund given our emphasis on fast-growing, undervalued world-class businesses.

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 "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 Contribution incorporates both a stock's total return and its weighting in the Fund.

* Not held in the portfolio as of December 31, 2015.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/15**	**12/31/14**
Common Stocks	98%	95%
Cash Equivalents	2%	5%
Convertible Preferred Stock	0%	—
Right	—	0%
Warrant	0%	0%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/15**	**12/31/14**
United States	42%	47%
United Kingdom	13%	13%
Japan	10%	8%
Germany	7%	5%
Ireland	5%	4%
France	4%	2%
Netherlands	3%	3%
Hong Kong	2%	4%
Canada	2%	3%
Malaysia	2%	—
Other	10%	11%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/15**	**12/31/14**
Consumer Discretionary	26%	25%
Industrials	22%	24%
Information Technology	15%	10%
Health Care	13%	14%
Financials	13%	15%
Consumer Staples	7%	8%
Energy	3%	3%
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 96.2%		
Australia 1.3%		
Austal Ltd.	454,499	518,651
G8 Education Ltd. (a)	338,760	880,476
(Cost $1,511,030)		**1,399,127**
Bermuda 1.0%		
Lazard Ltd. "A" (b) (Cost $588,361)	24,236	**1,090,862**
Canada 2.0%		
Quebecor, Inc. "B"	52,640	1,288,895
SunOpta, Inc.*	127,599	872,777
(Cost $2,038,753)		**2,161,672**
China 0.6%		
Minth Group Ltd. (Cost $97,573)	297,036	**590,936**
Finland 1.1%		
Cramo Oyj (Cost $1,232,113)	57,429	**1,185,427**
France 3.6%		
Altran Technologies SA	41,000	550,223
Flamel Technologies SA (ADR)*	135,526	1,654,772
JC Decaux SA	26,499	1,017,112
Parrot SA*	22,680	666,225
(Cost $3,239,392)		**3,888,332**
Germany 6.6%		
M.A.X. Automation AG	122,583	746,681
PATRIZIA Immobilien AG*	53,855	1,577,915
Rational AG	2,744	1,252,364
United Internet AG (Registered)	47,466	2,610,326
VIB Vermoegen AG	47,734	886,902
(Cost $2,274,016)		**7,074,188**
Hong Kong 2.3%		
K Wah International Holdings Ltd.	957,757	411,407
REXLot Holdings Ltd.	12,174,509	509,460
Techtronic Industries Co., Ltd.	390,369	1,592,538
(Cost $1,159,468)		**2,513,405**
India 0.9%		
WNS Holdings Ltd. (ADR)* (Cost $850,197)	29,288	**913,493**
Indonesia 0.4%		
PT Arwana Citramulia Tbk (Cost $757,229)	11,282,309	**406,896**
Ireland 4.8%		
Greencore Group PLC	273,692	1,428,244
Paddy Power PLC (c)	28	3,752
Paddy Power PLC (c)	11,896	1,591,434
Ryanair Holdings PLC	130,408	2,127,230
(Cost $1,709,161)		**5,150,660**
Italy 1.1%		
Prysmian SpA (Cost $995,445)	52,526	**1,155,211**
Japan 9.5%		
Ai Holdings Corp.	55,217	1,399,364
Avex Group Holdings, Inc.	41,734	496,409
Kusuri No Aoki Co., Ltd.	32,858	1,605,110
MISUMI Group, Inc.	71,874	993,773
Nippon Seiki Co., Ltd.	84,964	1,954,245
Syuppin Co., Ltd. (a)	27,500	285,994
Topcon Corp. (a)	63,700	1,077,185
United Arrows Ltd.	23,857	1,027,206
Universal Entertainment Corp.	41,314	753,195
UT Group Co., Ltd.*	115,924	566,142
(Cost $6,297,739)		**10,158,623**
Korea 0.4%		
Suprema HQ, Inc.* (Cost $575,431)	28,635	**398,064**
Malaysia 1.8%		
Hartalega Holdings Bhd.	332,946	461,117
Nirvana Asia Ltd. 144A	3,103,512	945,063
Tune Protect Group Bhd.	1,742,814	522,995
(Cost $2,110,568)		**1,929,175**
Netherlands 2.6%		
Brunel International NV	44,489	812,694
Core Laboratories NV (a) (d)	9,925	1,079,244
SBM Offshore NV*	73,726	933,685
(Cost $2,607,948)		**2,825,623**
Panama 0.8%		
Banco Latinoamericano de Comercio Exterior SA "E" (Cost $756,863)	31,717	**822,422**
Philippines 0.6%		
Alliance Global Group, Inc. (Cost $452,645)	1,798,250	**616,030**
Singapore 0.4%		
Lian Beng Group Ltd. (Cost $325,048)	1,065,455	**378,986**
Sweden 0.9%		
Nobina AB 144A* (Cost $910,627)	217,514	**997,197**
Switzerland 0.8%		
Dufry AG (Registered)* (Cost $860,924)	7,444	**891,471**
United Kingdom 12.6%		
Arrow Global Group PLC	300,923	1,170,050
AVEVA Group PLC	12,082	288,103
Babcock International Group PLC	138,584	2,077,985
Clinigen Healthcare Ltd.	108,185	1,133,948
Crest Nicholson Holdings PLC	157,264	1,290,232
Domino's Pizza Group PLC	79,589	1,234,221
Hargreaves Lansdown PLC	55,211	1,226,525
Howden Joinery Group PLC	183,640	1,425,081
Jardine Lloyd Thompson Group PLC	45,569	621,681
Nanoco Group PLC* (a)	230,225	196,910
Polypipe Group PLC	250,702	1,289,851
Rotork PLC	94,260	254,036
Spirax-Sarco Engineering PLC	17,079	827,689
Telit Communications PLC* (a)	136,000	427,287
(Cost $9,234,977)		**13,463,599**
United States 40.1%		
Advance Auto Parts, Inc.	6,131	922,777
Affiliated Managers Group, Inc.*	3,173	506,918
AZZ, Inc.	17,230	957,471

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

	Shares	Value ($)
Berry Plastics Group, Inc.*	26,724	966,874
Cardtronics, Inc.* (a)	30,591	1,029,387
Casey's General Stores, Inc.	14,048	1,692,082
Cognex Corp.	18,327	618,903
Del Taco Restaurants, Inc.* (a)	73,400	781,710
Diamondback Energy, Inc.* (a)	7,946	531,587
DigitalGlobe, Inc.*	33,142	519,004
Encore Capital Group, Inc.* (a)	16,302	474,062
FCB Financial Holdings, Inc. "A"*	17,169	614,479
Fox Factory Holding Corp.*	66,182	1,093,988
Gentherm, Inc.*	28,447	1,348,388
Hain Celestial Group, Inc.* (a)	14,185	572,932
Jack in the Box, Inc. (a)	14,260	1,093,885
Jarden Corp.*	14,140	807,677
Kindred Healthcare, Inc. (a)	46,086	548,884
Knowles Corp.* (a)	58,157	775,233
Leucadia National Corp. (a)	40,870	710,729
Ligand Pharmaceuticals, Inc.* (a)	7,534	816,836
Matador Resources Co.* (a)	29,637	585,924
MAXIMUS, Inc. (a)	21,084	1,185,975
Middleby Corp.*	14,408	1,554,191
Molina Healthcare, Inc.* (a)	17,578	1,056,965
NantKwest, Inc.* (a)	17,400	301,542
Neurocrine Biosciences, Inc.*	7,157	404,871
On Assignment, Inc.*	14,000	629,300
Orexigen Therapeutics, Inc.* (a)	102,500	176,300
Pacira Pharmaceuticals, Inc.* (a)	20,497	1,573,965
PAREXEL International Corp.*	16,919	1,152,522
Primoris Services Corp. (a)	65,968	1,453,275
Providence Service Corp.*	38,100	1,787,652
Retrophin, Inc.*	44,483	858,077
Roadrunner Transportation Systems, Inc.*	31,427	296,357
Sinclair Broadcast Group, Inc. "A" (a)	33,682	1,096,012
South State Corp.	7,208	518,616
Super Micro Computer, Inc.* (a)	21,296	521,965
Tenneco, Inc.*	19,466	893,684
The WhiteWave Foods Co.*	31,168	1,212,747
TiVo, Inc.*	87,052	751,259
TriNet Group, Inc.*	28,350	548,573
TriState Capital Holdings, Inc.*	57,506	804,509
Urban Outfitters, Inc.*	24,151	549,435
VeriFone Systems, Inc.*	29,875	837,098
WABCO Holdings, Inc.*	13,332	1,363,330
WEX, Inc.*	6,876	607,838
Zeltiq Aesthetics, Inc.* (a)	42,751	1,219,686
Zions Bancorp. (a)	33,141	904,749
Zoe's Kitchen, Inc.* (a)	19,836	555,011
(Cost $34,904,508)		**42,785,234**
Total Common Stocks (Cost $75,490,016)		**102,796,633**

Convertible Preferred Stock 0.2%

United States

Providence Service Corp. (Cost $196,900)	1,969	**231,659**

Warrant 0.0%

France

Parrot SA, Expiration Date 12/22/2022* (Cost $0)	26,460	**25,056**

Securities Lending Collateral 17.9%

Daily Assets Fund, 0.36% (e) (f) (Cost $19,125,623)	19,125,623	**19,125,623**

Cash Equivalents 2.4%

Central Cash Management Fund, 0.25% (e) (Cost $2,517,382)	2,517,382	**2,517,382**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $97,329,921)†	116.7	**124,696,353**
Other Assets and Liabilities, Net	(16.7)	**(17,884,362)**
Net Assets	100.0	**106,811,991**

* Non-income producing security.

† The cost for federal income tax purposes was $99,101,785. At December 31, 2015, net unrealized appreciation for all securities based on tax cost was $25,594,568. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $32,323,323 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $6,728,755.

(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, 2015 amounted to $18,546,151, which is 17.4% of net assets.

(b) Listed on the NASDAQ Exchange.

(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.

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

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, 2015 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	$ —	$ 1,399,127	$ —	$ 1,399,127
Bermuda	1,090,862	—	—	1,090,862
Canada	2,161,672	—	—	2,161,672
China	—	590,936	—	590,936
Finland	—	1,185,427	—	1,185,427
France	1,654,772	2,233,560	—	3,888,332
Germany	—	7,074,188	—	7,074,188
Hong Kong	—	2,003,945	509,460	2,513,405
India	913,493	—	—	913,493
Indonesia	—	406,896	—	406,896
Ireland	—	5,150,660	—	5,150,660
Italy	—	1,155,211	—	1,155,211
Japan	—	10,158,623	—	10,158,623
Korea	—	—	398,064	398,064
Malaysia	—	1,929,175	—	1,929,175
Netherlands	1,079,244	1,746,379	—	2,825,623
Panama	822,422	—	—	822,422
Philippines	—	616,030	—	616,030
Singapore	—	378,986	—	378,986
Sweden	—	997,197	—	997,197
Switzerland	—	891,471	—	891,471
United Kingdom	—	13,463,599	—	13,463,599
United States	42,785,234	—	—	42,785,234
Convertible Preferred Stock	—	—	231,659	231,659
Warrant	—	—	25,056	25,056
Short-Term Investments (g)	21,643,005	—	—	21,643,005
Total	**$ 72,150,704**	**$ 51,381,410**	**$ 1,164,239**	**$124,696,353**

(g) See Investment Portfolio for additional detailed categorizations.

Level 3 Reconciliation

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

	Common Stocks	**Convertible Preferred Stocks**	**Rights**	**Warrants**	**Total**
Balance as of December 31, 2014	$ —	$ —	$ 104,334	$ —	$ 104,334
Realized gains (loss)	104,754	—	2,456	—	107,210
Change in unrealized appreciation (depreciation)	(760,435)	34,759	—	25,056	(700,620)
Purchases	613,152	196,900	—	0	810,052
(Sales)	(247,837)	—	(106,790)	—	(354,627)
Transfers into Level 3 (h)	1,197,890	—	—	—	1,197,890
Transfers (out) of Level 3	—	—	—	—	—
Balance as of December 31, 2015	**$ 907,524**	**$ 231,659**	**$ —**	**$ 25,056**	**$ 1,164,239**
Net change in unrealized appreciation (depreciation) from investments still held as of December 31, 2015	**$ (760,435)**	**$ 34,759**	**$ —**	**$ 25,056**	**$ (700,620)**

(h) During the period ended December 31, 2015, the amount of transfers between Level 2 and Level 3 was $1,197,890. The security was halted on the exchange and is valued in accordance with procedures approved by the Board. A significant difference between the value and the price of the security once it resumes trading on the securities exchange could have a material change in the fair value measurement.

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

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

Statement of Assets and Liabilities

as of December 31, 2015

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $75,686,916) — including $18,546,151 of securities loaned	$	103,053,348
Investment in Daily Assets Fund (cost $19,125,623)*		19,125,623
Investment in Central Cash Management Fund (cost $2,517,382)		2,517,382
Total investments in securities, at value (cost $97,329,921)		124,696,353
Foreign currency, at value (cost $1,446,572)		1,440,336
Receivable for Fund shares sold		3,654
Dividends receivable		55,647
Interest receivable		14,370
Foreign taxes recoverable		96,758
Other assets		2,687
Total assets		126,309,805
Liabilities		
Payable upon return of securities loaned		19,125,623
Payable for investments purchased		18,363
Payable for Fund shares redeemed		173,848
Accrued management fee		74,195
Accrued Trustees' fees		1,756
Other accrued expenses and payables		104,029
Total liabilities		19,497,814
Net assets, at value	**$**	**106,811,991**
Net Assets Consist of		
Distributions in excess of net investment income		(906,116)
Net unrealized appreciation (depreciation) on:		
Investments		27,366,432
Foreign currency		(16,116)
Accumulated net realized gain (loss)		10,585,414
Paid-in capital		69,782,377
Net assets, at value	**$**	**106,811,991**
Class A		
Net Asset Value, offering and redemption price per share ($104,138,995 ÷ 7,905,300 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**13.17**
Class B		
Net Asset Value, offering and redemption price per share ($2,672,996 ÷ 207,982 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**12.85**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2015

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $56,036)	$	1,791,824
Income distributions — Central Cash Management Fund		3,417
Securities lending income, including income from Daily Assets Fund, net of borrower rebates		68,493
Total income		1,863,734
Expenses:		
Management fee		1,184,371
Administration fee		133,075
Services to shareholders		2,521
Distribution service fee (Class B)		7,090
Record keeping fee (Class B)		920
Custodian fee		49,397
Professional fees		70,227
Reports to shareholders		24,240
Trustees' fees and expenses		6,893
Other		23,427
Total expenses before expense reductions		1,502,161
Expense reductions		(177,546)
Total expenses after expense reductions		1,324,615
Net investment income (loss)		**539,119**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		11,548,394
Foreign currency		(46,789)
		11,501,605
Change in net unrealized appreciation (depreciation) on:		
Investments		(9,980,649)
Foreign currency		(5,800)
		(9,986,449)
Net gain (loss)		**1,515,156**
Net increase (decrease) in net assets resulting from operations	**$**	**2,054,275**

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, 2015	2014
Operations:		
Net investment income (loss)	$ 539,119	$ 395,121
Net realized gain (loss)	11,501,605	14,181,990
Change in net unrealized appreciation (depreciation)	(9,986,449)	(20,736,955)
Net increase (decrease) in net assets resulting from operations	2,054,275	(6,159,844)
Distributions to shareholders from:		
Net investment income:		
Class A	(1,276,149)	(1,278,879)
Class B	(19,017)	(17,935)
Net realized gains:		
Class A	(13,898,697)	(16,572,319)
Class B	(305,692)	(315,539)
Total distributions	(15,499,555)	(18,184,672)
Fund share transactions:		
Class A		
Proceeds from shares sold	4,131,476	5,579,529
Reinvestment of distributions	15,174,846	17,851,198
Payments for shares redeemed	(36,780,664)	(18,702,818)
Net increase (decrease) in net assets from Class A share transactions	(17,474,342)	4,727,909
Class B		
Proceeds from shares sold	564,366	1,189,539
Reinvestment of distributions	324,709	333,474
Payments for redeemed	(706,649)	(885,837)
Net increase (decrease) in net assets from Class B share transactions	182,426	637,176
Increase (decrease) in net assets	(30,737,196)	(18,979,431)
Net assets at beginning of period	137,549,187	156,528,618
Net assets at end of period (including distributions in excess of net investment income of $906,116 and $353,727, respectively)	**$ 106,811,991**	**$ 137,549,187**

Other Information		
Class A		
Shares outstanding at beginning of period	9,224,528	8,893,756
Shares sold	286,903	350,707
Shares issued to shareholders in reinvestment of distributions	1,081,600	1,182,981
Shares redeemed	(2,687,731)	(1,202,916)
Net increase (decrease) in Class A shares	(1,319,228)	330,772
Shares outstanding at end of period	**7,905,300**	**9,224,528**
Class B		
Shares outstanding at beginning of period	194,372	154,023
Shares sold	41,126	77,557
Shares issued to shareholders in reinvestment of distributions	23,684	22,563
Shares redeemed	(51,200)	(59,771)
Net increase (decrease) in Class B shares	13,610	40,349
Shares outstanding at end of period	**207,982**	**194,372**

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

Financial Highlights

Class A	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data					
Net asset value, beginning of period	**$14.61**	**$17.31**	**$13.78**	**$12.67**	**$14.28**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.06	.04	.04	.09	.08
Net realized and unrealized gain (loss)	.21	(.69)	4.66	1.83	(1.45)
Total from investment operations	.27	(.65)	4.70	1.92	(1.37)
Less distributions from:					
Net investment income	(.14)	(.15)	(.10)	(.09)	(.24)
Net realized gains	(1.57)	(1.90)	(1.07)	(.72)	—
Total distributions	(1.71)	(2.05)	(1.17)	(.81)	(.24)
Net asset value, end of period	**$13.17**	**$14.61**	**$17.31**	**$13.78**	**$12.67**
Total Return (%)[b]	1.16	(4.13)	35.94	15.37	(9.90)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	104	135	154	124	123
Ratio of expenses before expense reductions (%)	1.12	1.13	1.14	1.11	1.12
Ratio of expenses after expense reductions (%)	.99	.97	.94	.98	1.00
Ratio of net investment income (loss) (%)	.41	.27	.28	.69	.57
Portfolio turnover rate (%)	27	33	39	36	31

[a] Based on average shares outstanding during the period.

[b] Total return would have been lower had certain expenses not been reduced.

Class B	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data					
Net asset value, beginning of period	**$14.29**	**$16.97**	**$13.52**	**$12.45**	**$14.03**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.02	.00*	.01	.06	.05
Net realized and unrealized gain (loss)	.21	(.67)	4.57	1.79	(1.43)
Total from investment operations	.23	(.67)	4.58	1.85	(1.38)
Less distributions from:					
Net investment income	(.10)	(.11)	(.06)	(.06)	(.20)
Net realized gains	(1.57)	(1.90)	(1.07)	(.72)	—
Total distributions	(1.67)	(2.01)	(1.13)	(.78)	(.20)
Net asset value, end of period	**$12.85**	**$14.29**	**$16.97**	**$13.52**	**$12.45**
Total Return (%)[b]	.86	(4.33)	35.67	15.01	(10.08)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	3	3	3	2	2
Ratio of expenses before expense reductions (%)	1.41	1.41	1.34	1.43	1.38
Ratio of expenses after expense reductions (%)	1.24	1.25	1.15	1.23	1.25
Ratio of net investment income (loss) (%)	.15	.02	.07	.44	.32
Portfolio turnover rate (%)	27	33	39	36	31

[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 (the "Trust") 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 Trust consists of five diversified funds: Deutsche Bond VIP, Deutsche Capital Growth VIP, Deutsche Core Equity VIP, Deutsche CROCI® International VIP (formerly Deutsche International VIP) and Deutsche Global Small Cap VIP (individually or collectively hereinafter referred to as a "Fund" or the "Funds"). These financial statements report on Deutsche Global Small Cap VIP. The Trust 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. Prior to August 20, 2015, Deutsche Bank AG served as security lending agent for the Fund. Effective August 20, 2015, Brown Brothers Harriman & Co. serves as security lending agent to the Fund. The 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. During the year ended December 31, 2015, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of December 31, 2015) on the cash collateral invested in Daily Assets Fund. 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, 2015, 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. The 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, a portion of which may be recoverable. Based upon the current interpretation of the tax rules and regulations, estimated tax liabilities and recoveries 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, 2015 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, 2015, the Fund's components of distributable earnings (accumulated losses) on a tax basis are as follows:

Undistributed ordinary income*	$ 325,645
Undistributed long-term capital gains	$ 11,125,518
Net unrealized appreciation (depreciation) on investments	$ 25,594,568

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

	Years Ended December 31, 2015	2014
Distributions from ordinary Income*	$ 1,295,166	$ 2,266,228
Distributions from long-term capital gains	$ 14,204,389	$ 15,918,444

* 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 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, 2015, purchases and sales of investment securities (excluding short-term investments) aggregated $33,813,625 and $62,787,732, 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, 2015, 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, 2015 through April 30, 2016, 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	.99%
Class B	1.24%

For the year ended December 31, 2015, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 172,701
Class B	4,845
	$ 177,546

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, 2015, the Administration Fee was $133,075, of which $9,361 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, 2015, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	**Total Aggregated**	**Unpaid at December 31, 2015**
Class A	$ 498	$ 85
Class B	193	32
	$ 691	**$ 117**

Distribution Service Agreement. DeAWM Distributors, Inc. ("DDI"), also an affiliate of the Advisor, is the Trusts' 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, 2015, the Distribution Service Fee aggregated $7,090, of which $573 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, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $12,124, of which $4,996 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 1940 Act, 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. Prior to August 20, 2015, Deutsche Bank AG served as securities lending agent for the Fund. For the year ended December 31, 2015, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $2,150.

D. Ownership of the Fund

At December 31, 2015, three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 46%, 16% and 13%, 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 68% and 17%, 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 the one-month 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, 2015.

Report of Independent Registered Public Accounting Firm

To the Board of 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, 2015 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, 2015 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 12, 2016

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, 2015 to December 31, 2015).

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, 2015

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/15	$1,000.00	$1,000.00
Ending Account Value 12/31/15	$ 940.70	$ 940.00
Expenses Paid per $1,000*	$ 4.84	$ 6.06

Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/15	$1,000.00	$1,000.00
Ending Account Value 12/31/15	$1,020.21	$1,018.95
Expenses Paid per $1,000*	$ 5.04	$ 6.31

* 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%	1.24%

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 $1.57 per share from net long-term capital gains during its year ended December 31, 2015.

Pursuant to Section 852 of the Internal Revenue Code, the Fund designates $12,306,000 as capital gain dividends for its year ended December 31, 2015.

For corporate shareholders of the Fund, 14% of the ordinary dividends (i.e., income dividends plus short-term capital gains) paid during the Fund's fiscal year ended December 31, 2015 qualified for the dividends received deduction.

The Fund paid foreign taxes of $46,388 and earned $340,569 of foreign source income during the year ended December 31, 2015. Pursuant to Section 853 of the Internal Revenue Code, the Fund designates $0.01 per share as foreign taxes paid and $0.04 per share as income earned from foreign sources for the year ended December 31, 2015.

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 Trusts' 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 Trusts' 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 2015.

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

— In September 2015, 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 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 from 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's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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.

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 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 additional reporting from DIMA regarding such funds and, where appropriate, 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, 2014, 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 underperformed its benchmark in the one-, three- and five-year periods ended December 31, 2014. The Board observed that there were significant limitations to the usefulness of the comparative data provided by Morningstar, noting that the applicable Morningstar universe for the Fund included funds that pursue substantially different investment programs as compared to that pursued by the Fund. As a result, the Board gave increased weight to the Fund's performance relative to its benchmark than some of the additional comparative data. 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 2015. 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, 2014). 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, 2014, 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 noted that the expense limitations agreed to by DIMA were expected to help the Fund's total (net) operating expenses remain competitive. The Trustees also observed that the Lipper expense universe for the Fund included funds that pursue substantially different investment programs as compared to that pursued by the Fund. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to a comparable Deutsche U.S. registered fund ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Fund. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM manages an institutional account comparable to the Fund, but that Deutsche AWM does not manage any comparable Deutsche Europe funds. The Board took note of the differences in services provided to 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. The Board also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's investment 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 considered these benefits in reaching its conclusion that the Fund's management fees were reasonable.

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 the individual serving as 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	Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); 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)	106	—
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	106	—
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	106	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); 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; North Bennett Street School (Boston)	106	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)	106	—
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)	106	—
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	106	—

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
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)	106	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)	106	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)	106	—
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)	106	—

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 Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012)
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (since 2015); and Director and Vice President, DeAWM Trust Company (since 2016)
Melinda Morrow[6] (1970) Vice President, 2012–present	Director,[3] Deutsche Asset Management
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset Management; and Chairman, Director and President, DeAWM Trust Company (since 2013); formerly, Director, DeAWM Trust Company (2009–2013)
Caroline Pearson[7] (1962) Chief Legal Officer, 2010–present	Managing Director,[3] Deutsche Asset Management; Secretary, DeAWM Distributors, Inc; and Secretary, DeAWM Service Company
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director,[3] Deutsche Asset Management
Wayne Salit[6] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Hepsen Uzcan[6] (1974) Assistant Secretary, 2013–present	Director,[3] Deutsche Asset Management
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

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

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 Management

VS1glosc-2 (R-025821-5 2/16)

Deutsche
Asset Management

December 31, 2015

Annual Report

Deutsche Variable Series II

Deutsche Government & Agency Securities VIP

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

Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. 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. The "full faith and credit" guarantee of the US government applies to the timely repayment of interest, and does not eliminate market risk. Because of the rising US government debt burden, it is possible that the US government may not be able to meet its financial obligations or that securities issued by the US government may experience credit downgrades. The Fund may lend securities to approved institutions. See the prospectus for details.

Deutsche Asset Management represents the asset management activities conducted by Deutsche Bank AG or any of its subsidiaries.

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

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

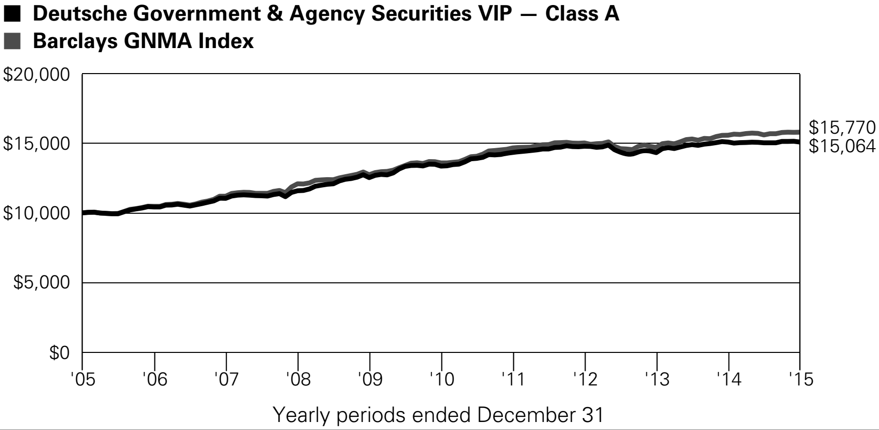
Performance Summary

December 31, 2015 (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, 2015 are 0.72% 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	$9,998	$10,206	$11,289	$15,064
	Average annual total return	–0.02%	0.68%	2.45%	4.18%
Barclays GNMA Index	Growth of $10,000	$10,139	$10,517	$11,623	$15,770
	Average annual total return	1.39%	1.69%	3.05%	4.66%

Deutsche Government & Agency Securities VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$9,964	$10,117	$11,110	$14,543
	Average annual total return	–0.36%	0.39%	2.13%	3.82%
Barclays GNMA Index	Growth of $10,000	$10,139	$10,517	$11,623	$15,770
	Average annual total return	1.39%	1.69%	3.05%	4.66%

The growth of $10,000 is cumulative.

During the 12-month period ended December 31, 2015, the Fund provided a total return of –0.02% (Class A shares, unadjusted for contract charges), compared with the 1.39% return of its benchmark, the Barclays GNMA Index.[1]

As the period opened, there was ongoing speculation over when the U.S. Federal Reserve Board (the Fed) would initiate a cycle of hikes in its benchmark short-term lending rate, after several years of maintaining a zero-interest-rate policy. The Fed would remain in a data-dependent "wait and see" mode until December, despite the overall modest upward progress of the U.S. economy. The Fed's patient stance was supported by a strong dollar and the absence of upward pressures on U.S. inflation and wages, against a global backdrop of heightened macroeconomic and geopolitical uncertainty. U.S. Treasury yields were volatile over the 12-month period, but ended somewhat higher on all maturities as investors positioned for the Fed's hiking cycle late in the period. The agency mortgage-backed securities (MBS) market provided a marginally positive return for the year, outperforming the broader investment-grade bond market.

The Fund's positioning with respect to portfolio duration and corresponding interest rate sensitivity detracted from returns vs. the benchmark for the 12 months, as did the Fund's positioning along the yield curve. Throughout the period, the managers used interest rate derivatives as part of implementing the Fund's yield curve exposures. The Fund has had exposure to higher-yielding collateralized mortgage obligations structured to provide diversification in the event of a rising rate environment as compared to pass-through MBS. This position was adversely impacted by volatility in interest rates, but benefited as rates moved higher and was essentially neutral in terms of performance for the 12 months. The Fund has carried significant exposure to higher-coupon mortgage pools, with select characteristics related to geography and seasoning of loans in the belief that voluntary prepayments will remain manageable. During the period, prepayments remained relatively low within this position, allowing the Fund to earn incremental income. The Fund also benefited from out-of-benchmark exposure to conventional mortgages, which outperformed early in the period when lower mortgage insurance premiums drove faster prepayments on GNMAs. A position in seasoned interest-only MBS provided incremental income.

Going into 2016, we are constructive on the outlook for MBS relative to many other areas of the bond market. With inflation remaining below target, we continue to expect the Fed to withdraw support gradually and for there to be little upward pressure on mortgage rates that would extend MBS durations and increase interest rate sensitivity. In addition, we view the supply/demand outlook as favorable, with lower net supply and continued interest in GNMAs from banks facing tighter capital guidelines. As such, we have increased the Fund's MBS exposure, while taking care to maintain liquidity in order to be able to reposition to take advantage of any shift in market conditions.

William Chepolis, CFA
Scott Agi, CFA
Portfolio Managers

Effective February 1, 2016, the portfolio management team is as follows:

Scott Agi, CFA
Sergey Losyev, 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)	**12/31/15**	**12/31/14**
Mortgage-Backed Securities Pass-Throughs	76%	71%
Collateralized Mortgage Obligations	22%	26%
Government & Agency Obligations	5%	19%
Commercial Mortgage-Backed Securities	2%	—
Short-Term US Treasury Obligations	—	1%
Cash Equivalents and Other Assets and Liabilities, net	–5%	–17%
	100%	100%

Coupons*	**12/31/15**	**12/31/14**
Less than 3%	3%	7%
3%–4.49%	43%	43%
4.5%–5.49%	33%	34%
5.5%–6.49%	18%	14%
6.5%–7.49%	2%	2%
7.5% and Greater	1%	0%
	100%	100%

Interest Rate Sensitivity	**12/31/15**	**12/31/14**
Effective Maturity	6.9 years	9.7 years
Effective Duration	3.7 years	7.8 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.

Mortgage-Backed Securities Pass-Throughs 75.6%

	Principal Amount ($)	Value ($)
Federal Home Loan Mortgage Corp., 3.5% , 5/1/2043 (a)	3,500,000	3,602,846
Federal National Mortgage Association:		
3.5%, 6/1/2043 (a)	3,600,000	3,714,203
4.0%, with various maturities from 1/1/2042 until 8/1/2042 (a)	3,916,012	4,148,514
Government National Mortgage Association:		
3.5%, with various maturities from 4/15/2042 until 11/1/2043 (a)	7,231,378	7,545,750
4.0%, with various maturities from 9/20/2040 until 6/20/2043	3,496,627	3,751,320
4.5%, with various maturities from 6/20/2033 until 2/20/2043	7,888,897	8,544,182
4.55%, 1/15/2041	302,518	328,052
4.625%, 5/15/2041	103,968	112,543
5.0%, with various maturities from 12/15/2032 until 4/15/2042	7,057,658	7,843,810
5.5%, with various maturities from 10/15/2032 until 7/20/2040	5,614,178	6,313,047
6.0%, with various maturities from 2/15/2034 until 2/15/2039	4,823,398	5,551,298
6.5%, with various maturities from 9/15/2036 until 2/15/2039	556,216	634,135
7.0%, with various maturities from 2/20/2027 until 11/15/2038	109,628	113,901
7.5%, 10/20/2031	5,534	6,266
Total Mortgage-Backed Securities Pass-Throughs (Cost $51,241,440)		**52,209,867**

Collateralized Mortgage Obligations 21.6%

	Principal Amount ($)	Value ($)
Federal Home Loan Mortgage Corp.:		
"OA", Series 3179, Principal Only, Zero Coupon, 7/15/2036	127,021	114,558
"KO", Series 4180, Principal Only, Zero Coupon, 1/15/2043	1,191,210	765,537
"YI", Series 3936, Interest Only, 3.0%, 6/15/2025	66,771	3,267
"AI", Series 4016, Interest Only, 3.0%, 9/15/2025	862,361	59,098
"WI", Series 3939, Interest Only, 3.0%, 10/15/2025	286,928	17,095
"EI", Series 3953, Interest Only, 3.0%, 11/15/2025	422,077	27,562
"IO", Series 3974, Interest Only, 3.0%, 12/15/2025	137,690	10,733
"DI", Series 4010, Interest Only, 3.0%, 2/15/2027	112,774	10,184
"IK", Series 4048, Interest Only, 3.0%, 5/15/2027	1,139,564	126,846
"PZ", Series 4094, 3.0%, 8/15/2042	338,196	301,880
"CZ", Series 4113, 3.0%, 9/15/2042	378,267	343,116
"IK", Series 3754, Interest Only, 3.5%, 6/15/2025	620,426	42,189
"PI", Series 3940, Interest Only, 4.0%, 2/15/2041	468,673	79,238
"UA", Series 4298, 4.0%, 2/15/2054	281,576	280,809
"22", Series 243, Interest Only, 4.178%*, 6/15/2021	183,755	6,506
"MI", Series 3871, Interest Only, 6.0%, 4/15/2040	90,763	11,629
"SP", Series 4047, Interest Only, 6.32%*, 12/15/2037	501,566	71,962
"A", Series 172, Interest Only, 6.5%, 1/1/2024	13,222	2,342
"DS", Series 3199, Interest Only, 6.82%*, 8/15/2036	1,498,916	285,678
"S", Series 2416, Interest Only, 7.77%*, 2/15/2032	209,353	50,289
"ST", Series 2411, Interest Only, 8.42%*, 6/15/2021	199,806	11,484
"KS", Series 2064, Interest Only, 9.82%*, 5/15/2022	195,950	41,416
Federal National Mortgage Association:		
"DI", Series 2011-136, Interest Only, 3.0%, 1/25/2026	128,559	8,025
"Z", Series 2013-44, 3.0%, 5/25/2043	150,257	137,933
"HI", Series 2010-123, Interest Only, 3.5%, 3/25/2024	170,456	5,458
"KI", Series 2011-72, Interest Only, 3.5%, 3/25/2025	505,774	14,578
"IO", Series 2012-146, Interest Only, 3.5%, 1/25/2043	1,633,725	330,805
"4", Series 406, Interest Only, 4.0%, 9/25/2040	327,542	63,941
"ZB", Series 2010-136, 4.0%, 12/25/2040	3,225	3,190
"HZ", Series 2013-20, 4.0%, 3/25/2043	1,616,707	1,752,103
"25", Series 351, Interest Only, 4.5%, 5/25/2019	75,779	3,982
"PZ", Series 2010-129, 4.5%, 11/25/2040	746,049	788,475
"21", Series 334, Interest Only, 5.0%, 3/25/2018	25,745	999
"20", Series 334, Interest Only, 5.0%, 3/25/2018	40,130	1,550
''23", Series 339, Interest Only, 5.0%, 6/25/2018	57,648	2,321
"26", Series 381, Interest Only, 5.0%, 12/25/2020	29,582	2,276
"30", Series 381, Interest Only, 5.5%, 11/25/2019	158,795	11,860
"PI", Series 2009-14, Interest Only, 5.5%, 3/25/2024	3,004,287	279,513
"PJ", Series 2004-46, Interest Only, 5.578%*, 3/25/2034	231,882	31,917
"WI", Series 2011-59, Interest Only, 6.0%, 5/25/2040	171,739	14,067
"SJ", Series 2007-36, Interest Only, 6.348%*, 4/25/2037	123,670	20,664
"101", Series 383, Interest Only, 6.5%, 9/25/2022	607,983	80,788
"KI", Series 2005-65, Interest Only, 6.578%*, 8/25/2035	69,039	12,550
"SA", Series G92-57, IOette, 81.227%*, 10/25/2022	24,369	45,241

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

	Principal Amount ($)	Value ($)
Government National Mortgage Association:		
"BI", Series 2014-22, Interest Only, 4.0%, 2/20/2029	761,046	83,707
"JY", Series 2010-20, 4.0%, 12/20/2033	2,181,276	2,276,124
"IP", Series 2015-50, Interest Only, 4.0%, 9/20/2040	1,833,446	236,001
"PI", Series 2015-40, Interest Only, 4.0%, 4/20/2044	548,020	70,494
"LI", Series 2009-104, Interest Only, 4.5%, 12/16/2018	94,984	4,636
"NI", Series 2010-44, Interest Only, 4.5%, 10/20/2037	243,663	14,539
"CI", Series 2010-87, Interest Only, 4.5%, 11/20/2038	1,251,588	234,441
"PI", Series 2014-108, Interest Only, 4.5%, 12/20/2039	390,971	64,698
"MI", Series 2010-169, Interest Only, 4.5%, 8/20/2040	494,066	69,155
"Z", Series 2010-169, 4.5%, 12/20/2040	598,460	631,199
"IP", Series 2014-115, Interest Only, 4.5%, 2/20/2044	272,922	45,879
"GZ", Series 2005-24, 5.0%, 3/20/2035	572,787	664,324
"ZA", Series 2005-75, 5.0%, 10/16/2035	644,376	732,783
"MZ", Series 2009-98, 5.0%, 10/16/2039	1,156,241	1,382,647
"Z", Series 2009-112, 5.0%, 11/20/2039	1,354,639	1,495,718
"AI", Series 2008-46, Interest Only, 5.5%, 5/16/2023	94,041	5,699
"GI", Series 2003-19, Interest Only, 5.5%, 3/16/2033	511,860	101,051
"IB", Series 2010-130, Interest Only, 5.5%, 2/20/2038	144,319	25,892
"BS", Series 2011-93, Interest Only, 5.756%*, 7/16/2041	876,967	151,340
"SA", Series 2012-84, Interest Only, 5.898%*, 12/20/2038	939,141	109,765
"DI", Series 2009-10, Interest Only, 6.0%, 4/16/2038	210,995	37,314
"QA", Series 2007-57, Interest Only, 6.098%*, 10/20/2037	195,828	32,036
"IP", Series 2009-118, Interest Only, 6.5%, 12/16/2039	56,322	14,052
"SK", Series 2003-11, Interest Only, 7.356%*, 2/16/2033	335,927	57,965
"IC", Series 1997-4, Interest Only, 7.5%, 3/16/2027	402,988	97,552
Total Collateralized Mortgage Obligations (Cost $13,562,298)		**14,914,665**

Commercial Mortgage-Backed Securities 1.9%

	Principal Amount ($)	Value ($)
FHLMC Multifamily Structured Pass-Through Certificates:		
"A2", Series KJ02, 2.597%, 9/25/2020	730,000	739,462
"A2", Series K050, 3.334%, 8/25/2025	580,000	593,421
Total Commercial Mortgage-Backed Securities (Cost $1,334,677)		**1,332,883**

Government & Agency Obligations 5.6%

U.S. Treasury Obligations

	Principal Amount ($)	Value ($)
U.S. Treasury Bill, 0.215%**, 2/11/2016 (b)	384,000	383,947
U.S. Treasury Notes:		
1.0%, 8/31/2016 (c)	1,450,000	1,452,945
1.0%, 9/30/2016	2,000,000	2,003,984
Total Government & Agency Obligations (Cost $3,848,460)		**3,840,876**

Cash Equivalents 3.0%

	Shares	Value ($)
Central Cash Management Fund, 0.25% (d) (Cost $2,046,967)	2,046,967	**2,046,967**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $72,033,842)†	107.7	**74,345,258**
Other Assets and Liabilities, Net	(7.7)	**(5,283,889)**
Net Assets	100.0	**69,061,369**

* These securities are shown at their current rate as of December 31, 2015.

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

† The cost for federal income tax purposes was $72,039,137. At December 31, 2015, net unrealized appreciation for all securities based on tax cost was $2,306,121. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $3,150,177 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $844,056.

(a) When-issued or delayed delivery securities included.

(b) At December 31, 2015, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

(c) At December 31, 2015, this security has been pledged, in whole or in part, to cover initial margin requirements for 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; 3-Month LIBOR rate at December 31, 2015 is 0.61%.

Principal Only: Principal Only (PO) bonds represent the "principal only" portion of payments on a pool of underlying mortgages or mortgage-backed securities.

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

Included in the portfolio are investments in mortgage- or asset-backed securities which are interests in separate pools of mortgages or assets. Effective maturities of these investments may be shorter than stated maturities due to prepayments. Some separate investments in the Government National Mortgage Association issues which have similar coupon rates have been aggregated for presentation purposes in this investment portfolio.

At December 31, 2015, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Depreciation ($)
10 Year U.S. Treasury Note	USD	3/21/2016	22	2,769,938	(10,532)
5 Year U.S. Treasury Note	USD	3/31/2016	79	9,347,305	(5,865)
U.S. Treasury Long Bond	USD	3/21/2016	3	461,250	(50)
Total unrealized depreciation					**(16,447)**

At December 31, 2015, open futures contracts sold were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Depreciation ($)
Ultra Long U.S. Treasury Bond	USD	3/21/2016	82	13,012,375	**(75,533)**

Currency Abbreviation	
USD	United States Dollar

At December 31, 2015, 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 — 5.132% – Pay Floating — 3-Month LIBOR (Cost $28,320)	3/17/2016 3/17/2026	2,400,000[1]	3/15/2016	28,320	0

(e) Unrealized appreciation on written options on interest rate swap contracts at December 31, 2015 was $28,320.

At December 31, 2015, 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) ($)
11/12/2015 11/12/2045	1,900,000	Fixed — 2.761%	Floating — 3-Month LIBOR	(55,362)	(17,267)
9/16/2015 9/16/2017	7,500,000	Fixed — 1.0%	Floating — 3-Month LIBOR	(10,587)	(37,934)
9/16/2015 9/16/2020	912,468	Fixed — 1.75%	Floating — 3-Month LIBOR	(7,343)	(14,861)
9/16/2015 9/16/2025	7,900,000	Fixed — 2.5%	Floating — 3-Month LIBOR	(294,520)	(292,851)
9/16/2015 9/16/2045	1,400,000	Fixed — 3.0%	Floating — 3-Month LIBOR	(130,460)	(93,886)
6/17/2015 6/17/2020	2,510,180	Fixed — 1.5%	Floating — 3-Month LIBOR	14,996	(5,229)
3/16/2016 3/16/2026	495,290	Fixed — 2.308%	Floating — 3-Month LIBOR	(3,429)	(3,429)
3/16/2016 3/16/2046	2,480,000	Fixed — 2.75%	Floating — 3-Month LIBOR	(63,164)	15,080
3/16/2016 3/16/2026	8,700,000	Floating — 3-Month LIBOR	Fixed — 2.5%	213,772	(67,524)
6/17/2015 6/17/2045	8,578,000	Floating — 3-Month LIBOR	Fixed — 2.5%	(196,602)	(204,185)
12/16/2015 12/16/2045	1,937,575	Floating — 3-Month LIBOR	Fixed — 2.569%	(16,576)	(16,576)
10/26/2015 10/26/2045	720,190	Floating — 3-Month LIBOR	Fixed — 2.87%	43,971	(4,729)
Total net unrealized depreciation					**(743,391)**

Counterparty:

1 BNP Paribas

For information on the Fund's policy and additional disclosures regarding futures contracts, 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, 2015 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	$ —	$ 52,209,867	$ —	$ 52,209,867
Collateralized Mortgage Obligations	—	14,914,665	—	14,914,665
Commercial Mortgage-Backed Securities	—	1,332,883	—	1,332,883
Government & Agency Obligations	—	3,840,876	—	3,840,876
Short-Term Investments	2,046,967	—	—	2,046,967
Derivatives (g)				
Interest Rate Swap Contracts	—	15,080	—	15,080
Total	**$ 2,046,967**	**$ 72,313,371**	**$ —**	**$ 74,360,338**

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivatives (g)				
Futures Contracts	$ (91,980)	$ —	$ —	$ (91,980)
Written Options	—	0	—	0
Interest Rate Swap Contracts	—	(758,471)	—	(758,471)
Total	**$ (91,980)**	**$ (758,471)**	**$ —**	**$ (850,451)**

There have been no transfers between fair value measurement levels during the year ended December 31, 2015.

(f) See Investment Portfolio for additional detailed categorizations.

(g) Derivatives include 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, 2015

Assets		
Investments		
Investments in non-affiliated securities, at value (cost $69,986,875)	$	72,298,291
Investment in Central Cash Management Fund (cost $2,046,967)		2,046,967
Total investments in securities, at value (cost $72,033,842)		74,345,258
Cash		11,688
Receivable for investments sold		8,845,594
Receivable for investments sold — when-issued/delayed delivery securities		8,342,431
Receivable for Fund shares sold		2,082
Interest receivable		300,333
Receivable for variation margin on centrally cleared swaps		108,206
Other assets		1,861
Total assets		91,957,453

Liabilities		
Payable for investments purchased — when-issued/delayed delivery securities		22,525,535
Payable for Fund shares redeemed		160,554
Payable for variation margin on futures contracts		62,859
Options written, at value (premiums received $28,320)		0
Accrued management fee		30,861
Accrued Trustees' fees		1,922
Other accrued expenses and payables		114,353
Total liabilities		22,896,084
Net assets, at value	**$**	**69,061,369**

Net Assets Consist of		
Undistributed net investment income		1,956,284
Unrealized appreciation (depreciation) on:		
Investments		2,311,416
Swap contracts		(743,391)
Futures		(91,980)
Written options		28,320
Accumulated net realized gain (loss)		(591,960)
Paid-in capital		66,192,680
Net assets, at value	**$**	**69,061,369**
Class A		
Net Asset Value, offering and redemption price per share ($66,412,879 ÷ 5,786,470 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**11.48**
Class B		
Net Asset Value, offering and redemption price per share ($2,648,490 ÷ 231,100 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**11.46**

Statement of Operations

for the year ended December 31, 2015

Investment Income		
Income:		
Interest	$	2,483,645
Income distributions — Central Cash Management Fund		3,913
Securities lending income, including income from Daily Assets Fund, net of borrower rebates		216
Total income		2,487,774
Expenses:		
Management fee		372,085
Administration fee		82,686
Services to shareholders		1,210
Record keeping fees (Class B)		2,809
Distribution service fees (Class B)		6,962
Custodian fee		34,497
Professional fees		85,966
Reports to shareholders		20,274
Trustees' fees and expenses		5,198
Other		10,745
Total expenses before expense reductions		622,432
Expense reductions		(49,917)
Total expenses after expense reductions		572,515
Net investment income		**1,915,259**

Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		780,673
Swap contracts		(478,412)
Futures		(214,263)
Written options		272,505
		360,503
Change in net unrealized appreciation (depreciation) on:		
Investments		(1,836,836)
Swap contracts		(734,363)
Futures		(102,045)
Written options		403,508
		(2,269,736)
Net gain (loss)		**(1,909,233)**
Net increase (decrease) in net assets resulting from operations	**$**	**6,026**

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, 2015	2014
Operations:		
Net investment income	$ 1,915,259	$ 2,385,165
Net realized gain (loss)	360,503	(778,379)
Change in net unrealized appreciation (depreciation)	(2,269,736)	3,438,057
Net increase (decrease) in net assets resulting from operations	6,026	5,044,843
Distributions to shareholders from:		
Net investment income:		
Class A	(2,287,159)	(2,179,180)
Class B	(68,234)	(66,035)
Total distributions	(2,355,393)	(2,245,215)
Fund share transactions:		
Class A		
Proceeds from shares sold	7,621,170	11,625,548
Reinvestment of distributions	2,287,159	2,179,180
Payments for shares redeemed	(27,899,252)	(25,367,687)
Net increase (decrease) in net assets from Class A share transactions	(17,990,923)	(11,562,959)
Class B		
Proceeds from shares sold	247,684	277,916
Reinvestment of distributions	68,234	66,035
Payments for shares redeemed	(610,489)	(1,055,485)
Net increase (decrease) in net assets from Class B share transactions	(294,571)	(711,534)
Increase (decrease) in net assets	(20,634,861)	(9,474,865)
Net assets at beginning of period	89,696,230	99,171,095
Net assets at end of period (including undistributed net investment income of $1,956,284 and $2,332,582, respectively)	**$ 69,061,369**	**$ 89,696,230**

Other Information		
Class A		
Shares outstanding at beginning of period	7,344,193	8,328,640
Shares sold	659,618	994,555
Shares issued to shareholders in reinvestment of distributions	199,403	189,659
Shares redeemed	(2,416,744)	(2,168,661)
Net increase (decrease) in Class A shares	(1,557,723)	(984,447)
Shares outstanding at end of period	**5,786,470**	**7,344,193**
Class B		
Shares outstanding at beginning of period	256,223	317,145
Shares sold	21,476	23,866
Shares issued to shareholders in reinvestment of distributions	5,944	5,742
Shares redeemed	(52,543)	(90,530)
Net increase (decrease) in Class B shares	(25,123)	(60,922)
Shares outstanding at end of period	**231,100**	**256,223**

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

Financial Highlights

Class A	2015	2014	2013	2012	2011
	Years Ended December 31,				
Selected Per Share Data					
Net asset value, beginning of period	**$11.80**	**$11.47**	**$12.69**	**$13.12**	**$12.98**
Income (loss) from investment operations:					
Net investment income[a]	.27	.29	.24	.34	.48
Net realized and unrealized gain (loss)	(.26)	.31	(.59)	.03	.45
Total from investment operations	.01	.60	(.35)	.37	.93
Less distributions from:					
Net investment income	(.33)	(.27)	(.37)	(.52)	(.57)
Net realized gains	—	—	(.50)	(.28)	(.22)
Total distributions	(.33)	(.27)	(.87)	(.80)	(.79)
Net asset value, end of period	**$11.48**	**$11.80**	**$11.47**	**$12.69**	**$13.12**
Total Return (%)	.06[b]	5.29[b]	(3.04)[b]	2.93[b]	7.46
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	66	87	96	121	146
Ratio of expenses before expense reductions (%)	.74	.72	.71	.68	.67
Ratio of expenses after expense reductions (%)	.68	.70	.67	.66	.67
Ratio of net investment income (%)	2.33	2.49	2.05	2.65	3.68
Portfolio turnover rate (%)	376	393	794	796	673

a Based on average shares outstanding during the period.

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

Class B	2015	2014	2013	2012	2011
	Years Ended December 31,				
Selected Per Share Data					
Net asset value, beginning of period	**$11.79**	**$11.46**	**$12.67**	**$13.10**	**$12.95**
Income (loss) from investment operations:					
Net investment income[a]	.23	.25	.20	.29	.43
Net realized and unrealized gain (loss)	(.27)	.31	(.59)	.03	.46
Total from investment operations	(.04)	.56	(.39)	.32	.89
Less distributions from:					
Net investment income	(.29)	(.23)	(.32)	(.47)	(.52)
Net realized gains	—	—	(.50)	(.28)	(.22)
Total distributions	(.29)	(.23)	(.82)	(.75)	(.74)
Net asset value, end of period	**$11.46**	**$11.79**	**$11.46**	**$12.67**	**$13.10**
Total Return (%)	(.36)[b]	4.95[b]	(3.25)[b]	2.48[b]	7.15
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	3	3	4	5	7
Ratio of expenses before expense reductions (%)	1.09	1.06	1.06	1.03	1.01
Ratio of expenses after expense reductions (%)	1.03	1.03	.99	1.01	1.01
Ratio of net investment income (%)	1.99	2.16	1.71	2.29	3.34
Portfolio turnover rate (%)	376	393	794	796	673

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 (the "Fund") is a diversified series of Deutsche 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.

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. During the year ended December 31, 2015, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of December 31, 2015) on the cash collateral invested in Daily Assets Fund. 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, 2015.

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 or the counterparty 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, 2015, the Fund had net tax basis capital loss carryforwards of approximately $679,000 of short-term losses, which may be applied against realized net taxable capital gains indefinitely.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2015 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, paydown losses on mortgage backed securities, 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, 2015, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 1,869,015
Capital loss carryforward	$ (679,000)
Unrealized appreciation (depreciation) on investments	$ 2,306,121

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

	Years Ended December 31, 2015	2014
Distributions from ordinary income*	$ 2,355,393	$ 2,245,215

* 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, 2015, 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, 2015, the investment in interest rate swap contracts had a total notional amount generally indicative of a range from $43,200,000 to $84,292,000.

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, 2015, 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.

There were no open purchased option contracts as of December 31, 2015. A summary of open written option contracts is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2015, the investment in written option contracts had a total value generally indicative of a range from $0 to approximately $1,327,000, and purchased option contracts had a total value generally indicative of a range from $0 to approximately $263,000.

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, 2015, 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, 2015, is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2015, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $3,047,000 to $21,425,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from $0 to approximately $17,528,000.

The following tables summarize the value of the Fund's derivative instruments held as of December 31, 2015 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivatives		**Swap Contracts**
Interest Rate Contracts (a)	$	15,080

The above derivative is located in the following Statement of Assets and Liabilities account:

(a) Includes cumulative appreciation of 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		**Swap Contracts**		**Futures Contracts**		**Total**
Interest Rate Contracts (a)	$	(758,471)	$	(91,980)	$	(850,451)

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

(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.

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the year ended December 31, 2015 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)		**Purchased Options**		**Written Options**		**Swap Contracts**		**Futures Contracts**		**Total**
Interest Rate Contracts (a)	$	(412,606)	$	272,505	$	(478,412)	$	(214,263)	$	(832,776)

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

(a) Net realized gain (loss) on investments (includes purchased options), written options, swap contracts and futures, respectively

Change in Net Unrealized Appreciation (Depreciation)		**Purchased Options**		**Written Options**		**Swap Contracts**		**Futures Contracts**		**Total**
Interest Rate Contracts (a)	$	392,067	$	403,508	$	(734,363)	$	(102,045)	$	(40,833)

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

(a) Change in net unrealized appreciation (depreciation) from investments (includes purchased options), written options, swap contracts and futures, respectively

C. Purchases and Sales of Securities

During the year ended December 31, 2015, purchases and sales of investment securities (excluding short-term investments and U.S. Treasury securities) aggregated $342,926,066 and $367,368,170, respectively. Purchases and sales of U.S. Treasury securities aggregated $13,736,080 and $18,242,127, respectively.

For the year ended December 31, 2015, transactions for written options on interest rate swap contracts were as follows:

	Contract Amount		**Premiums**
Outstanding, beginning of period	39,900,000	$	887,339
Options written	4,800,000		91,200
Options closed	(27,300,000)		(753,780)
Options exercised	(6,500,000)		(87,064)
Options expired	(8,500,000)		(109,375)
Outstanding, end of period	**2,400,000**	**$**	**28,320**

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, 2015, 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, 2015 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	.71%
Class B	1.06%

Effective October 1, 2015 through September 30, 2016, the Advisor has contractually agreed to waive all or a portion of 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 each class as follows:

Class A	.58%
Class B	.93%

For the year ended December 31, 2015, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 48,115
Class B	1,802
	$ 49,917

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, 2015, the Administration Fee was $82,686, of which $5,997 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, 2015, the amounts charged to the Fund by DSC were as follows:

	Total Aggregated	Unpaid at December 31, 2015
Class A	$ 289	$ 48
Class B	71	12
	$ 360	**$ 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, 2015, the Distribution Service Fee aggregated $6,962, of which $564 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, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $13,440, of which $5,935 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 1940 Act, 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, 2015, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $19.

E. Ownership of the Fund

At December 31, 2015, three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 36%, 33% and 21%. One participating insurance company was the owner of record of 10% or more of the total outstanding Class B shares of the Fund, owning 94%.

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 the one-month 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, 2015.

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 (one of the funds constituting Deutsche Variable Series II) (the "Fund"), as of December 31, 2015, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the 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, 2015, 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 (one of the funds constituting Deutsche Variable Series II) at December 31, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Boston, Massachusetts
February 12, 2016

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, 2015 to December 31, 2015).

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, 2015

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/15	$1,000.00	$1,000.00
Ending Account Value 12/31/15	$1,003.50	$1,002.60
Expenses Paid per $1,000*	$ 3.28	$ 5.05
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/15	$1,000.00	$1,000.00
Ending Account Value 12/31/15	$1,021.93	$1,020.16
Expenses Paid per $1,000*	$ 3.31	$ 5.09

* Expenses are equal to the Fund's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by 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	.65%	1.00%

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

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option.

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 2015.

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

In September 2015, 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 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 from 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's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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.

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 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 additional reporting from DIMA regarding such funds and, where appropriate, 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, 2014, the Fund's performance (Class A shares) was in the 2nd 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 underperformed its benchmark in the one-, three- and five-year periods ended December 31, 2014. 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, 2014). 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, 2014, 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 noted that the expense limitations agreed to by DIMA were expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to a comparable Deutsche U.S. registered fund ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Fund. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM 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 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 also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's investment 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 considered these benefits in reaching its conclusion that the Fund's management fees were reasonable.

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 the individual serving as 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	Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); 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)	106	—
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	106	—
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	106	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); 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; North Bennett Street School (Boston)	106	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)	106	—
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)	106	—
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	106	—

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
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)	106	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)	106	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)	106	—
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)	106	—

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 Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012)
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (since 2015); and Director and Vice President, DeAWM Trust Company (since 2016)
Melinda Morrow[6] (1970) Vice President, 2012–present	Director,[3] Deutsche Asset Management
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset Management; and Chairman, Director and President, DeAWM Trust Company (since 2013); formerly, Director, DeAWM Trust Company (2009–2013)
Caroline Pearson[7] (1962) Chief Legal Officer, 2010–present	Managing Director,[3] Deutsche Asset Management; Secretary, DeAWM Distributors, Inc; and Secretary, DeAWM Service Company
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director,[3] Deutsche Asset Management
Wayne Salit[6] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Hepsen Uzcan[6] (1974) Assistant Secretary, 2013–present	Director,[3] Deutsche Asset Management
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

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

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 Management

VS2GAS-2 (R-025831-5 2/16)

Deutsche
Asset Management

December 31, 2015

Annual Report

Deutsche Variable Series II

Deutsche High Income VIP

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

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 Management represents the asset management activities conducted by Deutsche Bank AG or any of its subsidiaries.

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

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

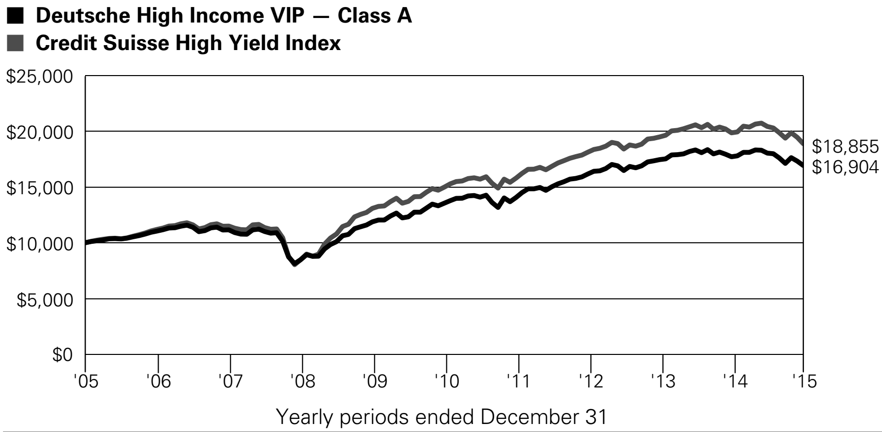
Performance Summary

December 31, 2015 (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, 2015 are 0.75% and 1.13% 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	$9,556	$10,464	$12,487	$16,904
	Average annual total return	–4.44%	1.52%	4.54%	5.39%
Credit Suisse High Yield Index	Growth of $10,000	$9,507	$10,413	$12,599	$18,855
	Average annual total return	–4.93%	1.36%	4.73%	6.55%

Deutsche High Income VIP		**1-Year**	**3-Year**	**5-Year**	**10-Year**
Class B	Growth of $10,000	$9,505	$10,337	$12,280	$16,367
	Average annual total return	–4.95%	1.11%	4.19%	5.05%
Credit Suisse High Yield Index	Growth of $10,000	$9,507	$10,413	$12,599	$18,855
	Average annual total return	–4.93%	1.36%	4.73%	6.55%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2015 (Unaudited)

The Fund returned –4.44% during 2015 (Class A shares, unadjusted for contract charges), which compares with a return of –4.93% for the Credit Suisse High Yield Index.[1]

The sharp drop in commodity prices, which led to a weaker earnings outlook for the many energy and mining issuers with below-investment-grade ratings, was the primary factor weighing on the high-yield market during the past year. Although many segments of the market held up well on a relative basis — including domestic-focused issuers and the restaurant, gaming and real estate industries — the weakness in the resources space hurt the return of the asset class as a whole. High-yield bonds were also pressured by a general decrease in investors' appetite for risk, as well as substantial outflows from high-yield mutual funds and exchange-traded funds.

While our primary emphasis is on bottom-up credit research and individual security selection, the Fund's broader allocations can also have an impact on performance. During the past year, for instance, the Fund was helped by having an underweight position in the underperforming metals and mining industry.[2] Our positioning within energy was an additional plus, as we reduced the Fund's weighting in the sector and moved up in quality early in the period. This shift enabled us to dampen the impact of the sector's continued underperformance through the remainder of the year. Among individual positions, Tenet Healthcare Corp. and Fage Dairy Industry were the leading contributors to performance, while Chesapeake Energy Corp. and Sprint Corp. detracted.

We hold a neutral view regarding the U.S. high-yield market. Valuations are reasonable, but we also see the potential for additional near-term volatility stemming from oil price swings, geopolitical developments and shifting sentiment regarding the timing of a U.S. Federal Reserve Board (the Fed) rate increase. With this said, we believe the risk of a recession remains low and the outlook for defaults is positive outside of the commodity-related sectors.

We retained a favorable view on issues rated single B, which we saw as offering the best risk-adjusted return potential in the market. We were selective with respect to CCC-rated debt, with a focus on bonds that we believed offer a favorable risk/return profile, as well as in BB-rated issues, where we favored bonds we saw as having the highest return potential relative to their sectors and ratings. The Fund was underweight in the BB tier overall, as it has a higher sensitivity to government bond yields. With yields already so low, we did not see a meaningful benefit from emphasizing securities with an above-average correlation to interest rates. In addition, the popularity of higher-quality issues has reduced the degree of value present in the BB space.

More broadly speaking, we continue to manage the portfolio from a long-term perspective rather than taking excessive risks in an effort to boost short-term returns. Instead, we strive to generate outperformance over a multiyear period by achieving an appropriate balance of risk and return.

Gary Russell, CFA
Portfolio Manager

Effective February 1, 2016, the portfolio management team is as follows:

Gary Russell, CFA
Thomas R. Bouchard
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 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 "Overweight" means the Fund holds a higher weighting n a given sector or security than the benchmark. "Underweight" means it holds a lower weighting.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/15**	**12/31/14**
Corporate Bonds	92%	87%
Cash Equivalents	4%	7%
Convertible Bond	1%	2%
Government & Agency Obligations	1%	1%
Preferred Security	1%	1%
Loan Participations and Assignments	1%	1%
Preferred Stock	0%	1%
Common Stocks	0%	0%
Warrant	0%	0%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Government & Agency Obligations, Cash Equivalents and Securities Lending Collateral)	**12/31/15**	**12/31/14**
Consumer Discretionary	29%	20%
Telecommunication Services	14%	20%
Industrials	12%	12%
Energy	10%	10%
Materials	9%	9%
Health Care	9%	8%
Information Technology	5%	8%
Financials	5%	5%
Consumer Staples	4%	5%
Utilities	3%	3%
	100%	100%

Quality (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/15**	**12/31/14**
AAA	1%	1%
BBB	4%	2%
BB	54%	43%
B	37%	41%
CCC	3%	12%
Not Rated	1%	1%
	100%	100%

The quality ratings represent the higher of Moody's Investors Service, Inc. ("Moody's"), Fitch Ratings, Inc. ("Fitch") or Standard & Poor's Corporation ("S&P") credit ratings. The ratings of Moody's, Fitch 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 ($)	Value ($)
Corporate Bonds 90.4%		
Consumer Discretionary 26.8%		
1011778 BC Unlimited Liability Co., 144A, 4.625%, 1/15/2022	125,000	125,313
Ally Financial, Inc.:		
3.25%, 11/5/2018	620,000	608,375
4.125%, 3/30/2020 (a)	285,000	283,575
Altice Financing SA:		
144A, 6.5%, 1/15/2022	200,000	198,000
144A, 7.875%, 12/15/2019	235,000	244,400
Altice Finco SA, 144A, 9.875%, 12/15/2020	235,000	250,275
AMC Entertainment, Inc., 5.875%, 2/15/2022	220,000	223,300
AmeriGas Finance LLC:		
6.75%, 5/20/2020	460,000	447,350
7.0%, 5/20/2022	350,000	338,625
APX Group, Inc., 6.375%, 12/1/2019	205,000	196,288
Asbury Automotive Group, Inc.:		
6.0%, 12/15/2024	495,000	511,087
144A, 6.0%, 12/15/2024	390,000	402,675
Ashtead Capital, Inc., 144A, 6.5%, 7/15/2022	330,000	344,025
Ashton Woods U.S.A. LLC, 144A, 6.875%, 2/15/2021	360,000	306,000
Avis Budget Car Rental LLC:		
144A, 5.25%, 3/15/2025	480,000	454,800
5.5%, 4/1/2023 (a)	660,000	661,650
Beacon Roofing Supply, Inc., 144A, 6.375%, 10/1/2023 (a)	160,000	163,000
Block Communications, Inc., 144A, 7.25%, 2/1/2020	375,000	373,125
Boyd Gaming Corp., 6.875%, 5/15/2023	140,000	143,850
Caleres, Inc., 6.25%, 8/15/2023	110,000	108,350
CCO Holdings LLC:		
144A, 5.125%, 5/1/2023	385,000	385,000
144A, 5.375%, 5/1/2025 (a)	285,000	283,575
144A, 5.875%, 5/1/2027	480,000	477,600
7.0%, 1/15/2019	51,000	52,084
CCOH Safari LLC, 144A, 5.75%, 2/15/2026	545,000	546,362
Cequel Communications Holdings I LLC:		
144A, 5.125%, 12/15/2021	602,000	541,800
144A, 6.375%, 9/15/2020	940,000	918,850
Churchill Downs, Inc., 144A, 5.375%, 12/15/2021	134,529	134,865
Clear Channel Worldwide Holdings, Inc.:		
Series A, 6.5%, 11/15/2022	250,000	241,250
Series B, 6.5%, 11/15/2022	365,000	355,875
Series A, 7.625%, 3/15/2020	110,000	100,100
Series B, 7.625%, 3/15/2020 (a)	1,115,000	1,029,981
Cogeco Cable, Inc., 144A, 4.875%, 5/1/2020	20,000	19,950
CSC Holdings LLC, 5.25%, 6/1/2024 (a)	585,000	513,337
D.R. Horton, Inc., 4.0%, 2/15/2020	100,000	100,570
Dana Holding Corp., 5.5%, 12/15/2024	180,000	174,600
DISH DBS Corp.:		
4.25%, 4/1/2018	270,000	270,675
5.0%, 3/15/2023	1,225,000	1,062,687
6.75%, 6/1/2021	50,000	50,375
7.875%, 9/1/2019	270,000	293,625
Dollar Tree, Inc.:		
144A, 5.25%, 3/1/2020	420,000	433,650
144A, 5.75%, 3/1/2023 (a)	350,000	362,250
Fiat Chrysler Automobiles NV:		
4.5%, 4/15/2020	345,000	349,312
5.25%, 4/15/2023	445,000	437,212
Global Partners LP, 7.0%, 6/15/2023	235,000	192,700
Goodyear Tire & Rubber Co., 5.125%, 11/15/2023	165,000	169,125
Group 1 Automotive, Inc.:		
5.0%, 6/1/2022 (a)	455,000	450,450
144A, 5.25%, 12/15/2023	545,000	539,550
HD Supply, Inc.:		
144A, 5.25%, 12/15/2021	275,000	280,500
7.5%, 7/15/2020	95,000	98,800
11.5%, 7/15/2020	345,000	382,087
Hertz Corp., 6.75%, 4/15/2019	305,000	311,557
Hot Topic, Inc., 144A, 9.25%, 6/15/2021	140,000	123,900
Lennar Corp., 4.75%, 11/15/2022	400,000	396,600
Live Nation Entertainment, Inc.:		
144A, 5.375%, 6/15/2022	50,000	49,250
144A, 7.0%, 9/1/2020	345,000	357,075
MDC Partners, Inc., 144A, 6.75%, 4/1/2020	370,000	381,100
Mediacom Broadband LLC:		
5.5%, 4/15/2021	50,000	48,125
6.375%, 4/1/2023	425,000	415,437
Mediacom LLC, 7.25%, 2/15/2022	110,000	111,100
MGM Resorts International:		
6.0%, 3/15/2023 (a)	280,000	277,900
6.75%, 10/1/2020 (a)	526,000	540,465
8.625%, 2/1/2019	510,000	564,983
NCL Corp. Ltd., 144A, 4.625%, 11/15/2020	235,000	230,117
Neptune Finco Corp.:		
144A, 10.125%, 1/15/2023	200,000	208,500
144A, 10.875%, 10/15/2025	275,000	288,063
Nielsen Finance LLC, 144A, 5.0%, 4/15/2022	155,000	153,063
Numericable-SFR, 144A, 4.875%, 5/15/2019	520,000	515,450
Penske Automotive Group, Inc., 5.375%, 12/1/2024	660,000	666,600
Petco Animal Supplies, Inc., 144A, 9.25%, 12/1/2018	315,000	323,269
Pinnacle Entertainment, Inc., 6.375%, 8/1/2021	160,000	168,200
Quebecor Media, Inc., 5.75%, 1/15/2023	205,000	206,538
Sabre GLBL, Inc.:		
144A, 5.25%, 11/15/2023	55,000	54,381
144A, 5.375%, 4/15/2023 (a)	25,000	24,875
Sally Holdings LLC, 5.625%, 12/1/2025	395,000	398,950
Schaeffler Finance BV, 144A, 4.75%, 5/15/2023	365,000	357,700

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	Principal Amount ($)	Value ($)
Seminole Hard Rock Entertainment, Inc., 144A, 5.875%, 5/15/2021 (a)	125,000	124,688
Serta Simmons Bedding LLC, 144A, 8.125%, 10/1/2020	230,000	240,350
Sirius XM Radio, Inc., 144A, 5.875%, 10/1/2020 (a)	195,000	204,263
Spectrum Brands, Inc., 144A, 5.75%, 7/15/2025	120,000	123,000
Springs Industries, Inc., 6.25%, 6/1/2021	295,000	292,050
Starz LLC, 5.0%, 9/15/2019	175,000	177,188
Suburban Propane Partners LP, 5.75%, 3/1/2025	145,000	117,450
Toll Brothers Finance Corp., 4.875%, 11/15/2025	270,000	265,275
TRI Pointe Holdings, Inc., 4.375%, 6/15/2019	145,000	141,738
UCI International LLC, 8.625%, 2/15/2019	310,000	106,950
Unitymedia Hessen GmbH & Co., KG, 144A, 5.5%, 1/15/2023	945,000	942,637
Viking Cruises Ltd.:		
144A, 6.25%, 5/15/2025	240,000	196,800
144A, 8.5%, 10/15/2022	205,000	194,238
		27,932,685

Consumer Staples 3.8%

	Principal Amount ($)	Value ($)
Aramark Services, Inc., 144A, 5.125%, 1/15/2024 (a)	160,000	163,000
Chiquita Brands International, Inc., 7.875%, 2/1/2021	90,000	94,275
Constellation Brands, Inc., 4.75%, 12/1/2025	65,000	66,219
Cott Beverages, Inc.:		
5.375%, 7/1/2022	445,000	436,100
6.75%, 1/1/2020	180,000	185,850
FAGE Dairy Industry SA, 144A, 9.875%, 2/1/2020	810,000	842,400
JBS Investments GmbH:		
144A, 7.25%, 4/3/2024	265,000	240,487
144A, 7.75%, 10/28/2020	405,000	388,800
JBS U.S.A. LLC:		
144A, 5.75%, 6/15/2025	190,000	165,300
144A, 7.25%, 6/1/2021	485,000	481,362
144A, 8.25%, 2/1/2020 (a)	160,000	160,000
Pilgrim's Pride Corp., 144A, 5.75%, 3/15/2025 (a)	200,000	194,500
Post Holdings, Inc., 144A, 6.75%, 12/1/2021 (a)	110,000	112,200
Smithfield Foods, Inc., 6.625%, 8/15/2022	9,000	9,338
The WhiteWave Foods Co., 5.375%, 10/1/2022	370,000	391,275
		3,931,106

Energy 9.4%

	Principal Amount ($)	Value ($)
Antero Resources Corp.:		
5.125%, 12/1/2022	330,000	250,800
5.375%, 11/1/2021	250,000	200,000
144A, 5.625%, 6/1/2023	205,000	159,900
Baytex Energy Corp.:		
144A, 5.125%, 6/1/2021	70,000	47,075
144A, 5.625%, 6/1/2024	95,000	63,650
Blue Racer Midstream LLC, 144A, 6.125%, 11/15/2022	205,000	141,450
California Resources Corp.:		
5.0%, 1/15/2020	17,000	6,056
6.0%, 11/15/2024 (a)	32,000	9,760
144A, 8.0%, 12/15/2022 (a)	124,000	65,255
Carrizo Oil & Gas, Inc., 6.25%, 4/15/2023	235,000	190,350
Chesapeake Energy Corp., 5.75%, 3/15/2023 (a)	350,000	101,500
Concho Resources, Inc., 5.5%, 4/1/2023 (a)	530,000	490,250
Crestwood Midstream Partners LP, 144A, 6.25%, 4/1/2023	95,000	66,263
Endeavor Energy Resources LP:		
144A, 7.0%, 8/15/2021	275,000	244,750
144A, 8.125%, 9/15/2023	285,000	256,500
EP Energy LLC, 6.375%, 6/15/2023 (a)	210,000	105,000
Gulfport Energy Corp., 6.625%, 5/1/2023	95,000	79,325
Hilcorp Energy I LP:		
144A, 5.0%, 12/1/2024	195,000	161,850
144A, 5.75%, 10/1/2025	335,000	291,450
Holly Energy Partners LP, 6.5%, 3/1/2020	105,000	103,950
Laredo Petroleum, Inc., 6.25%, 3/15/2023	295,000	256,650
MEG Energy Corp.:		
144A, 6.5%, 3/15/2021	235,000	164,500
144A, 7.0%, 3/31/2024	320,000	227,200
Memorial Resource Development Corp., 5.875%, 7/1/2022	195,000	170,625
Murphy Oil U.S.A., Inc., 6.0%, 8/15/2023	290,000	304,500
Newfield Exploration Co., 5.375%, 1/1/2026	155,000	128,262
Northern Oil & Gas, Inc., 8.0%, 6/1/2020	440,000	292,600
Oasis Petroleum, Inc.:		
6.875%, 3/15/2022	610,000	390,400
6.875%, 1/15/2023	210,000	130,200
Parsley Energy LLC, 144A, 7.5%, 2/15/2022	35,000	33,425
Range Resources Corp., 144A, 4.875%, 5/15/2025 (a)	390,000	296,400
Regency Energy Partners LP:		
5.0%, 10/1/2022	125,000	110,735
5.875%, 3/1/2022	25,000	23,564
Rice Energy, Inc., 144A, 7.25%, 5/1/2023	50,000	36,500
RSP Permian, Inc.:		
144A, 6.625%, 10/1/2022	95,000	87,400
6.625%, 10/1/2022	460,000	423,200
Sabine Pass Liquefaction LLC:		
5.625%, 2/1/2021	690,000	634,800
5.625%, 4/15/2023	155,000	136,012
144A, 5.625%, 3/1/2025	255,000	215,794
5.75%, 5/15/2024	675,000	587,250
Seven Generations Energy Ltd., 144A, 6.75%, 5/1/2023	70,000	58,800
Sunoco LP:		
144A, 5.5%, 8/1/2020	130,000	123,175
144A, 6.375%, 4/1/2023	140,000	131,600
Talos Production LLC, 144A, 9.75%, 2/15/2018	205,000	88,150
Targa Resources Partners LP, 4.125%, 11/15/2019	70,000	58,275
Welltec AS, 144A, 8.0%, 2/1/2019	400,000	375,000

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	Principal Amount ($)	Value ($)
Whiting Petroleum Corp.:		
5.75%, 3/15/2021 (a)	80,000	58,320
6.25%, 4/1/2023 (a)	910,000	655,200
Williams Partners LP, 6.125%, 7/15/2022	325,000	307,440
WPX Energy, Inc., 8.25%, 8/1/2023	245,000	196,000
		9,737,111
Financials 5.0%		
AerCap Ireland Capital Ltd., 4.625%, 10/30/2020	375,000	383,906
Alliance Data Systems Corp., 144A, 5.25%, 12/1/2017	255,000	257,550
CNO Financial Group, Inc.:		
4.5%, 5/30/2020	70,000	71,400
5.25%, 5/30/2025	140,000	142,450
Credit Agricole SA, 144A, 7.875%, 1/29/2049 (a)	330,000	337,425
Denali Borrower LLC, 144A, 5.625%, 10/15/2020	285,000	298,538
E*TRADE Financial Corp.:		
4.625%, 9/15/2023	200,000	203,250
5.375%, 11/15/2022	170,000	178,075
Equinix, Inc.:		
(REIT), 5.375%, 1/1/2022	225,000	230,625
(REIT), 5.375%, 4/1/2023	725,000	739,500
(REIT), 5.75%, 1/1/2025	170,000	173,825
(REIT), 5.875%, 1/15/2026	135,000	139,050
International Lease Finance Corp.:		
3.875%, 4/15/2018	385,000	387,887
6.25%, 5/15/2019	320,000	342,800
MPT Operating Partnership LP:		
(REIT), 6.375%, 2/15/2022	290,000	295,800
(REIT), 6.875%, 5/1/2021	295,000	306,063
Seminole Tribe of Florida, Inc., 144A, 7.804%, 10/1/2020	265,000	272,950
Societe Generale SA, 144A, 7.875%, 12/29/2049	460,000	458,298
		5,219,392
Health Care 8.0%		
Alere, Inc., 144A, 6.375%, 7/1/2023	185,000	172,975
Community Health Systems, Inc.:		
5.125%, 8/1/2021	55,000	54,725
6.875%, 2/1/2022 (a)	220,000	208,725
7.125%, 7/15/2020 (a)	1,735,000	1,728,494
Concordia Healthcare Corp., 144A, 7.0%, 4/15/2023	95,000	82,413
Endo Finance LLC:		
144A, 5.75%, 1/15/2022 (a)	220,000	213,400
144A, 5.875%, 1/15/2023	215,000	210,700
Endo Ltd.:		
144A, 6.0%, 7/15/2023	195,000	194,025
144A, 6.0%, 2/1/2025	150,000	147,750
Fresenius Medical Care U.S. Finance II, Inc., 144A, 5.625%, 7/31/2019	220,000	237,050
HCA, Inc., 5.875%, 2/15/2026	530,000	531,987
Hologic, Inc., 144A, 5.25%, 7/15/2022	90,000	91,800
IMS Health, Inc., 144A, 6.0%, 11/1/2020	250,000	257,500
LifePoint Health, Inc.:		
5.5%, 12/1/2021	275,000	279,813
5.875%, 12/1/2023	230,000	233,450
Mallinckrodt International Finance SA:		
144A, 4.875%, 4/15/2020	160,000	154,000
144A, 5.625%, 10/15/2023	270,000	256,500
Tenet Healthcare Corp.:		
144A, 4.012%**, 6/15/2020 (a)	180,000	175,500
6.75%, 6/15/2023 (a)	380,000	352,450
Valeant Pharmaceuticals International, Inc.:		
144A, 5.375%, 3/15/2020	365,000	343,100
144A, 5.875%, 5/15/2023	335,000	298,987
144A, 6.125%, 4/15/2025 (a)	955,000	852,337
144A, 6.375%, 10/15/2020	245,000	236,425
144A, 7.5%, 7/15/2021	1,050,000	1,047,375
		8,361,481
Industrials 11.0%		
ADT Corp.:		
3.5%, 7/15/2022 (a)	150,000	134,250
5.25%, 3/15/2020 (a)	300,000	315,000
6.25%, 10/15/2021 (a)	395,000	412,597
Aerojet Rocketdyne Holdings, Inc., 7.125%, 3/15/2021	535,000	556,400
Aguila 3 SA, 144A, 7.875%, 1/31/2018	480,000	481,200
Allegion PLC, 5.875%, 9/15/2023	85,000	86,700
Artesyn Embedded Technologies, Inc., 144A, 9.75%, 10/15/2020	245,000	217,438
Belden, Inc., 144A, 5.5%, 9/1/2022	355,000	341,687
Bombardier, Inc.:		
144A, 5.75%, 3/15/2022	315,000	219,713
144A, 6.0%, 10/15/2022	265,000	185,765
144A, 7.5%, 3/15/2025	105,000	73,500
Casella Waste Systems, Inc., 7.75%, 2/15/2019	220,000	218,350
Covanta Holding Corp., 5.875%, 3/1/2024	220,000	199,100
CTP Transportation Products LLC, 144A, 8.25%, 12/15/2019	275,000	286,687
DigitalGlobe, Inc., 144A, 5.25%, 2/1/2021 (a)	160,000	134,400
EnerSys, 144A, 5.0%, 4/30/2023	45,000	44,775
Florida East Coast Holdings Corp., 144A, 6.75%, 5/1/2019 (a)	155,000	141,825
FTI Consulting, Inc., 6.0%, 11/15/2022	205,000	214,738
Garda World Security Corp., 144A, 7.25%, 11/15/2021	290,000	249,400
Gates Global LLC, 144A, 6.0%, 7/15/2022 (a)	190,000	136,800
Huntington Ingalls Industries, Inc.:		
144A, 5.0%, 12/15/2021	395,000	402,406
144A, 5.0%, 11/15/2025	165,000	167,475
Masonite International Corp., 144A, 5.625%, 3/15/2023	220,000	227,150
Meritor, Inc.:		
6.25%, 2/15/2024 (a)	215,000	183,825
6.75%, 6/15/2021	300,000	276,000
Moog, Inc., 144A, 5.25%, 12/1/2022	165,000	166,650
Nortek, Inc., 8.5%, 4/15/2021	440,000	456,544
OPE KAG Finance Sub, Inc., 144A, 7.875%, 7/31/2023	220,000	218,625
Oshkosh Corp.:		
5.375%, 3/1/2022	165,000	165,000
5.375%, 3/1/2025	25,000	24,500
Ply Gem Industries, Inc., 6.5% , 2/1/2022 (a)	415,000	377,625

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	Principal Amount ($)	Value ($)
SBA Communications Corp., 5.625%, 10/1/2019	200,000	208,500
Spirit AeroSystems, Inc., 5.25%, 3/15/2022	285,000	290,877
Summit Materials LLC, 144A, 6.125%, 7/15/2023	275,000	270,875
Titan International, Inc., 6.875%, 10/1/2020 (a)	170,000	126,650
Triumph Group, Inc., 5.25%, 6/1/2022	130,000	104,650
United Rentals North America, Inc.:		
4.625%, 7/15/2023	160,000	159,600
6.125%, 6/15/2023 (a)	25,000	25,563
7.375%, 5/15/2020	595,000	627,725
7.625%, 4/15/2022	595,000	635,876
USG Corp., 144A, 5.5%, 3/1/2025	10,000	10,150
Wise Metals Group LLC, 144A, 8.75%, 12/15/2018	250,000	189,375
XPO Logistics, Inc., 144A, 6.5%, 6/15/2022 (a)	230,000	212,750
ZF North America Capital, Inc.:		
144A, 4.0%, 4/29/2020 (a)	358,000	360,953
144A, 4.5%, 4/29/2022 (a)	510,000	498,525
144A, 4.75%, 4/29/2025	410,000	390,525
		11,428,719
Information Technology 4.7%		
ACI Worldwide, Inc., 144A, 6.375%, 8/15/2020	105,000	108,150
Activision Blizzard, Inc., 144A, 5.625%, 9/15/2021	805,000	843,237
Audatex North America, Inc.:		
144A, 6.0%, 6/15/2021	315,000	317,362
144A, 6.125%, 11/1/2023	115,000	115,719
BMC Software Finance, Inc., 144A, 8.125%, 7/15/2021	215,000	142,975
Boxer Parent Co., Inc., 144A, 9.0%, 10/15/2019 (PIK) (a)	320,000	198,400
Cardtronics, Inc., 5.125%, 8/1/2022	145,000	139,925
CDW LLC:		
5.5%, 12/1/2024 (a)	330,000	345,675
6.0%, 8/15/2022 (a)	370,000	390,350
EarthLink Holdings Corp., 7.375%, 6/1/2020	245,000	249,288
Entegris, Inc., 144A, 6.0%, 4/1/2022	160,000	162,000
First Data Corp., 144A, 7.0%, 12/1/2023	275,000	275,000
Freescale Semiconductor, Inc., 144A, 6.0%, 1/15/2022	275,000	288,063
Infor U.S., Inc., 144A, 6.5%, 5/15/2022 (a)	215,000	181,675
Informatica LLC, 144A, 7.125%, 7/15/2023 (a)	95,000	85,975
Micron Technology, Inc., 144A, 5.25%, 8/1/2023	250,000	224,375
NCR Corp.:		
5.875%, 12/15/2021	55,000	54,175
6.375%, 12/15/2023	135,000	132,975
NXP BV, 144A, 3.75%, 6/1/2018	250,000	251,250
Open Text Corp., 144A, 5.625%, 1/15/2023	200,000	198,000
Riverbed Technology, Inc., 144A, 8.875%, 3/1/2023	155,000	143,375
Sanmina Corp., 144A, 4.375%, 6/1/2019	25,000	25,125
		4,873,069

	Principal Amount ($)	Value ($)
Materials 5.7%		
ArcelorMittal, 5.125%, 6/1/2020	60,000	49,800
Ardagh Packaging Finance PLC, 144A, 3.512%**, 12/15/2019	310,000	303,025
Ball Corp.:		
4.375%, 12/15/2020	110,000	111,719
5.25%, 7/1/2025	225,000	230,062
Berry Plastics Corp., 5.5%, 5/15/2022	435,000	433,369
Cascades, Inc., 144A, 5.5%, 7/15/2022	145,000	140,650
Chemours Co.:		
144A, 6.625%, 5/15/2023	165,000	115,500
144A, 7.0%, 5/15/2025	80,000	54,600
Clearwater Paper Corp., 144A, 5.375%, 2/1/2025	195,000	188,663
Coveris Holding Corp., 144A, 10.0%, 6/1/2018	230,000	218,500
Coveris Holdings SA, 144A, 7.875%, 11/1/2019	330,000	287,925
Crown Americas LLC, 6.25%, 2/1/2021	50,000	51,625
First Quantum Minerals Ltd.:		
144A, 6.75%, 2/15/2020	36,000	23,220
144A, 7.0%, 2/15/2021	475,000	298,062
Hexion, Inc., 6.625%, 4/15/2020 (a)	540,000	419,850
Perstorp Holding AB, 144A, 8.75%, 5/15/2017 (a)	455,000	450,450
Plastipak Holdings, Inc., 144A, 6.5%, 10/1/2021	250,000	241,250
Platform Specialty Products Corp., 144A, 6.5%, 2/1/2022 (a)	230,000	198,950
Reynolds Group Issuer, Inc., 5.75%, 10/15/2020	1,390,000	1,413,894
Sealed Air Corp.:		
144A, 4.875%, 12/1/2022	115,000	115,288
144A, 5.125%, 12/1/2024	55,000	55,000
Signode Industrial Group Lux SA, 144A, 6.375%, 5/1/2022	210,000	178,500
Tronox Finance LLC:		
6.375%, 8/15/2020 (a)	200,000	120,360
144A, 7.5%, 3/15/2022	245,000	142,100
WR Grace & Co-Conn:		
144A, 5.125%, 10/1/2021	90,000	90,900
144A, 5.625%, 10/1/2024	45,000	45,450
		5,978,712
Telecommunication Services 13.2%		
B Communications Ltd., 144A, 7.375%, 2/15/2021	270,000	290,790
CenturyLink, Inc.:		
Series V, 5.625%, 4/1/2020	105,000	103,819
Series T, 5.8%, 3/15/2022	380,000	348,270
Series S, 6.45%, 6/15/2021	445,000	433,875
Series W, 6.75%, 12/1/2023 (a)	500,000	468,750
CommScope, Inc.:		
144A, 4.375%, 6/15/2020	115,000	115,863
144A, 5.0%, 6/15/2021	260,000	249,275
CyrusOne LP, 6.375%, 11/15/2022 (a)	310,000	319,300
Digicel Group Ltd.:		
144A, 7.125%, 4/1/2022	265,000	198,750
144A, 8.25%, 9/30/2020	960,000	792,000
Digicel Ltd.:		
144A, 6.75%, 3/1/2023	390,000	325,650
144A, 7.0%, 2/15/2020	200,000	182,000

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	Principal Amount ($)	Value ($)
Frontier Communications Corp.:		
6.25%, 9/15/2021	140,000	118,650
7.125%, 1/15/2023	605,000	521,812
144A, 10.5%, 9/15/2022	615,000	612,694
144A, 11.0%, 9/15/2025	430,000	425,700
Hughes Satellite Systems Corp., 7.625%, 6/15/2021	230,000	243,800
Intelsat Jackson Holdings SA:		
5.5%, 8/1/2023	465,000	365,025
7.25%, 10/15/2020	810,000	708,750
Level 3 Financing, Inc.:		
5.375%, 8/15/2022	675,000	685,125
144A, 5.375%, 1/15/2024 (a)	165,000	165,825
144A, 5.375%, 5/1/2025	200,000	199,000
6.125%, 1/15/2021	165,000	170,775
Millicom International Cellular SA, 144A, 4.75%, 5/22/2020	370,000	331,150
Plantronics, Inc., 144A, 5.5%, 5/31/2023	95,000	94,525
Sprint Communications, Inc., 144A, 7.0%, 3/1/2020	245,000	245,613
Sprint Corp., 7.125%, 6/15/2024	1,345,000	970,081
T-Mobile U.S.A., Inc.:		
6.125%, 1/15/2022	110,000	113,025
6.375%, 3/1/2025	497,000	501,970
6.5%, 1/15/2026	15,000	15,142
6.625%, 11/15/2020	705,000	732,840
UPCB Finance IV Ltd., 144A, 5.375%, 1/15/2025	955,000	900,087
UPCB Finance VI Ltd., 144A, 6.875%, 1/15/2022	270,000	285,525
Virgin Media Secured Finance PLC, 144A, 5.25%, 1/15/2026	200,000	194,500
Wind Acquisition Finance SA, 144A, 6.5%, 4/30/2020	195,000	204,019
Windstream Services LLC, 7.875%, 11/1/2017	495,000	506,390
Zayo Group LLC:		
6.0%, 4/1/2023	440,000	415,800
6.375%, 5/15/2025	240,000	223,200
		13,779,365
Utilities 2.8%		
Calpine Corp.:		
5.375%, 1/15/2023 (a)	240,000	215,400
5.75%, 1/15/2025 (a)	240,000	211,800
Dynegy, Inc.:		
7.375%, 11/1/2022	235,000	204,450
7.625%, 11/1/2024 (a)	425,000	363,290
Energy Future Holdings Corp., Series Q, 6.5%, 11/15/2024*	550,000	451,000
NGL Energy Partners LP, 5.125%, 7/15/2019 (a)	190,000	150,100
NRG Energy, Inc.:		
6.25%, 5/1/2024 (a)	1,270,000	1,067,054
7.875%, 5/15/2021	215,000	201,562
Talen Energy Supply LLC, 144A, 4.625%, 7/15/2019	95,000	71,250
		2,935,906
Total Corporate Bonds (Cost $100,990,711)		**94,177,546**

	Principal Amount ($)	Value ($)
Government & Agency Obligation 0.5%		
U.S. Treasury Obligation		
U.S. Treasury Note, 1.0%, 8/31/2016 (b) (Cost $552,031)	550,000	**551,117**
Loan Participations and Assignments 0.5%		
Senior Loans**		
Alliance Mortgage Cycle Loan, Term Loan A, 9.5%, 6/15/2010*	700,000	0
Berry Plastics Holding Corp., Term Loan D, 3.5%, 2/8/2020	498,718	490,387
Total Loan Participations and Assignments (Cost $1,196,011)		**490,387**
Convertible Bond 1.5%		
Materials		
GEO Specialty Chemicals, Inc., 144A, 7.5% PIK, 10/30/2018 (Cost $1,296,366)	1,322,667	**1,551,885**
Preferred Security 0.9%		
Materials		
Hercules, Inc., 6.5%, 6/30/2029 (Cost $785,132)	1,135,000	**959,075**

	Shares	Value ($)
Common Stocks 0.1%		
Consumer Discretionary 0.0%		
Dawn Holdings, Inc.* (c)	15	**26,534**
Industrials 0.0%		
Congoleum Corp.*	24,000	0
Quad Graphics, Inc.	224	2,083
		2,083
Materials 0.1%		
GEO Specialty Chemicals, Inc.*	144,027	66,051
GEO Specialty Chemicals, Inc. 144A*	2,206	1,012
		67,063
Total Common Stocks (Cost $345,503)		**95,680**
Warrant 0.0%		
Materials		
Hercules Trust II, Expiration Date 3/31/2029* (Cost $244,286)	1,100	**1,879**
Securities Lending Collateral 16.0%		
Daily Assets Fund, 0.36% (d) (e) (Cost $16,678,089)	16,678,089	**16,678,089**
Cash Equivalents 4.3%		
Central Cash Management Fund, 0.25% (d) (Cost $4,473,274)	4,473,274	**4,473,274**

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

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $126,561,403)†	114.2	**118,978,932**
Other Assets and Liabilities, Net	(14.2)	**(14,828,156)**
Net Assets	100.0	**104,150,776**

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	340,511	451,000
					1,040,511	**451,000**

* 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, 2015.

† The cost for federal income tax purposes was $126,561,403. At December 31, 2015, net unrealized depreciation for all securities based on tax cost was $7,582,471. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $1,435,728 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $9,018,199.

(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, 2015 amounted to $16,061,207, which is 15.4% of net assets.

(b) At December 31, 2015, this security has been pledged, in whole or in part, as collateral for open over-the-counter derivatives.

(c) The Fund may purchase securities that are subject to legal or contractual restrictions on resale ("restricted securities"). Restricted securities are securities which have not been registered with the Securities and Exchange Commission under the Securities Act of 1933. The Fund may be unable to sell a restricted security and it may be more difficult to determine a market value for a restricted security. Moreover, if adverse market conditions were to develop during the period between the Fund's decision to sell a restricted security and the point at which the Fund is permitted or able to sell such 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	26,534	0.03

(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.

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, 2015, open credit default swap contracts sold were as follows:

Bilateral Swaps

Effective/ Expiration Dates	Notional Amount ($) (f)	Fixed Cash Flows Received	Underlying Debt Obligation/ Quality Rating (g)	Value ($)	Upfront Payments Paid ($)	Unrealized Appreciation/ (Depreciation) ($)
3/20/2015 6/20/2020	240,000[1]	5.0%	CCO Holdings LLC, 7.375%, 6/1/2020, BB-	34,268	20,615	13,653
9/22/2014 12/20/2019	630,000[2]	5.0%	Community Health Systems, Inc., 8.0%, 11/15/2019, B-	9,124	33,678	(24,554)
12/20/2013 3/20/2019	3,000,000[3]	5.0%	Sprint Communications, Inc., 6.0%, 12/1/2016, B+	(346,321)	200,218	(546,539)
Total net unrealized depreciation						**(557,440)**

(f) 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.

(g) The quality ratings represent the higher of Moody's Investors Service, Inc. ("Moody's") or Standard & Poor's Corporation ("S&P") credit ratings and are unaudited.

Counterparties:

1 Barclays Bank PLC

2 Morgan Stanley

3 Goldman Sachs & Co.

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

Currency Abbreviation	
USD	United States Dollar

For information on the Fund's policy and additional disclosures regarding credit default swap 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, 2015 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 (h)				
Corporate Bonds	$ —	$ 94,177,546	$ —	$ 94,177,546
Government & Agency Obligation	—	551,117	—	551,117
Loan Participations and Assignments	—	490,387	0	490,387
Convertible Bond	—	—	1,551,885	1,551,885
Preferred Security	—	959,075	—	959,075
Common Stocks (h)	2,083	—	93,597	95,680
Warrants	—	—	1,879	1,879
Short-Term Investments (h)	21,151,363	—	—	21,151,363
Derivatives (i)				
Credit Default Swap Contracts	—	13,653	—	13,653
Total	**$ 21,153,446**	**$ 96,191,778**	**$ 1,647,361**	**$118,992,585**

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivatives (i)				
Credit Default Swap Contracts	$ —	$ (571,093)	$ —	$ (571,093)
Total	**$ —**	**$ (571,093)**	**$ —**	**$ (571,093)**

There have been no transfers between fair value measurement levels during the period ended December 31, 2015.

(h) See Investment Portfolio for additional detailed categorizations.

(i) Derivatives include 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, 2014	$ 0	$ 0	$ 2,241,938	$ 59,212	$ 89,364	**$2,390,514**
Realized gains (loss)	(92,199)	—	—	(911)	—	**(93,110)**
Change in unrealized appreciation (depreciation)	92,199	0	(691,934)	34,098	(87,485)	**(653,122)**
Amortization of premium/accretion of discount	—	—	(22,993)	—	—	**(22,993)**
Purchases	—	—	24,874	1,198	—	**26,072**
(Sales)	0	—	—	0	—	**—**
Transfer into Level 3	—	—	—	—	—	—
Transfer (out) of Level 3	—	—	—	—	—	—
Balance as of December 31, 2015	**$ —**	**$ 0**	**$ 1,551,885**	**$ 93,597**	**$ 1,879**	**$1,647,361**
Net change in unrealized appreciation (depreciation) from investments still held as of December 31, 2015	**$ —**	**$ —**	**$ (691,934)**	**$ 34,098**	**$ (87,485)**	**$ (745,321)**

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

Quantitative Disclosure About Significant Unobservable Inputs

Asset Class	Fair Value at 12/31/15	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Common Stocks				
Consumer Discretionary	$ 26,534	Market Approach	EV/EBITDA Multiple	9.18
			Discount to public comparables	15%
			Discount for lack of marketability	15%
Industrials	$ 0	Asset Valuation	Book Value of Equity	0%
Materials	$ 67,063	Market Approach	EV/EBITDA Multiple	5.88
			Discount to public comparables	20%
			Discount for lack of marketability	25%
Warrants				
Materials	$ 1,879	Black Scholes Option Pricing Model	Implied Volatility	23.5%
			Discount for lack of marketability	20%
Loan Participations & Assignments				
Senior Loans	$ 0	Market Approach	Evaluated Price	0
Convertible Bonds				
Materials	$ 1,551,885	Convertible Bond Methodology	EV/EBITDA Multiple	5.88
			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 equity 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 may result in a significant change in the fair value measurement, while a significant change in the discount for lack of marketability is unlikely to result in a materially higher or lower fair value measurement.

Significant unobservable inputs developed by the Pricing Committee and used in the fair value measurement of the Fund's fixed income investments include the convertible bond methodology. A significant change in the EV to EBITDA ratio could have a material change on the fair value measurement, while a significant change in the discount for lack of marketability is unlikely to result in a materially higher or lower fair value measurement. Generally, there is a direct relationship between the EV to EBITDA ratio and the fair value measurement of a fixed income investment.

Statement of Assets and Liabilities

as of December 31, 2015

Assets	
Investments:	
Investments in non-affiliated securities, at value (cost $105,410,040) — including $16,061,207 of securities loaned	$ 97,827,569
Investment in Daily Assets Fund (cost $16,678,089)*	16,678,089
Investment in Central Cash Management Fund (cost $4,473,274)	4,473,274
Total investments in securities, at value (cost $126,561,403)	118,978,932
Cash	18,445
Receivable for investments sold	1,282
Receivable for Fund shares sold	962,546
Interest receivable	1,562,138
Unrealized appreciation on bilateral swap contracts	13,653
Upfront payments paid on bilateral swap contracts	254,511
Other assets	2,119
Total assets	121,793,626
Liabilities	
Payable upon return of securities loaned	16,678,089
Payable for Fund shares redeemed	183,982
Unrealized depreciation on bilateral swap contracts	571,093
Accrued management fee	47,683
Accrued Trustees' fees	2,421
Other accrued expenses and payables	159,582
Total liabilities	17,642,850
Net assets, at value	**$ 104,150,776**
Net Assets Consist of	
Undistributed net investment income	6,775,642
Net unrealized appreciation (depreciation) on:	
Investments	(7,582,471)
Swap contracts	(557,440)
Accumulated net realized gain (loss)	(41,154,585)
Paid-in capital	146,669,630
Net assets, at value	**$ 104,150,776**
Class A	
Net Asset Value, offering and redemption price per share ($101,002,118 ÷ 17,025,372 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 5.93**
Class B	
Net Asset Value, offering and redemption price per share ($3,148,658 ÷ 530,185 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 5.94**

* 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, 2015

Investment Income	
Interest	$ 7,479,309
Dividends	58,969
Income distributions — Central Cash Management Fund	7,402
Securities lending income, including income from Daily Assets Fund, net of borrower rebates	39,625
Total income	7,585,305
Expenses:	
Management fee	652,029
Administration fee	130,406
Distribution service fee (Class B)	4,461
Recordkeeping fees (Class B)	2,552
Services to shareholders	1,511
Custodian fee	25,865
Professional fees	95,365
Reports to shareholders	26,965
Trustees' fees and expenses	6,578
Other	42,383
Total expenses before expense reductions	988,115
Expense reductions	(40,961)
Total expenses after expense reductions	947,154
Net investment income (loss)	**6,638,151**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	(4,522,816)
Swap contracts	299,641
Foreign currency	(136)
	(4,223,311)
Change in net unrealized appreciation (depreciation) on:	
Investments	(6,475,389)
Swap contracts	(571,075)
Foreign currency	4
	(7,046,460)
Net gain (loss)	**(11,269,771)**
Net increase (decrease) in net assets resulting from operations	**$ (4,631,620)**

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, 2015	2014
Operations:		
Net investment income	$ 6,638,151	$ 8,068,202
Net realized gain (loss)	(4,223,311)	1,188,317
Change in net unrealized appreciation (depreciation)	(7,046,460)	(6,349,088)
Net increase (decrease) in net assets resulting from operations	(4,631,620)	2,907,431
Distributions to shareholders from:		
Net investment income:		
Class A	(8,457,661)	(10,554,088)
Class B	(6,469)	(119,183)
Total distributions	(8,464,130)	(10,673,271)
Fund share transactions:		
Class A		
Proceeds from shares sold	17,956,787	12,833,015
Reinvestment of distributions	8,457,661	10,554,088
Payments for shares redeemed	(47,358,324)	(45,572,381)
Net increase (decrease) in net assets from Class A share transactions	(20,943,876)	(22,185,278)
Class B		
Proceeds from shares sold	29,829,991	7,949,939
Reinvestment of distributions	6,469	119,183
Payments for shares redeemed	(26,867,647)	(8,248,423)
Net increase (decrease) in net assets from Class B share transactions	2,968,813	(179,301)
Increase (decrease) in net assets	(31,070,813)	(30,130,419)
Net assets at beginning of period	135,221,589	165,352,008
Net assets at end of period (including undistributed net investment income of $6,775,642 and $8,342,159, respectively)	**104,150,776**	**$ 135,221,589**

Other Information		
Class A		
Shares outstanding at beginning of period	20,495,541	23,727,813
Shares sold	2,794,697	1,881,827
Shares issued to shareholders in reinvestment of distributions	1,315,344	1,575,237
Shares redeemed	(7,580,210)	(6,689,336)
Net increase (decrease) in Class A shares	(3,470,169)	(3,232,272)
Shares outstanding at end of period	**17,025,372**	**20,495,541**
Class B		
Shares outstanding at beginning of period	3,764	46,339
Shares sold	4,790,954	1,159,065
Shares issued to shareholders in reinvestment of distributions	998	17,657
Shares redeemed	(4,265,531)	(1,219,297)
Net increase (decrease) in Class B shares	526,421	(42,575)
Shares outstanding at end of period	**530,185**	**3,764**

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

Financial Highlights

Class A	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data					
Net asset value, beginning of period	**$ 6.60**	**$ 6.96**	**$ 6.93**	**$ 6.56**	**$ 6.90**
Income (loss) from investment operations:					
Net investment income[a]	.32	.36	.39	.45	.51
Net realized and unrealized gain (loss)	(.58)	(.25)	.14	.48	(.24)
Total from investment operations	(.26)	.11	.53	.93	.27
Less distributions from:					
Net investment income	(.41)	(.47)	(.50)	(.56)	(.61)
Net asset value, end of period	**$ 5.93**	**$ 6.60**	**$ 6.96**	**$ 6.93**	**$ 6.56**
Total Return (%)	(4.44)[b]	1.47[b]	7.91[b]	14.91	3.84
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	101	135	165	178	169
Ratio of expenses before expense reductions (%)	.75	.75	.73	.72	.72
Ratio of expenses after expense reductions (%)	.72	.73	.72	.72	.72
Ratio of net investment income (%)	5.09	5.21	5.69	6.68	7.59
Portfolio turnover rate (%)	47	52	58	58	59

a Based on average shares outstanding during the period.

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

Class B	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data					
Net asset value, beginning of period	**$ 6.63**	**$ 6.99**	**$ 6.97**	**$ 6.59**	**$ 6.93**
Income (loss) from investment operations:					
Net investment income[a]	.32	.35	.36	.43	.49
Net realized and unrealized gain (loss)	(.61)	(.26)	.15	.49	(.24)
Total from investment operations	(.29)	.09	.51	.92	.25
Less distributions from:					
Net investment income	(.40)	(.45)	(.49)	(.54)	(.59)
Net asset value, end of period	**$ 5.94**	**$ 6.63**	**$ 6.99**	**$ 6.97**	**$ 6.59**
Total Return (%)	(4.95)[b]	1.22[b]	7.44[b]	14.70[b]	3.57
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	3	.03	.32	.09	.09
Ratio of expenses before expense reductions (%)	1.14	1.13	1.10	.99	.99
Ratio of expenses after expense reductions (%)	1.02	.97	.97	.99	.99
Ratio of net investment income (%)	4.86	5.09	5.29	6.42	7.33
Portfolio turnover rate (%)	47	52	58	58	59

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 (the "Fund") is a diversified series of Deutsche 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.

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. During the year ended December 31, 2015, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of December 31, 2015) on the cash collateral invested in Daily Assets Fund. 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, 2015, 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. If affiliates of the Advisor participate in the primary and secondary market for senior loans, legal limitations may restrict the Fund's ability to participate in restructuring or acquiring some senior loans. 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, 2015, the Fund had a net tax basis capital loss carryforward of approximately $41,155,000, including $34,532,000 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 ($17,300,000) and December 31, 2017 ($17,232,000), the respective expiration dates, whichever occurs first; and approximately $6,623,000 of post-enactment long-term losses, which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($1,905,000) and long-term losses ($4,718,000).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2015 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 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, 2015, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 6,294,432
Capital loss carryforwards	$ (41,155,000)
Unrealized appreciation (depreciation) on investments	$ (7,582,471)

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

	Years Ended December 31, 2015	2014
Distributions from ordinary income*	$ 8,464,130	$ 10,673,271

* 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, 2015, 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, 2015 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2015, the Fund's investment in credit default swap contracts sold had a total notional value generally indicative of a range from $3,870,000 to $7,200,000.

The following tables summarize the value of the Fund's derivative instruments held as of December 31, 2015 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)	$ 13,653

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)	$ (571,093)

The above derivative 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, 2015 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	**Swap Contracts**
Credit Contracts (a)	$ 299,641

The above derivative is located in the following Statement of Operations account:
(a) Net realized gain (loss) from swap contracts

Change in Net Unrealized Appreciation (Depreciation)	**Swap Contracts**
Credit Contracts (a)	$ (571,075)

The above derivative is located in the following Statement of Operations account:
(a) Change in net unrealized appreciation (depreciation) on swap contracts

As of December 31, 2015, 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**
Barclays Bank PLC	$ 13,653	$ —	$ —	$ 13,653

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.	$ 546,539	$ —	$ —	$ 546,539
Morgan Stanley	24,554	—	—	24,554
	$ 571,093	**$ —**	**$ —**	**$ 571,093**

† The actual collateral received and/or pledged may be more than the amounts shown.

C. Purchases and Sales of Securities

During the year ended December 31, 2015, purchases and sales of investment transactions (excluding short-term investments and U.S. Treasury securities) aggregated $55,035,625 and $68,152,808, respectively. Purchases and sales of U.S. Treasury obligations aggregated $1,009,066 and 1,502,925, respectively.

D. Related Parties

Management Agreement. Under the Investment Management Agreement with Deutsche Investment Management Americas Inc. ("DIMA" or the "Advisor"), an indirect, wholly owned subsidiary of Deutsche Bank AG, the Advisor directs the investments of the Fund in accordance with its investment objectives, policies and restrictions. The Advisor determines the securities, instruments and other contracts relating to investments to be purchased, sold or entered into by the Fund.

Pursuant to the Investment Management Agreement with the Advisor, the Fund pays a monthly management fee based on the Fund's average daily net assets, computed and accrued daily and payable monthly, at the following annual rates:

First $250 million	.500%
Next $750 million	.470%
Next $1.5 billion	.450%
Next $2.5 billion	.430%
Next $2.5 billion	.400%
Next $2.5 billion	.380%
Next $2.5 billion	.360%
Over $12.5 billion	.340%

Accordingly, for the year ended December 31, 2015, 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, 2015 through April 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	.72%
Class B	1.00%

Effective May 1, 2015 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	.72%
Class B	1.11%

Effective October 1, 2015 through September 30, 2016, 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	.98%

For the year ended December 31, 2015, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 38,720
Class B	2,241
	$ 40,961

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, 2015, the Administration Fee was $130,406, of which $9,037 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, 2015, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at December 31, 2015
Class A	$ 308	$ 50
Class B	62	12
	$ 370	**$ 62**

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, 2015, the Distribution Service Fee was $4,461, of which $269 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, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $13,829, of which $6,225 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 1940 Act, 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, 2015, the Fund incurred lending agent fees to Deutsche Bank AG for the amount of $3,446.

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, 2015, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 57% and 29%. One participating insurance company was the owner of record of 10% or more of the total outstanding Class B shares of the Fund, owning 68%.

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 the one-month 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, 2015.

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 (one of the funds constituting Deutsche Variable Series II) (the "Fund"), as of December 31, 2015, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the 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, 2015, 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 High Income VIP (one of the funds constituting Deutsche Variable Series II) at December 31, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Boston, Massachusetts
February 12, 2016

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, 2015 to December 31, 2015).

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, 2015

Actual Fund Return	Class A	Class B
Beginning Account Value 7/1/15	$1,000.00	$1,000.00
Ending Account Value 12/31/15	$ 938.30	$ 935.40
Expenses Paid per $1,000*	$ 3.52	$ 5.22
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/15	$1,000.00	$1,000.00
Ending Account Value 12/31/15	$1,021.58	$1,019.81
Expenses Paid per $1,000*	$ 3.67	$ 5.45

* 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	.72%	1.07%

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, 1% of the ordinary dividends (i.e., income dividends plus short-term capital gains) paid during the Fund's fiscal year ended December 31, 2015, 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 High Income VIP's investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2015.

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

— In September 2015, 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 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 from 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's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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.

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 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 additional reporting from DIMA regarding such funds and, where appropriate, 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, 2014, the Fund's performance (Class A shares) was in the 3rd quartile, 3rd 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 three-year period and has underperformed its benchmark in the one- and five-year periods ended December 31, 2014.

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, 2014). 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, 2014, 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 noted that the expense limitations agreed to by DIMA were expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable Deutsche U.S. registered funds ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Funds. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM 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 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 also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's investment 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 considered these benefits in reaching its conclusion that the Fund's management fees were reasonable.

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 the individual serving as 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	Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); 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)	106	—
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	106	—
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	106	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); 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; North Bennett Street School (Boston)	106	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)	106	—
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)	106	—
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	106	—

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
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)	106	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)	106	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)	106	—
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)	106	—

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 Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012)
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (since 2015); and Director and Vice President, DeAWM Trust Company (since 2016)
Melinda Morrow[6] (1970) Vice President, 2012–present	Director,[3] Deutsche Asset Management
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset Management; and Chairman, Director and President, DeAWM Trust Company (since 2013); formerly, Director, DeAWM Trust Company (2009–2013)
Caroline Pearson[7] (1962) Chief Legal Officer, 2010–present	Managing Director,[3] Deutsche Asset Management; Secretary, DeAWM Distributors, Inc; and Secretary, DeAWM Service Company
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director,[3] Deutsche Asset Management
Wayne Salit[6] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Hepsen Uzcan[6] (1974) Assistant Secretary, 2013–present	Director,[3] Deutsche Asset Management
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

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

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 Management

VS2HI-2 (R-025832-5 2/16)

Deutsche
Asset Management

December 31, 2015

Annual Report

Deutsche Variable Series II

Deutsche Large Cap Value VIP

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

Stocks may decline in value. 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 Management represents the asset management activities conducted by Deutsche Bank AG or any of its subsidiaries.

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

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

Performance Summary

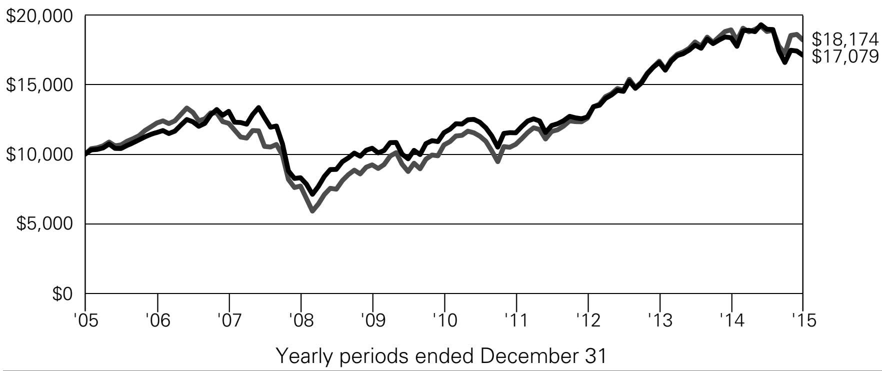
December 31, 2015 (Unaudited)

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, 2015 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

■ **Deutsche Large Cap Value VIP — Class A**
■ **Russell 1000® Value Index**



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	$9,313	$13,496	$14,807	$17,079
	Average annual total return	–6.87%	10.51%	8.17%	5.50%
Russell 1000® Value Index	Growth of $10,000	$9,617	$14,460	$17,058	$18,174
	Average annual total return	–3.83%	13.08%	11.27%	6.16%

Deutsche Large Cap Value VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$9,284	$13,374	$14,583	$16,530
	Average annual total return	–7.16%	10.18%	7.84%	5.15%
Russell 1000® Value Index	Growth of $10,000	$9,617	$14,460	$17,058	$18,714
	Average annual total return	–3.83%	13.08%	11.27%	6.16%

The growth of $10,000 is cumulative.

Deutsche Large Cap Value VIP returned –6.87% in 2015 (Class A shares, unadjusted for contract charges), below the –3.83% return of its benchmark, the Russell 1000™ Value Index.[1]

During the past 12 months, U.S. economic growth was slow to moderate, but stronger than overall global growth. At the start of 2015, concerns resurfaced regarding global growth and the rapidly rising U.S. dollar. For the summer of 2015, uncertainty regarding the timing of a rate increase by the U.S. Federal Reserve Board (the Fed) spurred increased market volatility. A bearish mood prevailed during the calendar third quarter as China's surprise yuan devaluation in mid-August exacerbated concerns that global growth might slow further, particularly because of currency instability in emerging markets and plunging commodity prices. Toward the end of the period, we saw investors rotate from longer-term growth stocks into more cyclical issues that had lagged the market.

For the period, the largest detractor from relative performance was the Fund's positioning in the health care sector. In particular, holdings in two health care firms involved in merger & acquisition activity, Cigna Corp. and Centene Corp., subtracted significantly from returns. Investors questioned whether the Justice Department would launch antitrust actions against the Cigna/Anthem, Inc. merger and Centene's acquisition of Health Net, Inc. We continue to hold Cigna and Centene for these reasons: shareholders have approved both transactions; we do not believe that market share shifts will be that significant following the closing of both deals; and therefore, we are skeptical that the transactions will ultimately be challenged on an antitrust basis. In contrast, the Fund benefited from its underweight position in the energy sector compared with the benchmark as oil prices declined approximately 50% in value.[2] Within the energy sector, the Fund also received a positive contribution from its holdings in the refining company Valero Energy Corp., which benefited from steady, incremental increases in automobile miles driven and solid demand for gasoline in the United States.

We look for financial conditions both domestically and globally to remain fairly consistent, with slow-to-moderate U.S. growth and a comparatively lower level of economic activity worldwide. We also believe that the Fed will tighten its monetary policy cautiously, based on current conditions. Consequently, we have reduced the Fund's underweight in financials. The Fund retains its overweight in health care, which continues to post the best earnings growth of any equity market sector. Within consumer discretionary, the Fund is heavily weighted towards media companies as consumers engage with more media content through the use of handheld devices.[3] In addition, the Fund is underweight retailers based on the fact that the retailing model is gradually changing from "brick and mortar" stores to online sales, where profit margins are comparatively squeezed. Overall, we believe that fundamentally solid companies with attractive valuations should outperform in the coming months.

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 "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.

3 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)	**12/31/15**	**12/31/14**
Common Stocks	99%	100%
Cash Equivalents	1%	0%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/15**	**12/31/14**
Health Care	31%	24%
Financials	17%	21%
Consumer Discretionary	16%	10%
Energy	9%	11%
Consumer Staples	8%	5%
Industrials	8%	10%
Information Technology	6%	14%
Utilities	4%	2%
Materials	1%	3%
	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 98.5%		
Consumer Discretionary 15.8%		
Auto Components 1.4%		
BorgWarner, Inc.	93,296	**4,033,186**
Automobiles 3.0%		
Ford Motor Co.	280,267	3,948,962
General Motors Co.	142,202	4,836,290
		8,785,252
Hotels, Restaurants & Leisure 1.2%		
Del Taco Restaurants, Inc.*	211,900	2,256,735
Yum! Brands, Inc.	17,271	1,261,646
		3,518,381
Household Durables 0.3%		
Whirlpool Corp.	6,859	**1,007,381**
Media 6.2%		
CBS Corp. "B"	61,680	2,906,978
Comcast Corp. "A"	53,853	3,038,925
Starz "A"* (a)	121,380	4,066,230
Viacom, Inc. "B"	207,935	8,558,605
		18,570,738
Specialty Retail 3.7%		
Best Buy Co., Inc. (a)	124,595	3,793,918
Home Depot, Inc.	27,883	3,687,527
Signet Jewelers Ltd.	29,319	3,626,467
		11,107,912
Consumer Staples 8.6%		
Beverages 3.1%		
Dr. Pepper Snapple Group, Inc. (a)	35,016	3,263,491
PepsiCo, Inc.	57,990	5,794,361
		9,057,852
Food Products 2.4%		
Mondelez International, Inc. "A"	36,399	1,632,131
The JM Smucker Co.	39,132	4,826,541
The WhiteWave Foods Co.*	19,863	772,869
		7,231,541
Household Products 3.1%		
Colgate-Palmolive Co.	73,894	4,922,818
Kimberly-Clark Corp.	32,788	4,173,913
		9,096,731
Energy 8.7%		
Oil, Gas & Consumable Fuels		
Anadarko Petroleum Corp.	117,492	5,707,761
EOG Resources, Inc.	96,632	6,840,579
Marathon Petroleum Corp.	31,021	1,608,129
Pioneer Natural Resources Co.	43,949	5,510,326
Tesoro Corp.	28,771	3,031,600
Valero Energy Corp.	46,325	3,275,641
		25,974,036
Financials 16.6%		
Banks 10.6%		
Bank of America Corp.	627,734	10,564,763
Citigroup, Inc.	192,421	9,957,787
JPMorgan Chase & Co.	165,950	10,957,679
		31,480,229
Capital Markets 2.3%		
Affiliated Managers Group, Inc.*	18,109	2,893,094
Charles Schwab Corp.	120,983	3,983,970
		6,877,064
Insurance 1.0%		
Hartford Financial Services Group, Inc.	66,741	**2,900,564**
Real Estate Investment Trusts 2.7%		
AvalonBay Communities, Inc. (REIT)	27,069	4,984,215
Prologis, Inc. (REIT)	74,571	3,200,587
		8,184,802
Health Care 30.2%		
Biotechnology 11.4%		
Alexion Pharmaceuticals, Inc.*	49,562	9,453,952
Celgene Corp.*	71,724	8,589,666
Gilead Sciences, Inc.	62,141	6,288,048
Puma Biotechnology, Inc.* (a)	72,926	5,717,398
Sarepta Therapeutics, Inc.* (a)	102,859	3,968,300
		34,017,364
Health Care Equipment & Supplies 1.6%		
Medtronic PLC	63,813	**4,908,496**
Health Care Providers & Services 11.0%		
Anthem, Inc.	43,309	6,039,007
Centene Corp.*	82,141	5,405,699
Cigna Corp.	120,040	17,565,453
Community Health Systems, Inc.*	89,172	2,365,733
Tenet Healthcare Corp.* (a)	41,446	1,255,814
		32,631,706
Pharmaceuticals 6.2%		
Bristol-Myers Squibb Co.	157,272	10,818,741
Endo International PLC*	122,889	7,523,265
		18,342,006
Industrials 7.7%		
Aerospace & Defense 4.7%		
Lockheed Martin Corp.	22,162	4,812,478
Northrop Grumman Corp.	17,976	3,394,049
Raytheon Co.	45,282	5,638,967
		13,845,494
Building Products 1.1%		
A.O. Smith Corp.	41,354	**3,168,130**
Electrical Equipment 1.3%		
Rockwell Automation, Inc.	38,760	**3,977,164**
Machinery 0.6%		
Wabtec Corp.	26,455	**1,881,480**
Information Technology 6.4%		
Communications Equipment 2.8%		
Cisco Systems, Inc.	309,628	**8,407,948**
Software 3.6%		
Microsoft Corp.	190,743	**10,582,422**
Materials 0.8%		
Chemicals		
Valspar Corp.	29,832	**2,474,564**

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

	Shares	Value ($)
Utilities 3.7%		
Electric Utilities 1.2%		
NextEra Energy, Inc.	34,529	**3,587,218**
Multi-Utilities 2.5%		
Dominion Resources, Inc.	30,237	2,045,231
Sempra Energy	41,595	3,910,346
WEC Energy Group, Inc.	29,608	1,519,185
		7,474,762
Total Common Stocks (Cost $292,807,358)		**293,124,423**

	Shares	Value ($)
Securities Lending Collateral 4.0%		
Daily Assets Fund, 0.36% (b) (c) (Cost $11,897,236)	11,897,236	**11,897,236**
Cash Equivalents 1.5%		
Central Cash Management Fund, 0.27% (b) (Cost $4,398,244)	4,398,244	**4,398,244**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $309,102,838)†	104.0	**309,419,903**
Other Assets and Liabilities, Net	(4.0)	**(11,965,783)**
Net Assets	100.0	**297,454,120**

* Non-income producing security.

† The cost for federal income tax purposes was $311,536,069. At December 31, 2015, net unrealized depreciation for all securities based on tax cost was $2,116,166. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $21,686,980 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $23,803,146.

(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, 2015 amounted to $11,637,500, which is 3.9% of net assets.

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

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

REIT: Real Estate Investment Trust

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The 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, 2015 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)	$293,124,423	$ —	$ —	$293,124,423
Short-Term Investments	16,295,480	—	—	16,295,480
Total	**$309,419,903**	**$ —**	**$ —**	**$309,419,903**

There have been no transfers between fair value measurement levels during the year ended December 31, 2015.

(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, 2015

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $292,807,358) — including $11,637,500 of securities loaned	$	293,124,423
Investment in Daily Assets Fund (cost $11,897,236)*		11,897,236
Investment in Central Cash Management Fund (cost $4,398,244)		4,398,244
Total investments in securities, at value (cost $309,102,838)		309,419,903
Receivable for Fund shares sold		8,277
Dividends receivable		377,540
Interest receivable		3,984
Other assets		6,073
Total assets		309,815,777

Liabilities		
Payable upon return of securities loaned		11,897,236
Payable for Fund shares redeemed		192,275
Accrued management fee		148,370
Accrued Trustees' fees		6,176
Other accrued expenses and payables		117,600
Total liabilities		12,361,657
Net assets, at value	**$**	**297,454,120**

Net Assets Consist of		
Undistributed net investment income		2,410,518
Net unrealized appreciation (depreciation) on investments		317,065
Accumulated net realized gain (loss)		9,697,372
Paid-in capital		285,029,165
Net assets, at value	**$**	**297,454,120**
Class A		
Net Asset Value, offering and redemption price per share ($292,982,420 ÷ 19,157,658 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**15.29**
Class B		
Net Asset Value, offering and redemption price per share ($4,471,700 ÷ 291,996 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**15.31**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2015

Investment Income		
Income:		
Dividends	$	5,421,349
Income distributions — Central Cash Management Fund		3,415
Securities lending income, including income from Daily Assets Fund, net of borrower rebates		49,708
Total income		5,474,472
Expenses:		
Management fee		2,548,671
Administration fee		397,788
Services to shareholders		4,762
Record keeping fees (Class B)		2,986
Distribution and service fee (Class B)		12,342
Custodian fee		19,328
Professional fees		76,460
Reports to shareholders		20,572
Trustees' fees and expenses		17,764
Other		21,660
Total expenses before expense reductions		3,122,333
Expense reductions		(201,297)
Total expenses after expense reductions		2,921,036
Net investment income	**$**	**2,553,436**

Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	10,082,714
Foreign currency	(3,911)
	10,078,803
Change in net unrealized appreciation (depreciation) on:	
Investments	(38,130,803)
Foreign currency	2,503
	(38,128,300)
Net gain (loss)	**(28,049,497)**
Net increase (decrease) in net assets resulting from operations	**(25,496,061)**

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, 2015	2014
Operations:		
Net investment income	$ 2,553,436	$ 6,247,902
Net realized gain (loss)	10,078,803	115,236,680
Change in net unrealized appreciation (depreciation)	(38,128,300)	(77,036,705)
Net increase (decrease) in net assets resulting from operations	(25,496,061)	44,447,877
Distributions to shareholders from:		
Net investment income:		
Class A	(5,899,426)	(7,350,279)
Class B	(54,717)	(66,263)
Net realized gains:		
Class A	(17,852,466)	—
Class B	(214,368)	—
Total distributions	(24,020,977)	(7,416,542)
Fund share transactions:		
Class A		
Proceeds from shares sold	6,111,736	11,756,922
Reinvestment of distributions	23,751,892	7,350,279
Payments for shares redeemed	(118,444,533)	(57,676,534)
Net increase (decrease) in net assets from Class A share transactions	(88,580,905)	(38,569,333)
Class B		
Proceeds from shares sold	538,133	1,147,061
Reinvestment of distributions	269,085	66,263
Payments for shares redeemed	(881,598)	(1,111,822)
Net increase (decrease) in net assets from Class B share transactions	(74,380)	101,502
Increase (decrease) in net assets	(138,172,323)	(1,436,496)
Net assets at beginning of period	435,626,443	437,062,939
Net assets at end of period (including undistributed net investment income of $2,410,518 and $5,982,096, respectively)	**$ 297,454,120**	**$ 435,626,443**

Other Information		
Class A		
Shares outstanding at beginning of period	24,769,255	27,072,074
Shares sold	372,428	711,170
Shares issued to shareholders in reinvestment of distributions	1,389,812	455,690
Shares redeemed	(7,373,837)	(3,469,679)
Net increase (decrease) in Class A shares	(5,611,597)	(2,302,819)
Shares outstanding at end of period	**19,157,658**	**24,769,255**
Class B		
Shares outstanding at beginning of period	297,108	289,672
Shares sold	32,072	68,963
Shares issued to shareholders in reinvestment of distributions	15,690	4,095
Shares redeemed	(52,874)	(65,622)
Net increase (decrease) in Class B shares	(5,112)	7,436
Shares outstanding at end of period	**291,996**	**297,108**

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

Financial Highlights

Class A	Years Ended December 31, 2015	2014	2013	2012	2011
Selected Per Share Data					
Net asset value, beginning of period	**$17.38**	**$15.97**	**$12.45**	**$11.56**	**$11.80**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.11	.24	.26	.25	.25
Net realized and unrealized gain (loss)	(1.20)	1.45	3.54	.87	(.24)
Total from investment operations	(1.09)	1.69	3.80	1.12	.01
Less distributions from:					
Net investment income	(.25)	(.28)	(.28)	(.23)	(.25)
Net realized gains on investment transactions	(.75)	—	—	—	—
Total distributions	(1.00)	(.28)	(.28)	(.23)	(.25)
Net asset value, end of period	**$15.29**	**$17.38**	**$15.97**	**$12.45**	**$11.56**
Total Return (%)	(6.87)[b]	10.72[b]	30.89[b]	9.79[b]	(.07)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	293	430	432	377	396
Ratio of expenses before expense reductions (%)	.78	.78	.78	.78	.79
Ratio of expenses after expense reductions (%)	.73	.73	.74	.77	.79
Ratio of net investment income (loss) (%)	.65	1.43	1.82	2.04	2.15
Portfolio turnover rate (%)	121	133	54	63	28

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, 2015	2014	2013	2012	2011
Selected Per Share Data					
Net asset value, beginning of period	**$17.40**	**$15.99**	**$12.46**	**$11.57**	**$11.81**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.06	.18	.22	.21	.22
Net realized and unrealized gain (loss)	(1.21)	1.46	3.55	.88	(.25)
Total from investment operations	(1.15)	1.64	3.77	1.09	(.03)
Less distributions from:					
Net investment income	(.19)	(.23)	(.24)	(.20)	(.21)
Net realized gains on investment transactions	(.75)	—	—	—	—
Total distributions	(.94)	(.23)	(.24)	(.20)	(.21)
Net asset value, end of period	**$15.31**	**$17.40**	**$15.99**	**$12.46**	**$11.57**
Total Return (%)	(7.16)[b]	10.36[b]	30.54[b]	9.44[b]	(.36)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	4	5	5	4	3
Ratio of expenses before expense reductions (%)	1.10	1.09	1.09	1.09	1.10
Ratio of expenses after expense reductions (%)	1.04	1.04	1.05	1.08	1.10
Ratio of net investment income (loss) (%)	.35	1.10	1.52	1.73	1.84
Portfolio turnover rate (%)	121	133	54	63	28

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 (the "Fund") is a diversified series of Deutsche 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. The 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. During the year ended December 31, 2015, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of December 31, 2015) on the cash collateral invested in Daily Assets Fund. 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, 2015, 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, 2015 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, 2015, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 2,410,518
Undistributed long-term capital gains	$ 12,130,603
Unrealized appreciation (depreciation) on investments	$ (2,116,166)

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

	Years Ended December 31, 2015	2014
Distributions from ordinary income	$ 5,954,143	$ 7,416,542
Distribution from long-term capital gains	$ 18,066,834	$ —

* 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, 2015, purchases and sales of investment transactions (excluding short-term investments) aggregated $470,761,503 and $582,907,611, 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, 2015, 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, 2015 through April 30, 2016, 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, 2015, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$	198,537
Class B		2,760
	$	**201,297**

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, 2015, the Administration Fee was $397,788, of which $26,038 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, 2015, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at December 31, 2015
Class A	$ 416	$ 72
Class B	228	37
	$ 644	**$ 109**

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, 2015, the Distribution Service Fee aggregated $12,342, of which $946 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, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $11,152, of which $4,149 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 1940 Act, 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, 2015, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $4,323.

D. Ownership of the Fund

At December 31, 2015, three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 54%, 28% and 13%. Two participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, each owning 65% and 13%.

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 the one-month 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, 2015.

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 (one of the funds constituting Deutsche Variable Series II) (the "Fund"), as of December 31, 2015, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the 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, 2015, 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 (one of the funds constituting Deutsche Variable Series II) at December 31, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Boston, Massachusetts
February 12, 2016

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, 2015 to December 31, 2015).

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, 2015

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/15	$1,000.00	$1,000.00
Ending Account Value 12/31/15	$ 901.50	$ 900.60
Expenses Paid per $1,000*	$ 3.50	$ 4.98
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/15	$1,000.00	$1,000.00
Ending Account Value 12/31/15	$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)

The Fund paid distributions of $0.75 per share from net long-term capital gains during its year ended December 31, 2015.

Pursuant to Section 852 of the Internal Revenue Code, the Fund designates $13,384,000 as capital gain dividends for its year ended December 31, 2015.

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, 2015, 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 2015.

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

— In September 2015, 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 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 from 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's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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.

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 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 additional reporting from DIMA regarding such funds and, where appropriate, 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, 2014, 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 underperformed its benchmark in the one-, three- and five-year periods ended December 31, 2014. 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 2014 and during the first seven months of 2015. 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, 2014). 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, 2014, 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 noted that the expense limitations agreed to by DIMA were expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable Deutsche U.S. registered funds ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Funds. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM 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 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 also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's investment 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 considered these benefits in reaching its conclusion that the Fund's management fees were reasonable.

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 the individual serving as 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	Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); 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)	106	—
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	106	—
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	106	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); 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; North Bennett Street School (Boston)	106	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)	106	—
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)	106	—
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	106	—

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
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)	106	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)	106	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)	106	—
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)	106	—

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 Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012)
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (since 2015); and Director and Vice President, DeAWM Trust Company (since 2016)
Melinda Morrow[6] (1970) Vice President, 2012–present	Director,[3] Deutsche Asset Management
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset Management; and Chairman, Director and President, DeAWM Trust Company (since 2013); formerly, Director, DeAWM Trust Company (2009–2013)
Caroline Pearson[7] (1962) Chief Legal Officer, 2010–present	Managing Director,[3] Deutsche Asset Management; Secretary, DeAWM Distributors, Inc; and Secretary, DeAWM Service Company
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director,[3] Deutsche Asset Management
Wayne Salit[6] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Hepsen Uzcan[6] (1974) Assistant Secretary, 2013–present	Director,[3] Deutsche Asset Management
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

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

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 Management

VS2LCV-2 (R-025833-5 2/16)

Deutsche
Asset Management

December 31, 2015

Annual Report

Deutsche Variable Series II

Deutsche Money Market VIP

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

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 Management represents the asset management activities conducted by Deutsche Bank AG or any of its subsidiaries.

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

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

Performance Summary

December 31, 2015 (Unaudited)

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, 2015	.01%*
December 31, 2014	.01%*

* The investment advisor has agreed to waive fees/reimburse expenses. Without such fee waivers/expense reimbursements, the 7-day current yield would have been lower.

Yields are historical, will fluctuate and do not guarantee future performance. The 7-day current yield refers to the income paid by the Fund over a 7-day period expressed as an annual percentage rate of the Fund's shares outstanding.

Management Summary

During the 12-month period ended December 31, 2015, 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 past 12 months, rate levels within the money market yield curve — including short-term money market rates — fluctuated based on varying economic reports, investors' interest rate expectations, geopolitical uncertainty and evolving U.S. Federal Reserve Board (the Fed) statements.[1] Despite temporary conditions such as the harsh winter weather that many said was to blame for disappointing first-quarter 2015 U.S. GDP growth, in April the Fed anticipated that U.S. economic conditions would improve.[2] A second-quarter rebound in U.S. GDP growth set the stage for a possible rate hike as early as September of 2015. In late August, the focus shifted to China, as news of that country's economic slowdown spurred additional market volatility. In September, the Fed declined to raise rates, citing concerns over China's stumbling economy. However, in October the comments by the Fed turned more hawkish, not mentioning China but expressing the desire to raise rates at the next Federal Open Market Committee (FOMC) meeting. This set the stage for short-term rates to rise as markets "priced in" an eventual raising of the federal funds rate by 25 basis points in mid-December.

We were able to maintain a competitive yield for the Fund during the annual period ended December 31, 2015. We continued to seek ample liquidity, high credit quality and strong diversification across sectors and geographic regions by maintaining a neutral 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.

Within money markets, we believe that the current balance of tight supply and heavy demand will most likely persist. These technical market conditions, along with issues surrounding money market reform, should in our view create a steeper money market yield curve, keeping yields low at the short end of the curve. Our current forecast is for the federal funds rate to be raised two to three additional times during 2016. In preparation, 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.[3] Our goal, as always, is to maintain ample liquidity, high credit quality and strong diversification across geographic regions and market sectors.

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 Floating-rate securities are debt instruments with floating-rate coupons that generally reset every 30 to 90 days. While floating-rate loans are senior to equity and fixed-income securities, there is no guaranteed return of principal in case of default. Floating-rate loans often have less interest-rate risk than other fixed-income investments. Floating-rate loans are most often secured assets, generally senior to a company's secured debt and can be transferred to debt holders, providing potential downside protection.

Portfolio Summary (Unaudited)

Asset Allocation (As a % of Investment Portfolio)	12/31/15	12/31/14
Commercial Paper	40%	54%
Certificates of Deposit and Bank Notes	23%	10%
Municipal Bonds and Notes	13%	1%
Repurchase Agreements	9%	20%
Government & Agency Obligations	6%	5%
Short-Term Notes	5%	6%
Time Deposits	4%	4%
	100%	100%

Weighted Average Maturity*	12/31/15	12/31/14
Deutsche Variable Series II — Deutsche Money Market VIP	29 days	46 days
First Tier Retail Money Fund Average	29 days	40 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 23.1%		
Banco del Estado de Chile, 0.57%, 4/28/2016	1,500,000	1,500,000
Bank of Nova Scotia, 0.638%, 11/23/2016	1,000,000	1,000,000
Canadian Imperial Bank of Commerce, 0.65%, 6/30/2016	1,500,000	1,500,000
Cooperatieve Centrale Raiffeisen-Boerenleenbank BA:		
0.43%, 3/4/2016	1,200,000	1,200,000
0.497%, 4/14/2016	1,000,000	1,000,000
0.582%, 5/19/2016	1,000,000	1,000,000
Dexia Credit Local, 0.431%, 5/4/2016	1,000,000	1,000,000
DZ Bank AG, 0.36%, 1/4/2016	1,500,000	1,500,000
Mitsubishi UFJ Trust & Banking Corp., 0.38%, 1/19/2016	1,000,000	1,000,000
Mizuho Bank Ltd.:		
0.29%, 1/20/2016	1,000,000	1,000,000
0.29%, 1/29/2016	1,500,000	1,500,000
0.3%, 2/11/2016	1,500,000	1,500,000
Nordea Bank Finland PLC:		
0.45%, 3/18/2016	1,500,000	1,500,000
0.5%, 3/9/2016	1,000,000	1,000,000
Royal Bank of Canada, 0.71%, 5/2/2016	1,500,000	1,500,000
Sumitomo Mitsui Banking Corp.:		
0.4%, 2/18/2016	2,000,000	2,000,000
0.54%, 3/16/2016	1,000,000	1,000,000
Svenska Handelsbanken AB:		
0.495%, 2/29/2016	1,500,000	1,500,012
0.584%, 7/1/2016	800,000	800,206
Swedbank AB, 0.453%, 3/10/2016	1,000,000	1,000,000
Toronto-Dominion Bank, 0.43%, 3/2/2016	1,500,000	1,500,000
Wells Fargo Bank NA:		
0.394%, 6/3/2016	1,000,000	1,000,000
0.457%, 4/11/2016	1,000,000	1,000,000
0.65%, 7/1/2016	1,500,000	1,500,000
Westpac Banking Corp., 0.552%, 5/27/2016	1,000,000	1,000,000
Total Certificates of Deposit and Bank Notes (Cost $31,000,218)		**31,000,218**
Commercial Paper 40.2%		
Issued at Discount 28.3%**		
Albion Capital LLC, 0.35%, 1/20/2016	1,000,000	999,815
Bank Nederlandse Gemeenten, 0.381%, 3/4/2016	2,000,000	1,998,670
BMW U.S. Capital LLC, 0.381%, 1/4/2016	1,000,000	999,968
Caisse Centrale Desjardins du Quebec, 0.37%, 2/2/2016	1,250,000	1,249,589
Caisse des Depots et Consignations, 0.31%, 2/16/2016	2,500,000	2,499,010
Coca-Cola Co., 0.511%, 3/18/2016	1,000,000	998,909
Collateralized Commercial Paper II Co., LLC, 0.481%, 4/6/2016	1,000,000	998,720
DBS Bank Ltd., 0.34%, 1/28/2016	1,500,000	1,499,618
Erste Abwicklungsanstalt:		
0.33%, 2/3/2016	1,000,000	999,698
0.531%, 4/4/2016	1,500,000	1,497,924
Exxon Mobil Corp., 0.45%, 2/1/2016	5,000,000	4,998,062
Hannover Funding Co., LLC, 0.45%, 1/4/2016	2,000,000	1,999,925
Kells Funding LLC:		
0.37%, 2/2/2016	1,000,000	999,698
144A, 0.401%, 1/8/2016	1,000,000	999,922
0.431%, 3/14/2016	1,500,000	1,498,692
Manhattan Asset Funding Co., LLC, 0.38%, 1/27/2016	1,500,000	1,499,588
Matchpoint Finance PLC, 0.35%, 1/4/2016	4,000,000	3,999,883
Nestle Capital Corp., 0.27%, 2/26/2016	1,000,000	999,580
Regency Markets No. 1 LLC, 0.45%, 1/20/2016	1,000,000	999,763
Sinopec Century Bright Capital Investment Ltd., 0.5%, 1/11/2016	1,000,000	999,861
Standard Chartered Bank:		
0.401%, 1/13/2016	1,300,000	1,299,827
0.42%, 1/8/2016	1,500,000	1,499,877
0.501%, 4/5/2016	1,500,000	1,498,021
Swedbank AB, 0.366%, 2/1/2016	1,000,000	999,686
		38,034,306
Issued at Par* 11.9%		
ASB Finance Ltd., 0.429%, 1/5/2016	1,500,000	1,500,000
Bank Nederlandse Gemeenten:		
0.439%, 5/6/2016	1,500,000	1,500,000
0.522%, 2/25/2016	1,000,000	1,000,000
Bank of Nova Scotia, 0.57%, 2/12/2016	2,200,000	2,200,000
Bedford Row Funding Corp.:		
0.351%, 1/14/2016	1,000,000	1,000,000
144A, 0.517%, 4/12/2016	500,000	500,000
Commonwealth Bank of Australia:		
0.379%, 4/7/2016	1,000,000	999,983
0.42%, 3/4/2016	1,000,000	1,000,000
Crown Point Capital Co., LLC, 0.718%, 8/25/2016	1,000,000	1,000,000
HSBC Bank PLC, 144A, 0.678%, 6/24/2016	1,250,000	1,250,000
Nederlandse Waterschapsbank NV, 144A, 0.53%, 3/18/2016	1,000,000	1,000,000
Old Line Funding LLC, 144A, 0.496%, 2/8/2016	2,000,000	2,000,000
Westpac Banking Corp., 144A, 0.5%, 3/10/2016	1,000,000	1,000,000
		15,949,983
Total Commercial Paper (Cost $53,984,289)		**53,984,289**
Short-Term Notes 4.7%		
Bank of Nova Scotia, 2.9%, 3/29/2016	1,000,000	1,005,626
GE Capital International Funding Co.:		
144A, 0.964%, 4/15/2016	1,000,000	1,001,359
0.964%, 4/15/2016	500,000	500,599
Home Depot, Inc., 5.4%, 3/1/2016	750,000	756,010

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

	Principal Amount ($)	Value ($)
JPMorgan Chase Bank NA, 0.48%*, 11/22/2016	2,000,000	2,000,000
Svenska Handelsbanken AB, 144A, 0.584%*, 3/3/2016	1,000,000	1,000,228
Total Short-Term Notes (Cost $6,263,822)		**6,263,822**

Time Deposit 4.7%

Credit Agricole SA, 0.25%, 1/4/2016 (Cost $6,279,008)	6,279,008	**6,279,008**

Government & Agency Obligations 5.6%

U.S. Government Sponsored Agencies

Federal Home Loan Bank:		
0.371%**, 5/16/2016	1,300,000	1,298,183
0.476%**, 3/9/2016	1,000,000	999,103
Federal National Mortgage Association:		
0.05%**, 1/4/2016	3,000,000	2,999,988
0.207%**, 10/21/2016	1,300,000	1,299,943
0.255%**, 2/2/2016	1,000,000	999,773
Total Government & Agency Obligations (Cost $7,596,990)		**7,596,990**

Municipal Bonds and Notes 12.7%

Georgia, JPMorgan Chase Putters/Drivers Trust, Series SGT05, 0.45%***, 1/1/2035, INS: FGIC, NATL, LIQ: Societe Generale, LOC: Societe Generale	1,000,000	1,000,000
Michigan, RIB Floater Trust, Series 6WE, 144A, 0.16%***, 7/1/2018, LOC: Barclays Bank PLC	3,000,000	3,000,000
Michigan, State Finance Authority Revenue, School Loan, Series B, 0.35%***, 9/1/2050, LOC: PNC Bank NA	1,000,000	1,000,000
New Jersey, RBC Municipal Products, Inc. Trust, Series E-60, 144A, 0.42%***, 6/28/2016, LOC: Royal Bank of Canada	1,500,000	1,500,000
New York, State Housing Finance Agency, Series B, 0.38%***, 5/15/2033	2,000,000	2,000,000
New York, State Housing Finance Agency Revenue, 605 West 42nd Street, Series B, 144A, 0.45%***, 5/1/2048, LOC: Bank of China	1,000,000	1,000,000
RIB Floater Trust, Series 8UE, 144A, 0.54%***, 12/27/2016, LOC: Barclays Bank PLC	3,500,000	3,500,000
San Jose, CA, Financing Authority Lease Revenue, TECP, 0.52%, 1/5/2016, LOC: Barclays Bank PLC	2,000,000	2,000,000
Texas, RIB Floater Trust, Series 5WE, 144A, 0.16%***, 7/1/2018, LOC: Barclays Bank PLC	2,000,000	2,000,000
Total Municipal Bonds and Notes (Cost $17,000,000)		**17,000,000**

Repurchase Agreements 9.1%

BNP Paribas, 0.27%, dated 6/10/2015, to be repurchased at $1,502,689 on 2/4/2016 (a) (b)	1,500,000	1,500,000
JPMorgan Securities, Inc., 0.475%, dated 4/14/2015, to be repurchased at $1,255,806 on 3/31/2016 (a) (c)	1,250,000	1,250,000
JPMorgan Securities, Inc., 0.506%, dated 4/15/2015, to be repurchased at $2,512,334 on 3/31/2016 (a) (d)	2,500,000	2,500,000
Merrill Lynch & Co., Inc., 0.29%, dated 12/31/2015, to be repurchased at $7,000,226 on 1/4/2016 (e)	7,000,000	7,000,000
Total Repurchase Agreements (Cost $12,250,000)		**12,250,000**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $134,374,327)†	100.1	**134,374,327**
Other Assets and Liabilities, Net	(0.1)	**(154,110)**
Net Assets	100.0	**134,220,217**

* Floating rate securities' yields vary with a designated market index or market rate, such as the coupon-equivalent of the U.S. Treasury Bill rate. These securities are shown at their current rate as of December 31, 2015.

** 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, 2015.

† The cost for federal income tax purposes was $134,374,327.

(a) Open maturity repurchase agreement whose interest rate resets periodically and is shown at the current rate as of December 31, 2015. 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.

(b) Collateralized by $1,569,147 Madison Park Funding XVII Ltd., 1.729%, maturing on 7/21/2027 with a value of $1,545,001.

(c) Collateralized by $1,276,458 Federal Home Loan Mortgage Corp., 3.0%, maturing on 12/1/2042 with a value of $1,277,381.

(d) Collateralized by $2,505,857 Federal Home Loan Mortgage Corp., 3.5%, maturing on 7/1/2044 with a value of $2,551,278.

(e) Collateralized by $7,197,400 U.S. Treasury Note, 1.375%, maturing on 2/29/2020 with a value of $7,140,026.

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.

FGIC: Financial Guaranty Insurance Co.

INS: Insured

LIQ: Liquidity Facility

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

LOC: Letter of Credit

NATL: National Public Finance Guarantee Corp.

TECP: Tax Exempt Commercial Paper

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, 2015 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 (f)	$ —	$122,124,327	$ —	$122,124,327
Repurchase Agreements	—	12,250,000	—	12,250,000
Total	**$ —**	**$134,374,327**	**$ —**	**$134,374,327**

(f) 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, 2015

Assets		
Investments in non-affiliated securities, valued at amortized cost	$	134,374,327
Cash		4,766
Receivable for Fund shares sold		72,772
Interest receivable		66,613
Other assets		2,615
Total assets		134,521,093

Liabilities		
Payable for Fund shares redeemed		163,761
Distributions payable		602
Accrued management fee		15,820
Accrued Trustees' fees		2,978
Other accrued expenses and payables		117,715
Total liabilities		300,876
Net assets, at value	**$**	**134,220,217**

Net Assets Consist of		
Undistributed net investment income		800
Accumulated net realized gain (loss)		(122)
Paid-in capital		134,219,539
Net assets, at value	**$**	**134,220,217**
Class A		
Net Asset Value, offering and redemption price per share ($134,220,217 ÷ 134,303,255 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**1.00**

Statement of Operations

for the year ended December 31, 2015

Investment Income		
Income: Interest	$	416,677
Expenses: Management fee		455,343
Administration fee		159,769
Services to shareholders		1,601
Custodian fee		23,578
Professional fees		63,525
Reports to shareholders		59,015
Trustees' fee and expenses		8,273
Other		8,821
Total expenses before expense reductions		779,925
Expense reductions		(379,244)
Total expenses after expense reductions		400,681
Net investment income		**15,996**
Net realized gain (loss) from investments		**(122)**
Net increase (decrease) in net assets resulting from operations	**$**	**15,874**

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, 2015	2014
Operations:		
Net investment income	$ 15,996	$ 17,035
Net realized gain (loss)	(122)	81
Net increase (decrease) in net assets resulting from operations	15,874	17,116
Distributions to shareholders from:		
Net investment income		
Class A	(15,989)	(17,036)
Fund share transactions:		
Class A		
Proceeds from shares sold	150,185,171	130,299,481
Reinvestment of distributions	16,193	16,947
Cost of shares redeemed	(193,027,682)	(126,949,638)
Net increase (decrease) in net assets from Class A share transactions	(42,826,318)	3,366,790
Increase (decrease) in net assets	(42,826,433)	3,366,870
Net assets at beginning of period	177,046,650	173,679,780
Net assets at end of period (including undistributed net investment income of $800 and $793, respectively)	**$ 134,220,217**	**$ 177,046,650**

Other Information		
Class A		
Shares outstanding at beginning of period	177,129,573	173,762,783
Shares sold	150,185,171	130,299,481
Shares issued to shareholders in reinvestment of distributions	16,193	16,947
Shares redeemed	(193,027,682)	(126,949,638)
Net increase (decrease) in Class A shares	(42,826,318)	3,366,790
Shares outstanding at end of period	**134,303,255**	**177,129,573**

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

Financial Highlights

Class A	Years Ended December 31, 2015	2014	2013	2012	2011
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)	134	177	174	196	217
Ratio of expenses before expense reductions (%)	.49	.49	.49	.45	.51
Ratio of expenses after expense reductions (%)	.25	.18	.20	.31	.25
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 (the "Fund") is a diversified series of Deutsche 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, 2015, the Fund held repurchase agreements with a gross value of $12,250,000. 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, 2015 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, 2015, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$	800

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

	Years Ended December 31,			
		2015		2014
Distributions from ordinary income*	$	15,989	$	17,036

* 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, 2015 through September 30, 2016, 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, 2015, the fee pursuant to the Investment Management Agreement aggregated $455,343, of which $378,609 was waived, resulting in an annual effective rate of 0.05% 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, 2015, the Administration Fee was $159,769, of which $11,671 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, 2015, the amounts charged to the Fund by DSC aggregated $635, 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, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $10,074, of which $4,079 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.

Transactions with Affiliates. The Fund may purchase securities from, or sell securities to, an affiliated fund provided the affiliation is solely due to having a common investment adviser, common officers, or common trustees. During the year ended December 31, 2015, the Fund engaged in securities purchases of $4,550,000 with an affiliated fund in compliance with Rule 17a-7 under the 1940 Act.

C. Ownership of the Fund

At December 31, 2015, three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 45%, 23% and 14%.

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 the one-month 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, 2015.

E. Additional Information

Effective on or about May 2, 2016, the Fund will operate as a government money market fund under the amendments to Rule 2a-7 under the Investment Company Act of 1940, as amended, that were adopted in July 2014 with final compliance dates ranging between July 2015 and October 2016. As currently structured, on the final compliance date for the Rule 2a-7 amendments, the Fund would be required to implement a floating net asset value and would be allowed, and in certain situations, required, to implement liquidity fees and/or redemption gates. As a government money market fund, the Fund will continue to seek to maintain a stable $1.00 net asset value (although the Fund will seek to maintain a $1.00 net asset value, there is no guarantee that it will be able do so and if the net asset value falls below $1.00, you would lose money) and the Fund will not be required to implement liquidity fees and/or redemption gates. As a government money market fund, the Fund will invest at least 99.5% of the fund's total assets in cash, US government securities, and/or repurchase agreements that are collateralized by these same securities.

In order for the Fund to operate as a government money market fund, shareholders approved revisions to the Fund's fundamental investment policy relating to concentration (the "Concentration Policy") such that the Fund would no longer be required to invest more than 25% of its total assets in obligations of banks and other financial institutions. If not revised, the current Concentration Policy would have precluded the Fund from operating as a government money market fund.

In addition to the revised Concentration Policy, the following changes to the Fund for it to operate as a government money market fund will also take effect on May 2, 2016:

(i) The adoption of a principal investment strategy to invest at least 99.5% of the Fund's total assets in cash, government securities, and/or repurchase agreements that are collateralized by these same securities;

(ii) Name change from Deutsche Money Market VIP to Deutsche Government Money Market VIP;

(iii) The adoption of a principal investment strategy to invest at least 80% of net assets, plus the amount of any borrowings for investment purposes, in government securities and/or repurchase agreements that are collateralized by government securities; and

(iv) A reduction in the management fee rate paid by the Fund to DIMA as set forth below:

Current Management Fee Rate Schedule		**Revised Management Fee Rate Schedule**	
Average Daily Assets	**Management Fee Rate**	**Average Daily Assets**	**Management Fee Rate**
First $500 Million	.285%	First $500 Million	.235%
Next $500 Million	.270%	Next $500 Million	.220%
Next $1 Billion	.255%	Next $1 Billion	.205%
Over $2 Million	.240%	Over $2 Million	.190%

To ensure an orderly transition to a government money market fund, DIMA anticipates that it will begin to gradually implement changes to the Fund beginning in the first quarter of 2016. As a result, it is expected that the Fund gradually will allocate a larger percentage of its assets to government securities over time until it reaches its new allocation on or about May 2, 2016. Because the yields on government securities generally may be expected to be lower than the yields on comparable non-government securities, it should be expected that the Fund's yield may decrease as more assets are invested in government securities.

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 (one of the funds constituting Deutsche Variable Series II) (the "Fund"), as of December 31, 2015, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the 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, 2015, 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 (one of the funds constituting Deutsche Variable Series II) at December 31, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Boston, Massachusetts
February 12, 2016

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, 2015 to December 31, 2015).

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, 2015

Actual Fund Return	Class A
Beginning Account Value 7/1/15	$1,000.00
Ending Account Value 12/31/15	$1,000.05
Expenses Paid per $1,000*	$ 1.46

Hypothetical 5% Fund Return	Class A
Beginning Account Value 7/1/15	$1,000.00
Ending Account Value 12/31/15	$1,023.74
Expenses Paid per $1,000*	$ 1.48

* 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	.29%

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

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option.

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.

Shareholder Meeting Results **(Unaudited)**

A special Meeting of Shareholders (the "Meeting") of Deutsche Money Market VIP (the "Fund") was called to order on December 21, 2015 at the offices of Deutsche Investment Management Americas Inc., 345 Park Avenue, New York, New York 10154. At the Meeting, the following matter was voted upon by the shareholders of the Fund (the resulting votes are presented below).

1. Approval of a Revised Fundamental Investment Policy Relating to Concentration.

Number of Votes:

For	Against	Abstain	Broker Non-Votes*
86,960,739	1,533,144	6,719,138	0

* Broker non-votes are proxies received by the funds from brokers or nominees when the broker or nominee neither has received instructions from the beneficial owner or other persons entitled to vote nor has discretionary power to vote in a particular matter.

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 2015.

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

— In September 2015, 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 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 from 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's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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.

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 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 additional reporting from DIMA regarding such funds and, where appropriate, 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- and three-year periods ended December 31, 2014, 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, 2014). The Board considered that the Fund's management fee would be reduced by 0.05% at all breakpoint levels if shareholders approve a proposal that would result in the Fund being restructured into a government money market fund. The Board noted that the Fund's Class A shares total (net) operating expenses were higher than the median (4th quartile) of the applicable Lipper expense universe (based on Lipper data provided as of December 31, 2014, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees ("Lipper Universe Expenses"). 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 Deutsche U.S. registered funds ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Funds. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM 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 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 also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's investment 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. 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 considered these benefits in reaching its conclusion that the Fund's management fees were reasonable.

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 the individual serving as 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	Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); 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)	106	—
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	106	—
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	106	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); 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; North Bennett Street School (Boston)	106	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)	106	—
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)	106	—
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	106	—

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
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)	106	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)	106	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)	106	—
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)	106	—

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 Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012)
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (since 2015); and Director and Vice President, DeAWM Trust Company (since 2016)
Melinda Morrow[6] (1970) Vice President, 2012–present	Director,[3] Deutsche Asset Management
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset Management; and Chairman, Director and President, DeAWM Trust Company (since 2013); formerly, Director, DeAWM Trust Company (2009–2013)
Caroline Pearson[7] (1962) Chief Legal Officer, 2010–present	Managing Director,[3] Deutsche Asset Management; Secretary, DeAWM Distributors, Inc; and Secretary, DeAWM Service Company
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director,[3] Deutsche Asset Management
Wayne Salit[6] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Hepsen Uzcan[6] (1974) Assistant Secretary, 2013–present	Director,[3] Deutsche Asset Management
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

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

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 Management

VS2MM-2 (R-025834-5 2/16)

Deutsche
Asset Management

December 31, 2015

Annual Report

Deutsche Variable Series II

Deutsche Small Mid Cap Growth VIP

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

Stocks may decline in value. Smaller and medium company stocks tend to be more volatile than large company stocks. 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 Management represents the asset management activities conducted by Deutsche Bank AG or any of its subsidiaries.

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

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

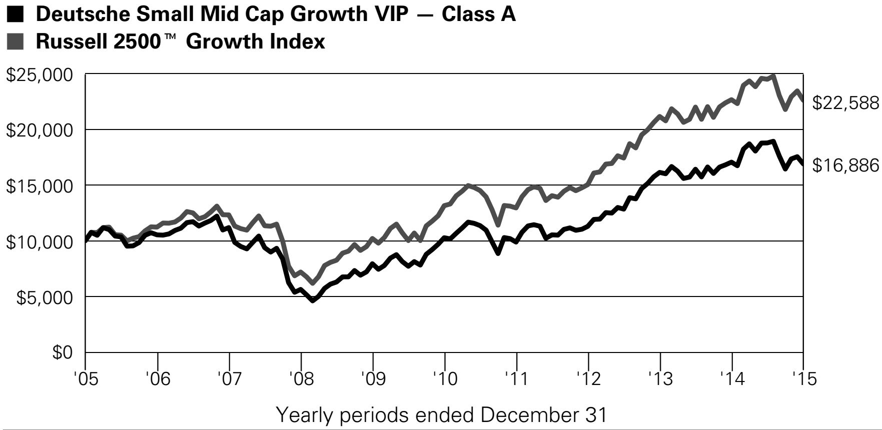
Performance Summary

December 31, 2015 (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, 2015 is 0.73% 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	$9,910	$14,957	$16,435	$16,886
	Average annual total return	–0.90%	14.36%	10.45%	5.38%
Russell 2500 Growth Index	Growth of $10,000	$9,981	$15,029	$17,179	$22,588
	Average annual total return	–0.19%	14.54%	11.43%	8.49%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2015 (Unaudited)

For the 12-month period ended December 31, 2015, the Fund returned –0.90% (Class A shares, unadjusted for contract charges) in comparison to the –0.19% return of the Russell 2500™ Growth Index.[1]

At the start of 2015 concerns resurfaced regarding global growth and the rapidly rising U.S. dollar. During the summer, continued uncertainty as to the timing of a possible short-term interest rate increase by the U.S. Federal Reserve Board (the Fed) spurred increased market volatility. The markets then entered "risk-off" mode in late June as drastic declines in China's stock market and the possibility of a default in Greece took center stage. The bearish mood carried over into the third quarter, which was one of the most volatile market periods in recent years. China's surprise yuan devaluation in mid-August exacerbated concerns that global growth might slow further. Throughout most of the fourth quarter, uncertainty regarding anticipated Fed moves dominated market sentiment, especially given the mixed economic pace in the United States. In mid-December, the Fed raised short-term rates by 25 basis points, the first U.S. rate hike in nearly 10 years. Continued high levels of investor anxiety surrounding weak economic data in the United States and abroad, along with declining oil prices, dampened investor enthusiasm into year end.

The Fund's underperformance was derived primarily from unfavorable sector allocation, based on overweights in energy, health care and industrials. Underweights in materials, information technology and financials contributed positively to returns.[2] Stock selection was positive across health care, industrials and energy. In contrast, selection within materials and consumer staples detracted.[3]

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 are likely 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- to mid-cap growth segment of the U.S. equity universe. It includes Russell 2500™ Index companies with higher price-to-book ratios and higher forecasted growth values. Index returns do not reflect fees or expenses and it is not possible to invest directly in an index.

2 "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.

3 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)	**12/31/15**	**12/31/14**
Common Stocks	98%	97%
Cash Equivalents	2%	2%
Convertible Preferred Stock	0%	—
Exchange-Traded Funds	—	1%
	100%	100%

Sector Diversification (As a % of Common Stocks and Convertible Preferred Stock)	**12/31/15**	**12/31/14**
Health Care	23%	20%
Consumer Discretionary	20%	21%
Information Technology	20%	21%
Industrials	17%	18%
Financials	9%	7%
Materials	5%	4%
Consumer Staples	4%	5%
Energy	2%	3%
Telecommunication Services	—	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 97.8%		
Consumer Discretionary 19.9%		
Auto Components 3.5%		
American Axle & Manufacturing Holdings, Inc.*	68,587	1,299,038
Gentherm, Inc.*	39,010	1,849,074
Tenneco, Inc.*	35,282	1,619,796
		4,767,908
Hotels, Restaurants & Leisure 4.1%		
Fogo De Chao, Inc.* (a)	38,723	587,041
Jack in the Box, Inc.	25,352	1,944,752
La Quinta Holdings, Inc.*	61,449	836,321
Panera Bread Co. "A"*	11,006	2,143,748
		5,511,862
Household Durables 2.7%		
iRobot Corp.* (a)	54,832	1,941,053
Jarden Corp.*	30,265	1,728,737
		3,669,790
Leisure Products 0.9%		
Polaris Industries, Inc.	15,019	**1,290,883**
Media 1.0%		
Cinemark Holdings, Inc.	40,318	**1,347,831**
Multiline Retail 0.5%		
Burlington Stores, Inc.*	15,800	**677,820**
Specialty Retail 4.9%		
DSW, Inc. "A"	31,568	753,212
Outerwall, Inc. (a)	18,731	684,431
Penske Automotive Group, Inc.	30,344	1,284,765
The Children's Place, Inc.	19,936	1,100,467
Ulta Salon, Cosmetics & Fragrance, Inc.*	11,169	2,066,265
Urban Outfitters, Inc.* (a)	31,105	707,639
		6,596,779
Textiles, Apparel & Luxury Goods 2.3%		
Carter's, Inc.	12,886	1,147,241
Hanesbrands, Inc.	65,194	1,918,659
		3,065,900
Consumer Staples 4.2%		
Food & Staples Retailing 1.9%		
Casey's General Stores, Inc.	16,982	2,045,482
United Natural Foods, Inc.*	13,464	529,943
		2,575,425
Food Products 2.3%		
Hain Celestial Group, Inc.*	32,943	1,330,568
The WhiteWave Foods Co.*	45,730	1,779,354
		3,109,922
Energy 1.6%		
Energy Equipment & Services 0.8%		
Core Laboratories NV (a)	7,074	769,227
Dril-Quip, Inc.*	6,684	395,893
		1,165,120
Oil, Gas & Consumable Fuels 0.8%		
Diamondback Energy, Inc.* (a)	11,120	743,928
Gulfport Energy Corp.*	12,094	297,150
		1,041,078
Financials 9.1%		
Banks 6.6%		
FCB Financial Holdings, Inc. "A"*	31,540	1,128,817
Pinnacle Financial Partners, Inc.	33,373	1,714,037
Signature Bank*	12,364	1,896,267
South State Corp.	11,983	862,177
SVB Financial Group*	9,441	1,122,535
Talmer Bancorp., Inc. "A"	122,884	2,225,429
		8,949,262
Capital Markets 2.5%		
Lazard Ltd. "A"	29,974	1,349,130
Moelis & Co. "A"	45,102	1,316,076
Oaktree Capital Group LLC (a)	15,342	732,120
		3,397,326
Health Care 21.9%		
Biotechnology 7.1%		
ACADIA Pharmaceuticals, Inc.* (a)	22,027	785,263
Alkermes PLC*	16,514	1,310,881
Anacor Pharmaceuticals, Inc.*	9,733	1,099,537
Ligand Pharmaceuticals, Inc.* (a)	20,682	2,242,343
NantKwest, Inc.* (a)	25,928	449,332
Neurocrine Biosciences, Inc.* (a)	15,201	859,921
Orexigen Therapeutics, Inc.*	222,200	382,184
Retrophin, Inc.*	72,725	1,402,865
Spectrum Pharmaceuticals, Inc.*	185,970	1,121,399
		9,653,725
Health Care Equipment & Supplies 3.1%		
NxStage Medical, Inc.*	15,325	335,771
Orthofix International NV*	48,312	1,894,313
Zeltiq Aesthetics, Inc.*	68,151	1,944,348
		4,174,432
Health Care Providers & Services 5.8%		
Centene Corp.*	30,312	1,994,833
Kindred Healthcare, Inc.	93,058	1,108,321
Molina Healthcare, Inc.* (a)	27,405	1,647,862
Providence Service Corp.*	64,652	3,033,472
		7,784,488
Life Sciences Tools & Services 1.2%		
PAREXEL International Corp.*	23,153	**1,577,182**
Pharmaceuticals 4.7%		
Flamel Technologies SA (ADR)*	211,276	2,579,680
Medicines Co.* (a)	37,131	1,386,471
Pacira Pharmaceuticals, Inc.*	31,283	2,402,222
		6,368,373
Industrials 16.2%		
Aerospace & Defense 1.1%		
DigitalGlobe, Inc.*	31,613	495,059
HEICO Corp. (a)	19,122	1,039,472
		1,534,531
Airlines 1.0%		
JetBlue Airways Corp.*	60,173	**1,362,918**
Building Products 2.4%		
A.O. Smith Corp.	15,341	1,175,274
Fortune Brands Home & Security, Inc.	37,243	2,066,987
		3,242,261
Construction & Engineering 1.5%		
Primoris Services Corp.	89,208	**1,965,252**
Electrical Equipment 3.6%		
Acuity Brands, Inc.	11,253	2,630,951
AZZ, Inc.	27,522	1,529,398
Thermon Group Holdings, Inc.*	42,776	723,770
		4,884,119
Machinery 5.1%		
Altra Industrial Motion Corp. (a)	22,041	552,788
IDEX Corp.	13,100	1,003,591

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

	Shares	Value ($)
Middleby Corp.*	21,760	2,347,251
WABCO Holdings, Inc.*	21,822	2,231,518
Watts Water Technologies, Inc. "A"	16,595	824,274
		6,959,422
Professional Services 1.5%		
On Assignment, Inc.* (a)	43,844	**1,970,788**
Information Technology 19.9%		
Communications Equipment 0.6%		
Palo Alto Networks, Inc.*	4,248	**748,243**
Electronic Equipment, Instruments & Components 2.5%		
Cognex Corp.	45,416	1,533,698
IPG Photonics Corp.* (a)	20,728	1,848,109
		3,381,807
Internet Software & Services 3.4%		
CoStar Group, Inc.* (a)	8,527	1,762,446
LogMeIn, Inc.*	22,800	1,529,880
WebMD Health Corp.*	28,445	1,373,893
		4,666,219
IT Services 6.6%		
Broadridge Financial Solutions, Inc.	24,270	1,304,027
Cardtronics, Inc.* (a)	68,408	2,301,929
MAXIMUS, Inc.	32,334	1,818,788
VeriFone Systems, Inc.*	50,938	1,427,283
WEX, Inc.*	9,298	821,943
WNS Holdings Ltd. (ADR)*	39,628	1,235,997
		8,909,967
Semiconductors & Semiconductor Equipment 1.1%		
Advanced Energy Industries, Inc.*	53,932	**1,522,500**
Software 5.7%		
Aspen Technology, Inc.*	35,583	1,343,614
Qlik Technologies, Inc.*	27,102	858,049
Splunk, Inc.* (a)	19,500	1,146,795
Tyler Technologies, Inc.*	14,292	2,491,382
Ultimate Software Group, Inc.*	9,243	1,807,099
		7,646,939

	Shares	Value ($)
Materials 4.7%		
Chemicals 2.7%		
A. Schulman, Inc.	54,315	1,664,212
Huntsman Corp.	74,512	847,201
Minerals Technologies, Inc.	23,578	1,081,287
		3,592,700
Construction Materials 0.9%		
Eagle Materials, Inc.	20,787	**1,256,158**
Containers & Packaging 1.1%		
Berry Plastics Group, Inc.*	42,248	**1,528,533**
Telecommunication Services 0.3%		
Wireless Telecommunication Services		
SBA Communications Corp. "A"*	3,555	**373,523**
Total Common Stocks (Cost $103,384,064)		**132,270,986**
Convertible Preferred Stock 0.2%		
Health Care		
Providence Service Corp., 5.5% (Cost $283,300)	2,833	**333,311**
Securities Lending Collateral 13.4%		
Daily Assets Fund, 0.36% (b) (c) (Cost $18,077,894)	18,077,894	**18,077,894**
Cash Equivalents 1.7%		
Central Cash Management Fund, 0.25% (b) (Cost $2,265,809)	2,265,809	**2,265,809**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $124,011,067)†	113.1	**152,948,000**
Other Assets and Liabilities, Net	(13.1)	**(17,753,275)**
Net Assets	100.0	**135,194,725**

* Non-income producing security.

† The cost for federal income tax purposes was $124,804,014. At December 31, 2015, net unrealized appreciation for all securities based on tax cost was $28,143,986. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $36,225,659 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $8,081,673.

(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, 2015 amounted to $17,468,532, which is 12.9% of net assets.

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

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

ADR: American 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, 2015 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)	$132,270,986	$ —	$ —	$132,270,986
Convertible Preferred Stock	—	—	333,311	333,311
Short-Term Investments (d)	20,343,703	—	—	20,343,703
Total	**$152,614,689**	**$ —**	**$ 333,311**	**$152,948,000**

There have been no transfers between fair value measurement levels during the year ended December 31, 2015.

(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, 2015

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $103,667,364) — including $17,468,532 of securities loaned	$	132,604,297
Investment in Daily Assets Fund (cost $18,077,894)*		18,077,894
Investment in Central Cash Management Fund (cost $2,265,809)		2,265,809
Total investments in securities, at value (cost $124,011,067)		152,948,000
Cash		10,000
Receivable for investments sold		141,372
Receivable for Fund shares sold		485,831
Dividends receivable		22,092
Interest receivable		6,821
Other assets		2,863
Total assets		153,616,979
Liabilities		
Payable upon return of securities loaned		18,077,894
Payable for Fund shares redeemed		176,211
Accrued management fee		65,340
Accrued Trustees' fees		2,806
Other accrued expenses and payables		100,003
Total liabilities		18,422,254
Net assets, at value	**$**	**135,194,725**
Net Assets Consist of		
Net unrealized appreciation (depreciation) on investments		28,936,933
Accumulated net realized gain (loss)		19,482,584
Paid-in capital		86,775,208
Net assets, at value	**$**	**135,194,725**
Class A		
Net Asset Value, offering and redemption price per share ($135,194,725 ÷ 6,467,679 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**20.90**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2015

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $654)	$	779,133
Income distributions — Central Cash Management Fund		2,913
Securities lending income, including income from Daily Assets Fund, net of borrower rebates		120,854
Total income		902,900
Expenses:		
Management fee		936,289
Administration fee		170,234
Services to shareholders		2,094
Custodian fee		11,954
Professional fees		77,063
Reports to shareholders		14,618
Trustees' fees and expenses		8,260
Other		9,414
Total expenses		1,229,926
Net investment income (loss)		**(327,026)**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from investments		21,100,175
Change in net unrealized appreciation (depreciation) on investments		(21,155,273)
Net gain (loss)		**(55,098)**
Net increase (decrease) in net assets resulting from operations	**$**	**(382,124)**

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, 2015	2014
Operations:		
Net investment income (loss)	$ (327,026)	$ (196,065)
Net realized gain (loss)	21,100,175	20,390,112
Change in net unrealized appreciation (depreciation)	(21,155,273)	(10,889,918)
Net increase (decrease) in net assets resulting from operations	(382,124)	9,304,129
Distributions to shareholders from:		
Net realized gains		
Class A	(13,914,292)	—
Total distributions	(13,914,292)	—
Fund share transactions:		
Class A		
Proceeds from shares sold	9,710,776	5,733,576
Reinvestment of distributions	13,914,292	—
Cost of shares redeemed	(46,020,854)	(30,428,185)
Net increase (decrease) in net assets from Class A share transactions	(22,395,786)	(24,694,609)
Increase (decrease) in net assets	(36,692,202)	(15,390,480)
Net assets at beginning of period	171,886,927	187,277,407
Net assets at end of period	**$ 135,194,725**	**$ 171,886,927**

Other Information		
Class A		
Shares outstanding at beginning of period	7,527,702	8,676,171
Shares sold	422,288	261,454
Shares issued to shareholders in reinvestment of distributions	604,706	—
Shares redeemed	(2,087,017)	(1,409,923)
Net increase (decrease) in Class A shares	(1,060,023)	(1,148,469)
Shares outstanding at end of period	**6,467,679**	**7,527,702**

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

Financial Highlights

Class A	Years Ended December 31, 2015	2014	2013	2012	2011
Selected Per Share Data					
Net asset value, beginning of period	**$22.83**	**$21.59**	**$15.14**	**$13.24**	**$13.85**
Income (loss) from investment operations:					
Net investment income (loss)[a]	(.04)	(.02)	(.04)	.02	(.03)
Net realized and unrealized gain (loss)	(.00)	1.26	6.51	1.88	(.50)
Total from investment operations	(.04)	1.24	6.47	1.90	(.53)
Less distributions from:					
Net investment income	—	—	(.02)	—	(.08)
Net realized gains	(1.89)	—	—	—	—
Total distributions	(1.89)	—	(.02)	—	(.08)
Net asset value, end of period	**$20.90**	**$22.83**	**$21.59**	**$15.14**	**$13.24**
Total Return (%)	(.90)	5.74	42.78	14.35	(3.91)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	135	172	187	145	147
Ratio of expenses (%)	.72	.73	.72	.74	.73
Ratio of net investment income (loss) (%)	(.19)	(.11)	(.22)	.11	(.23)
Portfolio turnover rate (%)	42	44	56	57	84

[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 (the "Fund") is a diversified series of Deutsche 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-trade fund ("ETF") 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.

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. During the year ended December 31, 2015, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of December 31, 2015) on the cash collateral invested in Daily Assets Fund. 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, 2015, 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, 2015 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, 2015, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 264,764
Undistributed long-term capital gains	$ 20,010,781
Net unrealized appreciation (depreciation) on investments	$ 28,143,986

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

	Years Ended December 31, 2015	2014
Distributions from long-term capital gains*	$ 13,914,292	$ —

* 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, 2015, purchases and sales of investment transactions (excluding short-term investments) aggregated $69,015,442 and $104,324,529, 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, 2015, 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, 2015 through September 30, 2015, 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 at 0.98%.

Effective October 1, 2015 through September 30, 2016, 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 0.86%.

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, 2015, the Administration Fee was $170,234, of which $11,880 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, 2015, the amounts charged to the Fund by DSC aggregated $404, of which $72 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, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $10,453, of which $4,311 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 1940 Act, 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, 2015, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $10,509.

Transactions with Affiliates. The Fund may purchase securities from, or sell securities to, an affiliated fund provided the affiliation is solely due to having a common investment adviser, common officers, or common trustees. During the year ended December 31, 2015, the Fund engaged in securities sales of $112,459, which resulted in realized gains of $49,999, with an affiliated fund in compliance with Rule 17a-7 under the 1940 Act.

D. Ownership of the Fund

At December 31, 2015, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 71% and 24%.

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 the one-month 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, 2015.

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 (one of the funds constituting Deutsche Variable Series II) (the "Fund"), as of December 31, 2015, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the 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, 2015, 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 Growth VIP (one of the funds constituting Deutsche Variable Series II) at December 31, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Boston, Massachusetts
February 12, 2016

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, 2015 to December 31, 2015).

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, 2015

Actual Fund Return	**Class A**
Beginning Account Value 7/1/15	$1,000.00
Ending Account Value 12/31/15	$ 900.10
Expenses Paid per $1,000*	$ 3.45
Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 7/1/15	$1,000.00
Ending Account Value 12/31/15	$1,021.58
Expenses Paid per $1,000*	$ 3.67

* 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	.72%

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 $1.89 per share from net long-term capital gains during its year ended December 31, 2015.

Pursuant to Section 852 of the Internal Revenue Code, the Fund designates $22,023,000 as capital gain dividends for its year ended December 31, 2015.

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 2015.

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

— In September 2015, 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 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 from 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's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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.

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 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 additional reporting from DIMA regarding such funds and, where appropriate, 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, 2014, the Fund's performance (Class A shares) was in the 3rd quartile, 2nd 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 underperformed its benchmark in the one-, three- and five-year periods ended December 31, 2014.

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, 2014). 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, 2014, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board noted that the expense limitation agreed to by DIMA was expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to a comparable Deutsche U.S. registered fund ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Fund. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM 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 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 also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's investment 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. 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 considered these benefits in reaching its conclusion that the Fund's management fees were reasonable.

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 the individual serving as 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	Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); 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)	106	—
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	106	—
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	106	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); 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; North Bennett Street School (Boston)	106	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)	106	—
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)	106	—
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	106	—

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
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)	106	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)	106	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)	106	—
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)	106	—

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 Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012)
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (since 2015); and Director and Vice President, DeAWM Trust Company (since 2016)
Melinda Morrow[6] (1970) Vice President, 2012–present	Director,[3] Deutsche Asset Management
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset Management; and Chairman, Director and President, DeAWM Trust Company (since 2013); formerly, Director, DeAWM Trust Company (2009–2013)
Caroline Pearson[7] (1962) Chief Legal Officer, 2010–present	Managing Director,[3] Deutsche Asset Management; Secretary, DeAWM Distributors, Inc; and Secretary, DeAWM Service Company
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director,[3] Deutsche Asset Management
Wayne Salit[6] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Hepsen Uzcan[6] (1974) Assistant Secretary, 2013–present	Director,[3] Deutsche Asset Management
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

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

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 Management

VS2SMCG-2 (R-025835-5 2/16)

Deutsche
Asset Management

December 31, 2015

Annual Report

Deutsche Variable Series II

Deutsche Small Mid Cap Value VIP

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21 Board Members and Officers

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

Stocks may decline in value. Smaller and medium company stocks tend to be more volatile than large company stocks. 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. The Fund may lend securities to approved institutions. See the prospectus for details.

Deutsche Asset Management represents the asset management activities conducted by Deutsche Bank AG or any of its subsidiaries.

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

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

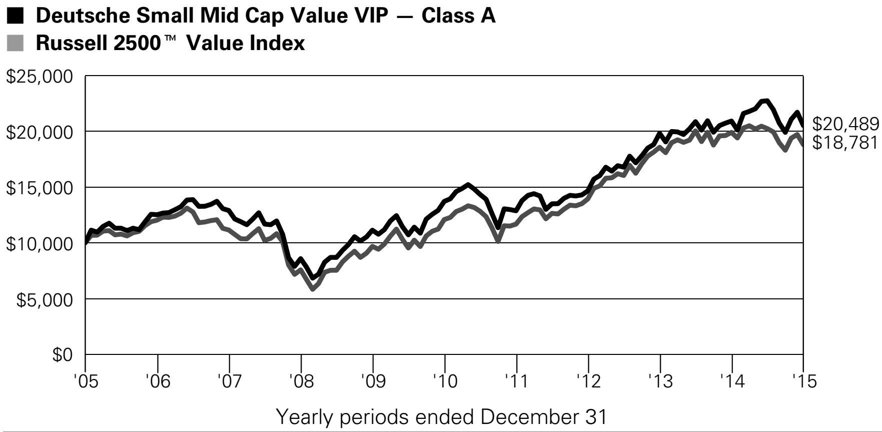
Performance Summary

December 31, 2015 (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, 2015 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	$9,809	$13,999	$14,957	$20,489
	Average annual total return	–1.91%	11.87%	8.39%	7.44%
Russell 2500 Value Index	Growth of $10,000	$9,451	$13,497	$15,549	$18,781
	Average annual total return	–5.49%	10.51%	9.23%	6.51%

Deutsche Small Mid Cap Value VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$9,779	$13,842	$14,701	$19,779
	Average annual total return	–2.21%	11.45%	8.01%	7.06%
Russell 2500 Value Index	Growth of $10,000	$9,451	$13,497	$15,549	$18,781
	Average annual total return	–5.49%	10.51%	9.23%	6.51%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2015 (Unaudited)

Class A shares of Deutsche Small Mid Cap Value VIP returned –1.91% in 2015 (unadjusted for contract charges), but the Fund outperformed the –5.49% return of its benchmark, the Russell 2500™ Value Index.[1] The Fund also outperformed the index in the three- and 10-year periods ended December 31, 2015.

We employ a bottom-up, research-driven strategy and an emphasis on higher-quality, undervalued companies. This approach worked well and enabled the Fund to outpace its benchmark during the past year, with the positive contributions from our outperforming stocks more than outweighing the impact of some notable laggards. The Fund's holdings outpaced the corresponding benchmark holdings in seven of the eight sectors in which we held a meaningful position. Our stock selection made the largest contribution to performance in the financials, materials, industrials and energy sectors, while information technology was the only sector in which our investments underperformed.

In the financial sector, the majority of our holdings delivered double-digit returns that far outpaced the return of the broader group. The largest contribution to performance came from Walker & Dunlop, Inc., a commercial real estate financing company whose shares were boosted by the combination of rising earnings, expanding product offerings and steady execution. The Fund's performance was also helped by the strength in a number of regional banks such as Great Western Bancorp., Inc. and Sterling Bancorp, among several others. The insurance company CNO Financial Group, Inc. also made a robust positive contribution after unveiling a plan to recapitalize its balance sheet and increase its stock buyback program.

Our position in the technology-outsourcing company Convergys Corp. aided Fund returns as well. The stock underperformed in 2014, but we added to the position on the belief that its price weakness obscured its positive underlying fundamentals. Convergys shares indeed rebounded in 2015, as three of its four earnings reports exceeded the market's expectations. The communications equipment producer Harris Corp. and the aerospace/defense company BWX Technologies, Inc. were additional positive contributors for the year.

On the negative side, the Fund's sector allocations detracted from performance due to the adverse impact of our underweight position in financials and our overweights in materials and industrials.[2] Among individual stocks, the leading detractors from performance were Harsco Corp., Belden, Inc. and Verint Systems, Inc., all of which remained in the portfolio at the close of the period.

Consistent with our bottom-up approach, our portfolio activity was focused on rotating out of strong performers that had reached our target prices and redeploying the assets into stocks that we believed offer greater upside. In this way, we were able to maintain an attractive valuation profile for the portfolio as a whole.

We continue to find an abundance of investment ideas within the universe of small- and mid-sized companies. This market segment has delivered only a modest gain in the past two years, providing us with an increased opportunity to identify high-quality, undervalued companies. We therefore view short-term volatility as a chance to take advantage of compelling values among individual stocks. We believe this patient, longer-term approach is the prudent strategy in a potentially challenging environment.

Richard Glass, 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 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.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/15**	**12/31/14**
Common Stocks	97%	96%
Cash Equivalents	3%	4%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/15**	**12/31/14**
Industrials	26%	20%
Financials	25%	23%
Information Technology	19%	21%
Consumer Discretionary	10%	12%
Materials	9%	11%
Energy	5%	5%
Health Care	4%	6%
Consumer Staples	2%	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.

Investment Portfolio

December 31, 2015

	Shares	Value ($)
Common Stocks 97.6%		
Consumer Discretionary 9.4%		
Auto Components 3.2%		
Visteon Corp.*	48,870	**5,595,615**
Leisure Products 0.8%		
Performance Sports Group Ltd.*	140,805	**1,355,952**
Specialty Retail 3.1%		
CST Brands, Inc.	83,819	3,280,676
Ross Stores, Inc.	40,025	2,153,745
		5,434,421
Textiles, Apparel & Luxury Goods 2.3%		
Hanesbrands, Inc.	137,774	**4,054,689**
Consumer Staples 2.2%		
Food Products		
ConAgra Foods, Inc.	88,722	**3,740,520**
Energy 4.8%		
Energy Equipment & Services 1.0%		
Superior Energy Services, Inc.	133,734	**1,801,397**
Oil, Gas & Consumable Fuels 3.8%		
Cimarex Energy Co.	28,351	2,534,012
Matador Resources Co.*	102,122	2,018,952
QEP Resources, Inc.	150,981	2,023,146
		6,576,110
Financials 24.8%		
Banks 10.3%		
Capital Bank Financial Corp. "A"	113,350	3,624,933
Great Western Bancorp., Inc.	125,063	3,629,328
KeyCorp	289,871	3,823,399
OFG Bancorp. (a)	349,563	2,558,801
Sterling Bancorp.	271,802	4,408,628
		18,045,089
Capital Markets 2.2%		
Lazard Ltd. "A"	85,545	**3,850,381**
Consumer Finance 2.7%		
Synchrony Financial*	152,355	**4,633,116**
Insurance 4.6%		
CNO Financial Group, Inc.	243,413	4,646,754
Reinsurance Group of America, Inc.	40,388	3,455,194
		8,101,948
Real Estate Investment Trusts 2.3%		
Plum Creek Timber Co., Inc. (REIT)	83,738	**3,995,977**
Thrifts & Mortgage Finance 2.7%		
Walker & Dunlop, Inc.*	161,782	**4,660,939**
Health Care 4.0%		
Health Care Providers & Services 2.5%		
HealthSouth Corp.	121,921	**4,244,070**
Life Sciences Tools & Services 1.5%		
PerkinElmer, Inc.	49,343	**2,643,304**
Industrials 25.3%		
Aerospace & Defense 2.8%		
BWX Technologies, Inc.	62,690	1,991,661
Curtiss-Wright Corp.	42,139	2,886,522
		4,878,183
Air Freight & Logistics 1.8%		
Forward Air Corp.	74,560	**3,206,825**
Commercial Services & Supplies 5.3%		
Covanta Holding Corp.	202,725	3,140,210
Pitney Bowes, Inc.	192,791	3,981,134
The Brink's Co.	75,574	2,181,066
		9,302,410
Electrical Equipment 2.5%		
Babcock & Wilcox Enterprises, Inc.*	207,898	**4,338,831**
Machinery 8.3%		
Harsco Corp.	213,091	1,679,157
ITT Corp.	76,073	2,762,971
Stanley Black & Decker, Inc.	43,314	4,622,903
Xylem, Inc.	150,781	5,503,507
		14,568,538
Marine 0.9%		
Kirby Corp.*	28,551	**1,502,354**
Professional Services 1.0%		
FTI Consulting, Inc.*	49,662	**1,721,285**
Trading Companies & Distributors 2.7%		
AerCap Holdings NV*	107,600	**4,644,016**
Information Technology 18.5%		
Communications Equipment 2.9%		
Harris Corp.	58,768	**5,106,939**
Electronic Equipment, Instruments & Components 7.6%		
Belden, Inc.	60,516	2,885,403
Dolby Laboratories, Inc. "A"	119,257	4,012,998
Rogers Corp.*	72,465	3,737,020
Zebra Technologies Corp. "A"*	38,018	2,647,954
		13,283,375
IT Services 4.7%		
Convergys Corp.	185,292	4,611,918
NeuStar, Inc. "A"* (a)	145,421	3,485,741
		8,097,659
Software 3.3%		
ACI Worldwide, Inc.*	89,245	1,909,843
Verint Systems, Inc.*	95,610	3,877,942
		5,787,785
Materials 8.6%		
Chemicals 4.4%		
Celanese Corp. "A"	58,768	3,956,850
H.B. Fuller Co.	102,879	3,751,997
		7,708,847
Containers & Packaging 2.0%		
Sealed Air Corp.	75,932	**3,386,567**
Metals & Mining 2.2%		
Materion Corp.	138,273	**3,871,644**
Total Common Stocks (Cost $162,208,304)		**170,138,786**
Securities Lending Collateral 2.2%		
Daily Assets Fund, 0.36% (b) (c) (Cost $3,779,500)	3,779,500	**3,779,500**

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

	Shares	Value ($)
Cash Equivalents 2.5%		
Central Cash Management Fund, 0.25% (b) (Cost $4,432,982)	4,432,982	**4,432,982**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $170,420,786)†	102.3	**178,351,268**
Other Assets and Liabilities, Net	(2.3)	**(3,973,590)**
Net Assets	100.0	**174,377,678**

* Non-income producing security.

† The cost for federal income tax purposes was $170,356,978. At December 31, 2015, net unrealized appreciation for all securities based on tax cost was $7,994,290. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $27,330,886 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $19,336,596.

(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, 2015 amounted to $3,553,227, which is 2.0% of net assets.

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

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

REIT: Real Estate Investment Trust

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The 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, 2015 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)	$170,138,786	$ —	$ —	$170,138,786
Short-Term Investments (d)	8,212,482	—	—	8,212,482
Total	**$178,351,268**	**$ —**	**$ —**	**$178,351,268**

There have been no transfers between fair value measurement levels during the year ended December 31, 2015.

(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, 2015

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $162,208,304) — including $3,553,227 of securities loaned	$	170,138,786
Investment in Daily Assets Fund (cost $3,779,500)*		3,779,500
Investment in Central Cash Management Fund (cost $4,432,982)		4,432,982
Total investments in securities, at value (cost $170,420,786)		178,351,268
Receivable for Fund shares sold		23,908
Dividends receivable		120,688
Interest receivable		11,330
Other assets		3,443
Total assets		178,510,637
Liabilities		
Payable upon return of securities loaned		3,779,500
Payable for Fund shares redeemed		146,203
Accrued management fee		99,311
Accrued Trustees' fees		3,454
Other accrued expenses and payables		104,491
Total liabilities		4,132,959
Net assets, at value	**$**	**174,377,678**
Net Assets Consist of		
Undistributed net investment income		973,558
Net unrealized appreciation (depreciation) on:		
Investments		7,930,482
Accumulated net realized gain (loss)		17,119,296
Paid-in capital		148,354,342
Net assets, at value	**$**	**174,377,678**
Class A		
Net Asset Value, offering and redemption price per share ($160,788,343 ÷ 10,068,570 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**15.97**
Class B		
Net Asset Value, offering and redemption price per share ($13,589,335 ÷ 852,173 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**15.95**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2015

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $7,916)	$	2,526,801
Income distributions — Central Cash Management Fund		7,486
Securities lending income, including income from Daily Assets Fund, net of borrower rebates		226,574
Total income		2,760,861
Expenses:		
Management fee		1,374,275
Administration fee		211,427
Services to shareholders		6,266
Record keeping fees (Class B)		16,817
Distribution service fee (Class B)		38,802
Custodian fee		9,728
Professional fees		71,198
Trustees' fees and expenses		9,994
Other		9,648
Total expenses		1,748,155
Net investment income (loss)		**1,012,706**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from investments		17,066,350
Change in net unrealized appreciation (depreciation) on investments		(20,852,678)
Net gain (loss)		**(3,786,328)**
Net increase (decrease) in net assets resulting from operations	**$**	**(2,773,622)**

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, 2015	2014
Operations:		
Net investment income (loss)	$ 1,012,706	$ 687,058
Net realized gain (loss)	17,066,350	18,607,552
Change in net unrealized appreciation (depreciation)	(20,852,678)	(7,308,422)
Net increase (decrease) in net assets resulting from operations	(2,773,622)	11,986,188
Distributions to shareholders from:		
Net investment income:		
Class A	(593,081)	(1,782,045)
Class B	—	(85,579)
Net realized gains:		
Class A	(17,173,555)	(1,065,847)
Class B	(1,373,376)	(91,018)
Total distributions	(19,140,012)	(3,024,489)
Fund share transactions:		
Class A		
Proceeds from shares sold	11,088,951	7,581,114
Reinvestment of distributions	17,766,636	2,847,892
Payments for shares redeemed	(52,858,262)	(53,470,098)
Net increase (decrease) in net assets from Class A share transactions	(24,002,675)	(43,041,092)
Class B		
Proceeds from shares sold	2,463,269	2,985,548
Reinvestment of distributions	1,373,376	176,597
Payments for shares redeemed	(5,621,076)	(6,702,666)
Net increase (decrease) in net assets from Class B share transactions	(1,784,431)	(3,540,521)
Increase (decrease) in net assets	(47,700,740)	(37,619,914)
Net assets at beginning of period	222,078,418	259,698,332
Net assets at end of period (including undistributed net investment income of $973,558 and $618,223, respectively)	**$ 174,377,678**	**$ 222,078,418**

Other Information		
Class A		
Shares outstanding at beginning of period	11,531,437	14,042,897
Shares sold	646,274	442,556
Shares issued to shareholders in reinvestment of distributions	1,025,787	170,839
Shares redeemed	(3,134,928)	(3,124,855)
Net increase (decrease) in Class A shares	(1,462,867)	(2,511,460)
Shares outstanding at end of period	**10,068,570**	**11,531,437**
Class B		
Shares outstanding at beginning of period	953,703	1,160,889
Shares sold	143,164	174,632
Shares issued to shareholders in reinvestment of distributions	79,203	10,581
Shares redeemed	(323,897)	(392,399)
Net increase (decrease) in Class B shares	(101,530)	(207,186)
Shares outstanding at end of period	**852,173**	**953,703**

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

Financial Highlights

Class A	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data					
Net asset value, beginning of period	**$17.79**	**$17.08**	**$12.78**	**$11.36**	**$12.21**
Income (loss) from investment operations:					
Net investment income[a]	.09	.05	.12	.14	.13
Net realized and unrealized gain (loss)	(.31)	.88	4.35	1.42	(.85)
Total from investment operations	(.22)	.93	4.47	1.56	(.72)
Less distributions from:					
Net investment income	(.05)	(.14)	(.17)	(.14)	(.13)
Net realized gains	(1.55)	(.08)	—	—	—
Total distributions	(1.60)	(.22)	(.17)	(.14)	(.13)
Net asset value, end of period	**$15.97**	**$17.79**	**$17.08**	**$12.78**	**$11.36**
Total Return (%)	(1.91)	5.53	35.24	13.77	(6.08)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	161	205	240	219	216
Ratio of expenses (%)	.80	.82	.82	.82	.81
Ratio of net investment income (%)	.51	.32	.81	1.18	1.08
Portfolio turnover rate (%)	25	34	115	11	36

a Based on average shares outstanding during the period.

Class B	2015	Years Ended December 31, 2014	2013	2012	2011
Selected Per Share Data					
Net asset value, beginning of period	**$17.77**	**$17.07**	**$12.78**	**$11.36**	**$12.20**
Income (loss) from investment operations:					
Net investment income[a]	.02	(.01)	.07	.10	.09
Net realized and unrealized gain (loss)	(.29)	.87	4.34	1.42	(.85)
Total from investment operations	(.27)	.86	4.41	1.52	(.76)
Less distributions from:					
Net investment income	—	(.08)	(.12)	(.10)	(.08)
Net realized gains	(1.55)	(.08)	—	—	—
Total distributions	(1.55)	(.16)	(.12)	(.10)	(.08)
Net asset value, end of period	**$15.95**	**$17.77**	**$17.07**	**$12.78**	**$11.36**
Total Return (%)	(2.21)	5.09	34.70	13.38	(6.33)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	14	17	20	17	20
Ratio of expenses (%)	1.16	1.17	1.17	1.16	1.15
Ratio of net investment income (loss) (%)	.14	(.04)	.45	.81	.74
Portfolio turnover rate (%)	25	34	115	11	36

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 (the "Fund") is a diversified series of Deutsche 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. The 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. During the year ended December 31, 2015, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of December 31, 2015) on the cash collateral invested in Daily Assets Fund. 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, 2015, the Fund had securities on loan. The value of the related collateral exceeded the value of the securities loaned at period end.

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, 2015 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, 2015, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 1,770,631
Undistributed long-term capital gains	$ 16,258,415
Unrealized appreciation (depreciation) on investments	$ 7,994,290

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

	Years Ended December 31, 2015	2014
Distributions from ordinary income*	$ 9,435,762	$ 1,867,624
Distributions from long-term capital gains	$ 9,704,250	$ 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.

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, 2015, purchases and sales of investment transactions (excluding short-term investments) aggregated $51,250,720 and $91,145,622, 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, 2015, 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, 2015 through September 30, 2015, 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) of each class as follows:

Class A	.84%
Class B	1.19%

Effective October 1, 2015 through September 30, 2016, 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	.82%
Class B	1.18%

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, 2015, the Administration Fee was $211,427, of which $15,279 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, 2015, the amounts charged to the Fund by DSC were as follows:

Service to Shareholders	Total Aggregated	Unpaid at December 31, 2015
Class A	$ 638	$ 112
Class B	598	100
	$ 1,236	**$ 212**

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, 2015, the Distribution Service Fee aggregated $38,802, of which $2,939 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, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Other expenses" aggregated $10,843, of which $4,142 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 1940 Act, 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, 2015, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 54% and 22%. Two participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, each owning 33 and 24%.

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 the one-month 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, 2015.

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 (one of the funds constituting Deutsche Variable series II) (the "Fund"), as of December 31, 2015, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the 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, 2015, 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 (one of the funds constituting Deutsche Variable Series II) at December 31, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

Boston, Massachusetts
February 12, 2016

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, 2015 to December 31, 2015).

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, 2015

Actual Fund Return	Class A	Class B
Beginning Account Value 7/1/15	$1,000.00	$1,000.00
Ending Account Value 12/31/15	$ 902.30	$ 900.60
Expenses Paid per $1,000*	$ 3.74	$ 5.46
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/15	$1,000.00	$1,000.00
Ending Account Value 12/31/15	$1,021.27	$1,019.46
Expenses Paid per $1,000*	$ 3.97	$ 5.80

* 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	.78%	1.14%

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 $0.81 per share from net long-term capital gains during its year ended December 31, 2015.

Pursuant to Section 852 of the Internal Revenue Code, the Fund designates $17,885,000 as capital gain dividends for its year ended December 31, 2015.

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, 2015, 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 2015.

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

— In September 2015, 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 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 from 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's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Directors that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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.

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 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 additional reporting from DIMA regarding such funds and, where appropriate, 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, 2014, the Fund's performance (Class A shares) was in the 4th 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, 2014. 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 2015. 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, 2014). 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, 2014, 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 noted that the expense limitations agreed to by DIMA were expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to a comparable Deutsche U.S. registered fund ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Fund. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM 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 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 also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's investment 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 considered these benefits in reaching its conclusion that the Fund's management fees were reasonable.

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 the individual serving as 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	Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); 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)	106	—
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	106	—
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	106	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); 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; North Bennett Street School (Boston)	106	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)	106	—
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)	106	—
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	106	—

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
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)	106	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)	106	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)	106	—
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)	106	—

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 Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012)
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (since 2015); and Director and Vice President, DeAWM Trust Company (since 2016)
Melinda Morrow[6] (1970) Vice President, 2012–present	Director,[3] Deutsche Asset Management
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset Management; and Chairman, Director and President, DeAWM Trust Company (since 2013); formerly, Director, DeAWM Trust Company (2009–2013)
Caroline Pearson[7] (1962) Chief Legal Officer, 2010–present	Managing Director,[3] Deutsche Asset Management; Secretary, DeAWM Distributors, Inc; and Secretary, DeAWM Service Company
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director,[3] Deutsche Asset Management
Wayne Salit[6] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Hepsen Uzcan[6] (1974) Assistant Secretary, 2013–present	Director,[3] Deutsche Asset Management
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

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

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 Management

VS2SMCV-2 (R-025829-5 2/16)

Deutsche
Asset Management

December 31, 2015

Annual Report

Deutsche Variable Series II

Deutsche Unconstrained Income VIP

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

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 foreign securities, particularly those of emerging markets, presents certain risks, such as currency fluctuations, political and economic changes, and market risks. Emerging markets tend to be more volatile than the markets of more mature economies, and generally have less diverse and less mature economic structures and less stable political systems than those of developed countries. 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 Management represents the asset management activities conducted by Deutsche Bank AG or any of its subsidiaries.

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

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

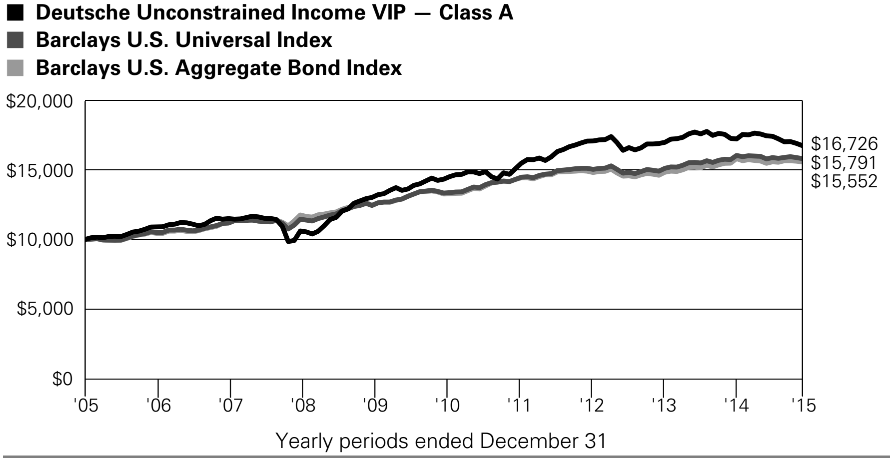
Performance Summary

December 31, 2015 (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, 2015 is 1.10% 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 unmanaged 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	$9,698	$9,811	$11,683	$16,726
	Average annual total return	–3.02%	–0.63%	3.16%	5.28%
Barclays U.S. Universal Index	Growth of $10,000	$10,043	$10,459	$11,854	$15,791
	Average annual total return	0.43%	1.51%	3.46%	4.67%
Barclays U.S. Aggregate Bond Index	Growth of $10,000	$10,055	$10,439	$11,732	$15,552
	Average annual total return	0.55%	1.44%	3.25%	4.51%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2015 (Unaudited)

The Class A shares of the Fund returned –3.02% (unadjusted for contract charges) during 2015, underperforming the 0.43% return of the Barclays U.S. Universal Index.[1] The Fund has outpaced the benchmark in the 10-year period ended December 31, 2015.

The backdrop of sluggish global growth led to divergent returns among the underlying segments of the bond market during 2015. The slow-growth environment supported the performance of the interest-rate-sensitive segments of the market, particularly intermediate-to-longer-term U.S. Treasuries. The relative strength in Treasuries, in turn, fed through to other rate-sensitive market segments, such as mortgage-backed securities and asset-backed securities. However, corporate bonds closed the annual period with a small loss due in part to a substantial increase in new-issue supply. High-yield bonds also lagged, as the sharp drop in commodity prices led to poor performance for the many energy and metals/mining issuers within the asset class. In contrast, emerging-markets bonds finished the year in positive territory.

Against this backdrop, the Fund's allocation to high-yield bonds was the primary factor in its underperformance during the past 12 months. Our weighting in high yield was an important factor in the Fund's positive performance in the 2012 to 2014 interval, and we continued to favor the asset class coming into the reporting period, due to the backdrop of positive domestic growth. This positioning detracted from returns during 2015, however, due to the substantial underperformance for high yield relative to the rest of the market. On the plus side, the Fund's investment-grade allocation performed well in the environment of falling yields. Here, we continued to favor structured products (mortgage-backed securities, asset-backed securities and commercial mortgage-backed securities) over investment-grade corporate bonds.

The Fund employed derivatives during the period to manage its currency, interest-rate and asset-class exposures. In some cases, derivatives were used to hedge existing positions; in others, they were used to take opportunistic positions in a more efficient manner than buying securities outright. On balance, the Fund's use of derivatives for non-hedging purposes contributed positively to performance, particularly within the currency space.

We continue to employ a cautious approach with an emphasis on risk management. We believe the key issues that weighed on the performance of higher-risk market segments during 2015 — slowing growth in China, volatility in commodity prices and uncertainty regarding the direction of Fed policy — remain firmly in place. In addition, we believe that a global recession, while not the most likely scenario, is a risk that needs to be taken into account. We therefore continue to favor higher-quality securities across the major asset classes in which the Fund is invested. In the investment-grade corporate space, the majority of the portfolio is invested in bonds rated A or better, and we prefer more stable sectors — such as telecommunications and banking — over energy and metals/mining. Similarly, our high-yield exposure is tilted toward the U.S. consumer sector, which remains in good health, rather than areas that are facing headwinds, such as energy and manufacturing. In the emerging-markets portfolio, we increased our allocation to sovereign debt over corporates as the year progressed, with a preference for higher-quality issuers over those with weaker credit fundamentals.

Gary Russell, CFA
William Chepolis, CFA
John D. Ryan
Philip G. Condon
Darwei Kung
Portfolio Managers

Effective February 1, 2016, the portfolio management team is as follows:

Gary Russell, CFA
John D. Ryan
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 unmanaged 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. Index returns do not reflect fees or expenses and it is not possible to invest directly in an index.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/15**	**12/31/14**
Corporate Bonds	47%	52%
Government & Agency Obligations	20%	13%
Collateralized Mortgage Obligations	13%	3%
Mortgage-Backed Securities Pass-Throughs	8%	2%
Loan Participations and Assignments	4%	4%
Cash Equivalents	3%	17%
Commercial Mortgage-Backed Securities	2%	1%
Asset-Backed	2%	1%
Common Stocks	1%	0%
Municipal Bonds and Notes	—	2%
Exchange-Traded Fund	—	5%
	100%	100%

Quality (Excludes Cash Equivalents and Securities Lending Collateral)	**12/31/15**	**12/31/14**
AAA	32%	8%
AA	0%	4%
A	4%	5%
BBB	17%	19%
BB	29%	32%
B	13%	19%
CCC or Below	2%	5%
Not Rated	3%	8%
	100%	100%

Interest Rate Sensitivity	**12/31/15**	**12/31/14**
Effective Maturity	7.6 years	5.7 years
Effective Duration	3.5 years	3.0 years

The quality ratings represent the higher of Moody's Investors Service, Inc. ("Moody's"), Fitch Ratings, Inc. ("Fitch") or Standard & Poor's Corporation ("S&P") credit ratings. The ratings of Moody's, Fitch 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 48.3%		
Consumer Discretionary 8.3%		
1011778 B.C. Unlimited Liability Co., 144A, 4.625%, 1/15/2022	15,000	15,038
Ally Financial, Inc.:		
3.25%, 2/13/2018	35,000	34,825
4.125%, 3/30/2020	35,000	34,825
AMC Entertainment, Inc., 5.875%, 2/15/2022	30,000	30,450
AMC Networks, Inc., 7.75%, 7/15/2021	15,000	15,750
AmeriGas Finance LLC:		
6.75%, 5/20/2020	70,000	68,075
7.0%, 5/20/2022	60,000	58,050
Asbury Automotive Group, Inc., 144A, 6.0%, 12/15/2024	20,000	20,650
Ashtead Capital, Inc., 144A, 6.5%, 7/15/2022	45,000	46,913
Ashton Woods U.S.A. LLC, 144A, 6.875%, 2/15/2021	50,000	42,500
Avis Budget Car Rental LLC:		
144A, 5.25%, 3/15/2025	60,000	56,850
5.5%, 4/1/2023 (b)	30,000	30,075
Bed Bath & Beyond, Inc.:		
4.915%, 8/1/2034	40,000	35,686
5.165%, 8/1/2044	50,000	42,351
Block Communications, Inc., 144A, 7.25%, 2/1/2020	65,000	64,675
Boyd Gaming Corp., 6.875%, 5/15/2023	20,000	20,550
Caleres, Inc., 6.25%, 8/15/2023	15,000	14,775
CCO Holdings LLC:		
144A, 5.125%, 5/1/2023	50,000	50,000
144A, 5.375%, 5/1/2025 (b)	35,000	34,825
144A, 5.875%, 5/1/2027	60,000	59,700
7.0%, 1/15/2019	9,000	9,191
CCO Safari II LLC:		
144A, 4.908%, 7/23/2025	10,000	9,990
144A, 6.484%, 10/23/2045	10,000	10,016
Cequel Communications Holdings I LLC:		
144A, 5.125%, 12/15/2021	89,000	80,100
144A, 6.375%, 9/15/2020	125,000	122,187
Churchill Downs, Inc., 144A, 5.375%, 12/15/2021	15,368	15,406
Clear Channel Worldwide Holdings, Inc.:		
Series A, 6.5%, 11/15/2022	15,000	14,475
Series A, 7.625%, 3/15/2020	20,000	18,200
Cogeco Cable, Inc., 144A, 4.875%, 5/1/2020	5,000	4,988
CSC Holdings LLC, 5.25%, 6/1/2024 (b)	35,000	30,713
CVS Health Corp., 5.125%, 7/20/2045	20,000	21,069
D.R. Horton, Inc., 4.0%, 2/15/2020	10,000	10,057
Dana Holding Corp., 5.5%, 12/15/2024	25,000	24,250
Discovery Communications LLC, 4.875%, 4/1/2043	10,000	8,231
DISH DBS Corp.:		
4.25%, 4/1/2018	40,000	40,100
5.0%, 3/15/2023	50,000	43,375
6.75%, 6/1/2021	10,000	10,075
7.125%, 2/1/2016	155,000	155,484
Dollar Tree, Inc.:		
144A, 5.25%, 3/1/2020	50,000	51,625
144A, 5.75%, 3/1/2023	35,000	36,225
Fiat Chrysler Automobiles NV, 4.5%, 4/15/2020	245,000	248,062
General Motors Financial Co., Inc.:		
3.2%, 7/13/2020	20,000	19,692
3.25%, 5/15/2018	15,000	15,075
Global Partners LP, 7.0%, 6/15/2023	30,000	24,600
Group 1 Automotive, Inc.:		
5.0%, 6/1/2022	60,000	59,400
144A, 5.25%, 12/15/2023	65,000	64,350
HD Supply, Inc.:		
7.5%, 7/15/2020	15,000	15,600
11.5%, 7/15/2020	45,000	49,837
Hertz Corp., 6.75%, 4/15/2019	50,000	51,075
Hot Topic, Inc., 144A, 9.25%, 6/15/2021	20,000	17,700
Live Nation Entertainment, Inc.:		
144A, 5.375%, 6/15/2022	5,000	4,925
144A, 7.0%, 9/1/2020	50,000	51,750
MDC Partners, Inc., 144A, 6.75%, 4/1/2020	30,000	30,900
Mediacom Broadband LLC:		
5.5%, 4/15/2021	5,000	4,813
6.375%, 4/1/2023	65,000	63,537
Mediacom LLC, 7.25%, 2/15/2022	20,000	20,200
MGM Resorts International, 6.75%, 10/1/2020	76,000	78,090
Nielsen Finance LLC, 144A, 5.0%, 4/15/2022	20,000	19,750
Numericable-SFR, 144A, 4.875%, 5/15/2019	70,000	69,387
Pinnacle Entertainment, Inc., 6.375%, 8/1/2021	20,000	21,025
Quebecor Media, Inc., 5.75%, 1/15/2023	30,000	30,225
Sabre GLBL, Inc., 144A, 5.375%, 4/15/2023 (b)	5,000	4,975
Seminole Hard Rock Entertainment, Inc., 144A, 5.875%, 5/15/2021 (b)	15,000	14,963
Serta Simmons Bedding LLC, 144A, 8.125%, 10/1/2020	35,000	36,575
Sirius XM Radio, Inc., 144A, 5.875%, 10/1/2020 (b)	30,000	31,425
Spectrum Brands, Inc., 144A, 5.75%, 7/15/2025	15,000	15,375
Springs Industries, Inc., 6.25%, 6/1/2021	35,000	34,650
Starz LLC, 5.0%, 9/15/2019	25,000	25,313
Suburban Propane Partners LP, 5.75%, 3/1/2025	20,000	16,200
Time Warner Cable, Inc., 7.3%, 7/1/2038	35,000	37,946
UCI International LLC, 8.625%, 2/15/2019	20,000	6,900
Viking Cruises Ltd.:		
144A, 6.25%, 5/15/2025	30,000	24,600
144A, 8.5%, 10/15/2022	30,000	28,425
		2,729,660

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

	Principal Amount ($)(a)	Value ($)
Consumer Staples 2.1%		
Aramark Services, Inc., 144A, 5.125%, 1/15/2024 (b)	20,000	20,375
Chiquita Brands International, Inc., 7.875%, 2/1/2021	11,000	11,523
Constellation Brands, Inc., 4.75%, 12/1/2025	10,000	10,188
Cott Beverages, Inc.:		
5.375%, 7/1/2022	60,000	58,800
6.75%, 1/1/2020	25,000	25,812
FAGE Dairy Industry SA, 144A, 9.875%, 2/1/2020	85,000	88,400
JBS Investments GmbH, 144A, 7.25%, 4/3/2024	70,000	63,525
JBS U.S.A. LLC:		
144A, 5.75%, 6/15/2025	25,000	21,750
144A, 7.25%, 6/1/2021	80,000	79,400
144A, 8.25%, 2/1/2020 (b)	25,000	25,000
Minerva Luxembourg SA, 144A, 12.25%, 2/10/2022	200,000	202,000
Pilgrim's Pride Corp., 144A, 5.75%, 3/15/2025 (b)	25,000	24,313
Post Holdings, Inc., 144A, 6.75%, 12/1/2021 (b)	15,000	15,300
Reynolds American, Inc.:		
4.45%, 6/12/2025	10,000	10,458
5.85%, 8/15/2045	10,000	11,117
Smithfield Foods, Inc., 6.625%, 8/15/2022	2,000	2,075
The WhiteWave Foods Co., 5.375%, 10/1/2022	30,000	31,725
		701,761
Energy 5.2%		
Antero Resources Corp.:		
5.125%, 12/1/2022	45,000	34,200
5.375%, 11/1/2021	35,000	28,000
144A, 5.625%, 6/1/2023	25,000	19,500
Baytex Energy Corp.:		
144A, 5.125%, 6/1/2021	10,000	6,725
144A, 5.625%, 6/1/2024	15,000	10,050
Blue Racer Midstream LLC, 144A, 6.125%, 11/15/2022	10,000	6,900
California Resources Corp.:		
5.0%, 1/15/2020	3,000	1,069
6.0%, 11/15/2024	4,000	1,220
144A, 8.0%, 12/15/2022	13,000	6,841
Carrizo Oil & Gas, Inc., 6.25%, 4/15/2023	30,000	24,300
Chesapeake Energy Corp., 5.75%, 3/15/2023 (b)	40,000	11,600
Concho Resources, Inc., 5.5%, 4/1/2023 (b)	70,000	64,750
Crestwood Midstream Partners LP, 144A, 6.25%, 4/1/2023	10,000	6,975
Delek & Avner Tamar Bond Ltd., 144A, 5.082%, 12/30/2023	200,000	201,250
Endeavor Energy Resources LP:		
144A, 7.0%, 8/15/2021	35,000	31,150
144A, 8.125%, 9/15/2023	35,000	31,500
EP Energy LLC, 6.375%, 6/15/2023 (b)	25,000	12,500
Gulfport Energy Corp., 6.625%, 5/1/2023	10,000	8,350
Hilcorp Energy I LP:		
144A, 5.0%, 12/1/2024	25,000	20,750
144A, 5.75%, 10/1/2025	40,000	34,800
Holly Energy Partners LP, 6.5%, 3/1/2020	20,000	19,800
Kinder Morgan, Inc.:		
3.05%, 12/1/2019	75,000	69,413
5.55%, 6/1/2045	50,000	39,031
7.25%, 6/1/2018	55,000	57,111
Laredo Petroleum, Inc., 6.25%, 3/15/2023	35,000	30,450
MEG Energy Corp.:		
144A, 6.5%, 3/15/2021	40,000	28,000
144A, 7.0%, 3/31/2024	50,000	35,500
Memorial Resource Development Corp., 5.875%, 7/1/2022	25,000	21,875
Murphy Oil U.S.A., Inc., 6.0%, 8/15/2023	40,000	42,000
Newfield Exploration Co., 5.375%, 1/1/2026	20,000	16,550
Northern Oil & Gas, Inc., 8.0%, 6/1/2020	65,000	43,225
Oasis Petroleum, Inc.:		
6.875%, 3/15/2022	75,000	48,000
6.875%, 1/15/2023	30,000	18,600
ONEOK Partners LP, 4.9%, 3/15/2025	20,000	16,845
Pacific Exploration & Production Corp., 144A, 5.375%, 1/26/2019	200,000	38,000
Parsley Energy LLC, 144A, 7.5%, 2/15/2022	5,000	4,775
Range Resources Corp., 144A, 4.875%, 5/15/2025	25,000	19,000
Regency Energy Partners LP:		
5.0%, 10/1/2022	15,000	13,288
5.875%, 3/1/2022	5,000	4,713
Rice Energy, Inc., 144A, 7.25%, 5/1/2023	5,000	3,650
RSP Permian, Inc.:		
6.625%, 10/1/2022	60,000	55,200
144A, 6.625%, 10/1/2022	10,000	9,200
Sabine Pass Liquefaction LLC:		
5.625%, 2/1/2021	105,000	96,600
144A, 5.625%, 3/1/2025	30,000	25,388
Seven Generations Energy Ltd., 144A, 6.75%, 5/1/2023	10,000	8,400
Sunoco LP:		
144A, 5.5%, 8/1/2020	20,000	18,950
144A, 6.375%, 4/1/2023	20,000	18,800
Talos Production LLC, 144A, 9.75%, 2/15/2018	30,000	12,900
Targa Resources Partners LP, 4.125%, 11/15/2019	10,000	8,325
Tesoro Corp., 4.25%, 10/1/2017	35,000	35,787
Transocean, Inc., 4.3%, 10/15/2022	145,000	76,850
Whiting Petroleum Corp.:		
5.75%, 3/15/2021 (b)	25,000	18,225
6.25%, 4/1/2023 (b)	115,000	82,800
Williams Partners LP:		
4.0%, 9/15/2025	30,000	22,463
6.125%, 7/15/2022	55,000	52,028
WPX Energy, Inc., 8.25%, 8/1/2023	35,000	28,000
		1,702,172
Financials 7.0%		
Banco Continental SAECA, 144A, 8.875%, 10/15/2017	200,000	203,500
Barclays Bank PLC, 7.625%, 11/21/2022	200,000	227,750

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

	Principal Amount ($)(a)	Value ($)
BBVA Bancomer SA, 144A, 6.75%, 9/30/2022	150,000	165,000
CBL & Associates LP, (REIT), 4.6%, 10/15/2024	120,000	113,107
CNO Financial Group, Inc.:		
4.5%, 5/30/2020	10,000	10,200
5.25%, 5/30/2025	15,000	15,263
Corp. Financiera de Desarrollo SA, 144A, 4.75%, 2/8/2022	250,000	253,750
E*TRADE Financial Corp., 4.625%, 9/15/2023	25,000	25,406
Equinix, Inc.:		
(REIT), 5.375%, 4/1/2023	105,000	107,100
(REIT), 5.875%, 1/15/2026	15,000	15,450
Everest Reinsurance Holdings, Inc., 4.868%, 6/1/2044	50,000	47,139
Hospitality Properties Trust, (REIT), 5.0%, 8/15/2022	110,000	112,992
International Lease Finance Corp.:		
3.875%, 4/15/2018	65,000	65,487
5.75%, 5/15/2016	20,000	20,275
6.25%, 5/15/2019	50,000	53,562
8.75%, 3/15/2017	120,000	127,800
Legg Mason, Inc., 5.625%, 1/15/2044	45,000	44,699
Macquarie Group Ltd., 144A, 6.0%, 1/14/2020	200,000	220,738
Massachusetts Mutual Life Insurance Co., 144A, 4.5%, 4/15/2065	10,000	8,944
Morgan Stanley, Series H, 5.45%, 7/29/2049	20,000	19,525
MPT Operating Partnership LP:		
(REIT), 6.375%, 2/15/2022	45,000	45,900
(REIT), 6.875%, 5/1/2021	50,000	51,875
Nationwide Financial Services, Inc., 144A, 5.3%, 11/18/2044	65,000	65,070
Neuberger Berman Group LLC, 144A, 5.875%, 3/15/2022	45,000	46,800
Omega Healthcare Investors, Inc., (REIT), 4.95%, 4/1/2024	130,000	131,291
Seminole Tribe of Florida, Inc., 144A, 7.804%, 10/1/2020	70,000	72,100
The Goldman Sachs Group, Inc., Series L, 5.7%, 12/29/2049	35,000	34,781
		2,305,504

Health Care 4.4%

	Principal Amount ($)(a)	Value ($)
AbbVie, Inc., 3.6%, 5/14/2025	20,000	19,739
Actavis Funding SCS, 4.75%, 3/15/2045	2,000	1,950
Alere, Inc., 144A, 6.375%, 7/1/2023	25,000	23,375
Community Health Systems, Inc.:		
5.125%, 8/15/2018	185,000	185,925
5.125%, 8/1/2021	5,000	4,975
6.875%, 2/1/2022 (b)	30,000	28,463
Concordia Healthcare Corp., 144A, 7.0%, 4/15/2023	10,000	8,675
Endo Finance LLC:		
144A, 5.75%, 1/15/2022 (b)	35,000	33,950
144A, 5.875%, 1/15/2023	35,000	34,300
Endo Ltd., 144A, 6.0%, 2/1/2025	20,000	19,700
HCA, Inc.:		
5.875%, 2/15/2026	35,000	35,131
6.5%, 2/15/2020	210,000	228,795
7.5%, 2/15/2022	80,000	88,600
Hologic, Inc., 144A, 5.25%, 7/15/2022	10,000	10,200
LifePoint Health, Inc.:		
5.5%, 12/1/2021	35,000	35,613
5.875%, 12/1/2023	25,000	25,375
Mallinckrodt International Finance SA:		
4.75%, 4/15/2023	75,000	66,375
144A, 4.875%, 4/15/2020	20,000	19,250
Tenet Healthcare Corp.:		
144A, 4.012%**, 6/15/2020 (b)	20,000	19,500
6.25%, 11/1/2018	80,000	84,200
6.75%, 6/15/2023 (b)	50,000	46,375
Valeant Pharmaceuticals International, Inc.:		
144A, 5.375%, 3/15/2020	50,000	47,000
144A, 5.875%, 5/15/2023	40,000	35,700
144A, 6.125%, 4/15/2025	115,000	102,637
144A, 6.375%, 10/15/2020	35,000	33,775
144A, 6.75%, 8/15/2018	70,000	69,370
144A, 7.5%, 7/15/2021	140,000	139,650
		1,448,598

Industrials 4.0%

	Principal Amount ($)(a)	Value ($)
ADT Corp.:		
3.5%, 7/15/2022 (b)	20,000	17,900
5.25%, 3/15/2020 (b)	40,000	42,000
6.25%, 10/15/2021 (b)	55,000	57,450
Aerojet Rocketdyne Holdings, Inc., 7.125%, 3/15/2021	80,000	83,200
Artesyn Embedded Technologies, Inc., 144A, 9.75%, 10/15/2020	40,000	35,500
Belden, Inc., 144A, 5.5%, 9/1/2022	55,000	52,937
Bombardier, Inc.:		
144A, 5.75%, 3/15/2022	55,000	38,362
144A, 6.0%, 10/15/2022	35,000	24,535
144A, 7.5%, 3/15/2025	10,000	7,000
144A, 7.75%, 3/15/2020	45,000	36,338
Casella Waste Systems, Inc., 7.75%, 2/15/2019	80,000	79,400
Covanta Holding Corp., 5.875%, 3/1/2024	30,000	27,150
CTP Transportation Products LLC, 144A, 8.25%, 12/15/2019	35,000	36,488
DigitalGlobe, Inc., 144A, 5.25%, 2/1/2021 (b)	25,000	21,000
EnerSys, 144A, 5.0%, 4/30/2023	5,000	4,975
Florida East Coast Holdings Corp., 144A, 6.75%, 5/1/2019	15,000	13,725
Garda World Security Corp., 144A, 7.25%, 11/15/2021	45,000	38,700
Gates Global LLC, 144A, 6.0%, 7/15/2022	30,000	21,600
Masonite International Corp., 144A, 5.625%, 3/15/2023	25,000	25,813
Meritor, Inc.:		
6.25%, 2/15/2024	30,000	25,650
6.75%, 6/15/2021	40,000	36,800
Nortek, Inc., 8.5%, 4/15/2021	75,000	77,820
OPE KAG Finance Sub, Inc., 144A, 7.875%, 7/31/2023	30,000	29,813
Oshkosh Corp.:		
5.375%, 3/1/2022	22,500	22,500
5.375%, 3/1/2025	5,000	4,900
Ply Gem Industries, Inc., 6.5% , 2/1/2022	60,000	54,600

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	Principal Amount ($)(a)	Value ($)
SBA Communications Corp., 5.625%, 10/1/2019	30,000	31,275
Spirit AeroSystems, Inc., 5.25%, 3/15/2022	40,000	40,825
Titan International, Inc., 6.875%, 10/1/2020 (b)	25,000	18,625
Triumph Group, Inc., 5.25%, 6/1/2022	20,000	16,100
United Rentals North America, Inc.:		
4.625%, 7/15/2023	20,000	19,950
7.375%, 5/15/2020	95,000	100,225
7.625%, 4/15/2022	95,000	101,526
Wise Metals Group LLC, 144A, 8.75%, 12/15/2018	30,000	22,725
XPO Logistics, Inc., 144A, 6.5%, 6/15/2022 (b)	30,000	27,750
		1,295,157
Information Technology 2.7%		
ACI Worldwide, Inc., 144A, 6.375%, 8/15/2020	15,000	15,450
Activision Blizzard, Inc., 144A, 5.625%, 9/15/2021	130,000	136,175
Audatex North America, Inc., 144A, 6.0%, 6/15/2021	25,000	25,188
BMC Software Finance, Inc., 144A, 8.125%, 7/15/2021	30,000	19,950
Boxer Parent Co., Inc., 144A, 9.0%, 10/15/2019	40,000	24,800
Cardtronics, Inc., 5.125%, 8/1/2022	20,000	19,300
CDW LLC, 6.0%, 8/15/2022	50,000	52,750
EarthLink Holdings Corp., 7.375%, 6/1/2020	30,000	30,525
Entegris, Inc., 144A, 6.0%, 4/1/2022	20,000	20,250
Fidelity National Information Services, Inc., 3.625%, 10/15/2020	20,000	20,261
First Data Corp.:		
144A, 6.75%, 11/1/2020	72,000	75,510
144A, 8.75%, 1/15/2022	45,000	47,018
Freescale Semiconductor, Inc., 144A, 6.0%, 1/15/2022	40,000	41,900
Hewlett Packard Enterprise Co.:		
144A, 4.9%, 10/15/2025	20,000	19,612
144A, 6.35%, 10/15/2045	15,000	14,240
Infor U.S., Inc., 144A, 6.5%, 5/15/2022 (b)	30,000	25,350
Informatica LLC, 144A, 7.125%, 7/15/2023 (b)	10,000	9,050
Jabil Circuit, Inc., 7.75%, 7/15/2016	30,000	30,750
KLA-Tencor Corp., 4.65%, 11/1/2024	45,000	45,277
Micron Technology, Inc., 144A, 5.25%, 8/1/2023	30,000	26,925
NCR Corp.:		
5.875%, 12/15/2021	10,000	9,850
6.375%, 12/15/2023	20,000	19,700
NXP BV, 144A, 3.75%, 6/1/2018	35,000	35,175
Open Text Corp., 144A, 5.625%, 1/15/2023	25,000	24,750
Riverbed Technology, Inc., 144A, 8.875%, 3/1/2023	20,000	18,500
Sanmina Corp., 144A, 4.375%, 6/1/2019	5,000	5,025
Seagate HDD Cayman, 144A, 5.75%, 12/1/2034	100,000	69,977
		883,258

		Principal Amount ($)(a)	Value ($)
Materials 5.5%			
Anglo American Capital PLC, 144A, 4.125%, 9/27/2022		200,000	130,250
ArcelorMittal, 5.125%, 6/1/2020		5,000	4,150
Ashland, Inc., 3.875%, 4/15/2018		20,000	20,400
Ball Corp.:			
4.375%, 12/15/2020		15,000	15,234
5.25%, 7/1/2025		30,000	30,675
Berry Plastics Corp., 5.5%, 5/15/2022		60,000	59,775
Cascades, Inc., 144A, 5.5%, 7/15/2022		20,000	19,400
Cemex SAB de CV, 144A, 6.5%, 12/10/2019		200,000	193,000
Chemours Co.:			
144A, 6.625%, 5/15/2023		20,000	14,000
144A, 7.0%, 5/15/2025		10,000	6,825
Clearwater Paper Corp., 144A, 5.375%, 2/1/2025		25,000	24,188
Coveris Holding Corp., 144A, 10.0%, 6/1/2018		40,000	38,000
Coveris Holdings SA, 144A, 7.875%, 11/1/2019		5,000	4,363
Crown Americas LLC, 6.25%, 2/1/2021		10,000	10,325
First Quantum Minerals Ltd.:			
144A, 6.75%, 2/15/2020		5,000	3,225
144A, 7.0%, 2/15/2021		60,000	37,650
Glencore Funding LLC, 144A, 4.125%, 5/30/2023		110,000	81,126
Greif, Inc., 7.75%, 8/1/2019		195,000	215,475
Hexion, Inc., 6.625%, 4/15/2020		75,000	58,312
Kaiser Aluminum Corp., 8.25%, 6/1/2020		40,000	41,800
Novelis, Inc., 8.75%, 12/15/2020		215,000	197,262
Plastipak Holdings, Inc., 144A, 6.5%, 10/1/2021		40,000	38,600
Platform Specialty Products Corp., 144A, 6.5%, 2/1/2022		25,000	21,625
Reynolds Group Issuer, Inc.:			
5.75%, 10/15/2020		235,000	239,040
6.875%, 2/15/2021		100,000	103,000
Signode Industrial Group Lux SA, 144A, 6.375%, 5/1/2022		30,000	25,500
Tronox Finance LLC:			
6.375%, 8/15/2020		30,000	18,054
144A, 7.5%, 3/15/2022		30,000	17,400
WR Grace & Co-Conn:			
144A, 5.125%, 10/1/2021		15,000	15,150
144A, 5.625%, 10/1/2024		5,000	5,050
Yamana Gold, Inc., 4.95%, 7/15/2024		120,000	101,758
			1,790,612
Telecommunication Services 7.0%			
America Movil SAB de CV, 7.125%, 12/9/2024	MXN	2,000,000	112,565
AT&T, Inc.:			
2.45%, 6/30/2020		20,000	19,696
3.4%, 5/15/2025		40,000	38,444
B Communications Ltd., 144A, 7.375%, 2/15/2021		35,000	37,695
CenturyLink, Inc.:			
Series V, 5.625%, 4/1/2020		15,000	14,831
Series T, 5.8%, 3/15/2022		30,000	27,495
Series W, 6.75%, 12/1/2023 (b)		35,000	32,812

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	Principal Amount ($)(a)	Value ($)
CommScope, Inc.:		
144A, 4.375%, 6/15/2020	15,000	15,113
144A, 5.0%, 6/15/2021	35,000	33,556
CyrusOne LP, 6.375%, 11/15/2022	30,000	30,900
Digicel Group Ltd.:		
144A, 7.125%, 4/1/2022	35,000	26,250
144A, 8.25%, 9/30/2020	105,000	86,625
Frontier Communications Corp.:		
6.25%, 9/15/2021	20,000	16,950
6.875%, 1/15/2025	85,000	70,019
7.125%, 1/15/2023	200,000	172,500
8.25%, 4/15/2017	62,000	65,100
8.5%, 4/15/2020	20,000	20,050
Hughes Satellite Systems Corp., 7.625%, 6/15/2021	40,000	42,400
Intelsat Jackson Holdings SA:		
5.5%, 8/1/2023	55,000	43,175
7.25%, 10/15/2020	140,000	122,500
Level 3 Financing, Inc.:		
5.375%, 8/15/2022	90,000	91,350
144A, 5.375%, 5/1/2025	30,000	29,850
6.125%, 1/15/2021	20,000	20,700
7.0%, 6/1/2020	75,000	78,375
Plantronics, Inc., 144A, 5.5%, 5/31/2023	10,000	9,950
Sprint Communications, Inc., 144A, 7.0%, 3/1/2020	40,000	40,100
Sprint Corp., 7.125%, 6/15/2024	200,000	144,250
T-Mobile U.S.A., Inc.:		
6.125%, 1/15/2022	15,000	15,413
6.375%, 3/1/2025	59,000	59,590
6.625%, 11/15/2020	65,000	67,567
Telefonica Celular del Paraguay SA, 144A, 6.75%, 12/13/2022	200,000	182,500
UPCB Finance IV Ltd., 144A, 5.375%, 1/15/2025	200,000	188,500
UPCB Finance V Ltd., 144A, 7.25%, 11/15/2021	27,000	28,687
UPCB Finance VI Ltd., 144A, 6.875%, 1/15/2022	9,000	9,518
Wind Acquisition Finance SA, 144A, 6.5%, 4/30/2020	30,000	31,387
Windstream Services LLC:		
7.75%, 10/15/2020 (b)	20,000	16,850
7.875%, 11/1/2017	205,000	209,717
Zayo Group LLC:		
6.0%, 4/1/2023	20,000	18,900
6.375%, 5/15/2025	30,000	27,900
		2,299,780

Utilities 2.1%

	Principal Amount ($)(a)	Value ($)
Calpine Corp.:		
5.375%, 1/15/2023 (b)	35,000	31,413
5.75%, 1/15/2025 (b)	35,000	30,888
Dynegy, Inc.:		
7.375%, 11/1/2022	30,000	26,100
7.625%, 11/1/2024	50,000	42,740
Empresa Electrica Angamos SA, 144A, 4.875%, 5/25/2029	200,000	178,417
Energy Future Holdings Corp., Series Q, 6.5%, 11/15/2024*	100,000	82,000
IPALCO Enterprises, Inc., 5.0%, 5/1/2018	145,000	151,887
NGL Energy Partners LP, 5.125%, 7/15/2019 (b)	30,000	23,700
NRG Energy, Inc.:		
6.25%, 5/1/2024 (b)	100,000	84,020
7.875%, 5/15/2021	30,000	28,125
Talen Energy Supply LLC, 144A, 4.625%, 7/15/2019	15,000	11,249
		690,539
Total Corporate Bonds (Cost $17,108,884)		**15,847,041**

Mortgage-Backed Securities Pass-Throughs 8.0%

	Principal Amount ($)(a)	Value ($)
Federal National Mortgage Association, 4.0%, 8/1/2042 (c)	1,000,000	1,058,172
Government National Mortgage Association, 3.5%, 11/1/2043 (c)	1,500,000	1,563,691
Total Mortgage-Backed Securities Pass-Throughs (Cost $2,616,641)		**2,621,863**

Asset-Backed 1.8%

Home Equity Loans 0.1%

	Principal Amount ($)(a)	Value ($)
CIT Group Home Equity Loan Trust, “AF6”, Series 2002-1, 6.2%, 2/25/2030	37,665	**37,552**

Miscellaneous 1.7%

	Principal Amount ($)(a)	Value ($)
ARES CLO Ltd., “D”, Series 2012-3A, 144A, 4.939%**, 1/17/2024	250,000	246,474
Domino's Pizza Master Issuer LLC, “A2”, Series 2012-1A, 144A, 5.216%, 1/25/2042	91,688	94,313
Hilton Grand Vacations Trust, “B”, Series 2014-AA, 144A, 2.07%, 11/25/2026	201,441	196,588
		537,375
Total Asset-Backed (Cost $576,178)		**574,927**

Commercial Mortgage-Backed Securities 2.2%

	Principal Amount ($)(a)	Value ($)
Del Coronado Trust, “M”, Series 2013-HDMZ, 144A, 5.331%**, 3/15/2018	80,000	79,856
GMAC Commercial Mortgage Securities, Inc., “G”, Series 2004-C1, 144A, 5.455%, 3/10/2038	502,681	500,243
JPMBB Commercial Mortgage Securities Trust, “A3”, Series 2014-C19, 3.669%, 4/15/2047	125,000	128,226
Total Commercial Mortgage-Backed Securities (Cost $718,396)		**708,325**

Collateralized Mortgage Obligations 13.7%

	Principal Amount ($)(a)	Value ($)
Banc of America Mortgage Securities, “2A2”, Series 2004-A, 2.651%**, 2/25/2034	78,278	77,242
Bear Stearns Adjustable Rate Mortgage Trust, “2A1”, Series 2005-11, 3.059%**, 12/25/2035	98,677	100,051
Countrywide Home Loans, “2A5”, Series 2004-13, 5.75%, 8/25/2034	57,843	57,738

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	Principal Amount ($)(a)	Value ($)
Federal Home Loan Mortgage Corp.:		
"AI", Series 4016, Interest Only, 3.0%, 9/15/2025	862,361	59,098
"JI", Series 3558, Interest Only, 4.5%, 12/15/2023	8,998	82
"PI", Series 3843, Interest Only, 4.5%, 5/15/2038	296,975	27,885
"DZ", Series 4253, 4.75%, 9/15/2043	1,099,194	1,267,781
"HI", Series 2934, Interest Only, 5.0%, 2/15/2020	66,065	4,756
"WI", Series 3010, Interest Only, 5.0%, 7/15/2020	105,335	7,141
"SP", Series 4047, Interest Only, 6.32%***, 12/15/2037	383,551	55,029
"JS", Series 3572, Interest Only, 6.47%***, 9/15/2039	468,083	66,113
Federal National Mortgage Association:		
"4", Series 406, Interest Only, 4.0%, 9/25/2040	163,771	31,971
"KZ", Series 2010-134, 4.5%, 12/25/2040	214,891	223,612
"BI", Series 2010-13, Interest Only, 5.0%, 12/25/2038	29,558	691
"PI", Series 2006-20, Interest Only, 6.258%***, 11/25/2030	315,785	45,351
"SI", Series 2007-23, Interest Only, 6.348%***, 3/25/2037	207,179	34,977
Freddie Mac Structured Agency Credit Risk Debt Notes, "M3", Series 2015-DN1, 4.371%**, 1/25/2025	750,000	739,379
Government National Mortgage Association:		
"GI", Series 2014-146, Interest Only, 3.5%, 9/20/2029	1,861,982	231,838
"GC", Series 2010-101, 4.0%, 8/20/2040	200,000	215,595
"ME", Series 2014-4, 4.0%, 1/16/2044	400,000	428,794
"PI", Series 2015-40, Interest Only, 4.0%, 4/20/2044	274,010	35,247
"HI", Series 2015-77, Interest Only, 4.0%, 5/20/2045	453,667	79,646
"IP", Series 2014-115, Interest Only, 4.5%, 2/20/2044	77,978	13,108
"PZ", Series 2010-106, 4.75%, 8/20/2040	191,742	207,660
"IV", Series 2009-69, Interest Only, 5.5%, 8/20/2039	239,021	44,221
"IN", Series 2009-69, Interest Only, 5.5%, 8/20/2039	243,917	43,662
"IJ", Series 2009-75, Interest Only, 6.0%, 8/16/2039	233,615	39,904
"AI", Series 2007-38, Interest Only, 6.116%***, 6/16/2037	63,330	9,698
JPMorgan Mortgage Trust, "2A1", Series 2006-A2, 2.566%**, 4/25/2036	226,688	207,182
Merrill Lynch Mortgage Investors Trust, "2A", Series 2003-A6, 2.768%**, 10/25/2033	56,877	56,740
Wells Fargo Mortgage-Backed Securities Trust, "2A3",Series 2004-EE, 2.739%**, 12/25/2034	77,837	77,230
Total Collateralized Mortgage Obligations (Cost $4,404,530)		**4,489,422**

Government & Agency Obligations 20.7%

Other Government Related (d) 0.6%

		Principal Amount ($)(a)	Value ($)
Perusahaan Penerbit SBSN, 144A, 4.325%, 5/28/2025		200,000	**190,760**

Sovereign Bonds 4.6%

		Principal Amount ($)(a)	Value ($)
Dominican Republic, 144A, 5.5%, 1/27/2025		100,000	96,250
Government of Indonesia, Series FR56, 8.375%, 9/15/2026	IDR	1,340,000,000	94,691
Republic of Argentina-Inflation Linked Bond, 5.83%, 12/31/2033	ARS	375	152
Republic of El Salvador:			
144A, 6.375%, 1/18/2027		75,000	63,375
144A, 7.65%, 6/15/2035		100,000	85,250
Republic of Hungary:			
4.0%, 3/25/2019		200,000	208,400
Series 19/A, 6.5%, 6/24/2019	HUF	11,600,000	45,284
Republic of Slovenia:			
144A, 4.75%, 5/10/2018		200,000	212,200
144A, 5.5%, 10/26/2022		100,000	111,618
Republic of South Africa:			
Series R204, 8.0%, 12/21/2018	ZAR	1,100,000	69,434
Series R186, 10.5%, 12/21/2026	ZAR	4,600,000	314,103
Republic of Uruguay, 5.1%, 6/18/2050		40,000	34,500
United Mexican States, 4.6%, 1/23/2046		200,000	177,000
			1,512,257

U.S. Government Sponsored Agency 3.0%

	Principal Amount ($)(a)	Value ($)
Tennessee Valley Authority, 4.25%, 9/15/2065	1,000,000	**976,967**

U.S. Treasury Obligations 12.5%

	Principal Amount ($)(a)	Value ($)
U.S. Treasury Bills:		
0.215%****, 2/11/2016 (e)	366,000	365,949
0.42%****, 6/2/2016 (e)	501,000	500,097
U.S. Treasury Inflation-Indexed Note, 0.375%, 7/15/2025	802,352	776,819
U.S. Treasury Notes:		
1.0%, 8/31/2016 (f)	1,630,000	1,633,310
1.0%, 9/30/2016	500,000	500,996
1.5%, 5/31/2019	232,600	232,818
1.625%, 12/31/2019	109,000	109,004
		4,118,993
Total Government & Agency Obligations (Cost $7,018,569)		**6,798,977**

Loan Participations and Assignments 4.3%

Senior Loans**

	Principal Amount ($)(a)	Value ($)
American Rock Salt Holdings LLC, First Lien Term Loan, 4.75%, 5/20/2021	103,425	99,224
Avis Budget Car Rental LLC, Term Loan B, 3.0%, 3/15/2019	58,643	58,582

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

	Principal Amount ($)(a)	Value ($)
Calpine Corp., Term Loan B5, 3.5%, 5/27/2022	194,025	185,536
CSC Holdings, Inc., Term Loan B, 2.924%, 4/17/2020	94,180	94,004
DaVita HealthCare Partners, Inc., Term Loan B, 3.5%, 6/24/2021	68,950	68,806
Goodyear Tire & Rubber Co., Second Lien Term Loan, 3.75%, 4/30/2019	110,000	110,157
Level 3 Financing, Inc., Term Loan B2, 3.5%, 5/31/2022	60,000	59,175
MacDermid, Inc.:		
First Lien Term Loan, 5.5%, 6/7/2020	53,625	52,117
Term Loan B2, 5.5%, 6/7/2020	29,774	28,876
MEG Energy Corp., Term Loan, 3.75%, 3/31/2020	252,762	224,327
NRG Energy, Inc., Term Loan B, 2.75%, 7/2/2018	116,037	113,209
Quebecor Media, Inc., Term Loan B1, 3.25%, 8/17/2020	87,975	85,418
Valeant Pharmaceuticals International, Inc.:		
Term Loan B, 3.5%, 2/13/2019	137,133	132,602
Term Loan B, 3.75%, 12/11/2019	115,706	111,974
Total Loan Participations and Assignments (Cost $1,481,681)		**1,424,007**

Convertible Bond 0.5%

Materials

GEO Specialty Chemicals, Inc., 144A, 7.5% PIK, 10/30/2018 (Cost $120,238)	122,478	**143,752**

Preferred Security 0.2%

Materials

Hercules, Inc., 6.5%, 6/30/2029 (Cost $61,468)	95,000	**80,275**

	Shares	Value ($)
Common Stocks 1.0%		
Consumer Discretionary 0.0%		
Dawn Holdings, Inc.* (g)	1	**2,623**
Financials 1.0%		
Two Harbors Investment Corp. (REIT)	39,286	**318,217**
Industrials 0.0%		
Congoleum Corp.*	2,500	0
Quad Graphics, Inc.	24	223
		223
Materials 0.0%		
GEO Specialty Chemicals, Inc.*	13,196	**6,052**
Total Common Stocks (Cost $356,388)		**327,115**

	Shares	Value ($)
Warrant 0.0%		
Materials		
Hercules Trust II, Expiration Date 3/31/2029* (Cost $17,432)	85	**145**

	Contract Amount	Value ($)
Call Options Purchased 0.0%		
Options on Interest Rate Swap Contracts		
Pay Fixed Rate — 3.72% – Receive Floating — 3-Month LIBOR, Swap Expiration Date 4/22/2026, Option Expiration Date 4/20/2016[1]	1,300,000	34
Pay Fixed Rate — 4.19% – Receive Floating — 3-Month LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017[2]	1,500,000	1,215
Pay Fixed Rate — 4.32% – Receive Floating — 3-Month LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017[3]	1,400,000	839
Total Call Options Purchased (Cost $191,320)		**2,088**
Put Options Purchased 0.2%		
Options on Interest Rate Swap Contracts		
Receive Fixed Rate — 2.19% – Pay Floating — 3-Month LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017[2]	1,500,000	30,097
Receive Fixed Rate — 2.32% – Pay Floating — 3-Month LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017[3]	1,400,000	34,823
Total Put Options Purchased (Cost $98,573)		**64,920**

	Shares	Value ($)
Securities Lending Collateral 2.8%		
Daily Assets Fund, 0.36% (h) (i) (Cost $912,928)	912,928	**912,928**
Cash Equivalents 2.6%		
Central Cash Management Fund, 0.25% (h) (Cost $853,220)	853,220	**853,220**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $36,536,446)†	106.3	**34,849,005**
Other Assets and Liabilities, Net	(6.3)	**(2,060,257)**
Net Assets	100.0	**32,788,748**

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

The following table represents a bond that is in default:

Security	Coupon	Maturity Date	Principal Amount		Cost ($)	Value ($)
Energy Future Holdings Corp.*	6.5%	11/15/2024	USD	100,000	61,441	82,000

* 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, 2015.

*** These securities are shown at their current rate as of December 31, 2015.

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

† The cost for federal income tax purposes was $36,542,835. At December 31, 2015, net unrealized depreciation for all securities based on tax cost was $1,693,830. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $509,485 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $2,203,315.

(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, 2015 amounted to $879,681, which is 2.7% 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, 2015, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

(f) At December 31, 2015, this security has been pledged, in whole or in part, to cover initial margin requirements for open centrally cleared swap contracts.

(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	2,623	.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; 3-Month LIBOR rate at December 31, 2015 is 0.61%.

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

SBSN: Surat Berharga Syariah Negara (Islamic Based Government 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.

At December 31, 2015, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation/ (Depreciation) ($)
10 Year U.S. Treasury Note	USD	3/21/2016	73	9,191,156	(41,594)
Ultra Long U.S. Treasury Bond	USD	3/21/2016	26	4,125,875	26,760
Total net unrealized depreciation					**(14,834)**

At December 31, 2015, open futures contracts sold were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Depreciation ($)
Ultra Long U.S. Treasury Bond	USD	3/21/2016	27	4,284,563	**(26,814)**

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

At December 31, 2015, 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 — 3-Month LIBOR	2/3/2017 2/3/2027	700,000[2]	2/1/2017	50,400	(5,095)
Receive Fixed — 3.32% – Pay Floating — 3-Month LIBOR	2/3/2017 2/3/2027	700,000[3]	2/1/2017	50,631	(3,903)
Receive Fixed — 4.22% – Pay Floating — 3-Month LIBOR	4/22/2016 4/22/2026	1,300,000[1]	4/20/2016	46,345	(2)
Total Call Options				**147,376**	**(9,000)**
Put Options					
Pay Fixed — 2.0% – Receive Floating — 3-Month LIBOR	8/15/2016 8/15/2046	1,500,000[1]	8/11/2016	28,800	(13,258)
Pay Fixed — 2.22% – Receive Floating — 3-Month LIBOR	7/13/2016 7/13/2046	1,500,000[4]	7/11/2016	28,200	(20,578)
Pay Fixed — 3.19% – Receive Floating — 3-Month LIBOR	2/3/2017 2/3/2027	700,000[2]	2/1/2017	50,400	(52,933)
Pay Fixed — 3.32% – Receive Floating — 3-Month LIBOR	2/3/2017 2/3/2027	700,000[3]	2/1/2017	50,631	(59,791)
Total Put Options				**158,031**	**(146,560)**
Total				**305,407**	**(155,560)**

(j) Unrealized appreciation on written options on interest rate swap contracts at December 31, 2015 was $149,847.

At December 31, 2015, open credit default swap contracts purchased were as follows:

Centrally Cleared Swaps

Effective/ Expiration Dates	Notional Amount ($)	Fixed Cash Flows Paid	Underlying Reference Obligation	Value ($)	Unrealized Depreciation ($)
3/20/2015 6/20/2020	2,717,550	5.0%	Markit CDX North America High Yield Index	(101,923)	**(6,240)**

Bilateral Swaps

Effective/ Expiration Dates	Notional Amount ($)	Fixed Cash Flows Paid	Underlying Reference Obligation	Value ($)	Upfront Payments Paid ($)	Unrealized Depreciation ($)
9/21/2015 12/202020	4,900,000[2]	1.0%	Markit CDX Emerging Markets Index	547,303	575,051	**(27,748)**

At December 31, 2015, open credit default swap contracts sold were as follows:

Bilateral Swaps

Effective/ Expiration Dates	Notional Amount ($) (l)	Fixed Cash Flows Received	Underlying Debt Obligation/ Quality Rating (k)	Value ($)	Upfront Payments Paid ($)	Unrealized Appreciation ($)
3/20/2015 6/20/2020	30,000[5]	5.0%	CCO Holdings LLC, 7.375%, 6/1/2020, BB–	4,284	2,577	**1,707**

(k) 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.

(l) 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.

At December 31, 2015, 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) ($)
3/16/2016 3/16/2017	1,000,000	Floating — 3-Month LIBOR	Fixed — 1.0%	110	(813)
12/16/2015 9/18/2017	3,600,000	Fixed — 1.557%	Floating — 3-Month LIBOR	(31,001)	(33,782)
12/16/2015 9/16/2020	2,000,000	Floating — 3-Month LIBOR	Fixed — 2.214%	50,145	51,022

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

Centrally Cleared Swaps

Effective/ Expiration Dates	Notional Amount ($)	Cash Flows Paid by the Fund	Cash Flows Received by the Fund	Value ($)	Unrealized Appreciation/ (Depreciation) ($)
3/16/2016 3/16/2025	4,100,000	Fixed — 2.25%	Floating — 3-Month LIBOR	(28,105)	(11,112)
12/16/2015 9/16/2025	3,000,000	Fixed — 2.64%	Floating — 3-Month LIBOR	(130,940)	(114,867)
12/16/2015 9/17/2035	200,000	Fixed — 2.938%	Floating — 3-Month LIBOR	(13,718)	(9,727)
12/16/2015 9/18/2045	500,000	Floating — 3-Month LIBOR	Fixed — 2.998%	42,616	26,520
12/16/2015 12/16/2045	900,000	Fixed — 2.75%	Floating — 3-Month LIBOR	(27,957)	(36,834)
Total net unrealized depreciation					**(129,593)**

Counterparties:

1 Nomura International PLC

2 JPMorgan Chase Securities, Inc.

3 BNP Paribas

4 Citigroup, Inc.

5 Barclays Bank PLC

As of December 31, 2015, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
BRL	2,880,000	USD	738,489	1/5/2016	11,767	Macquarie Bank Ltd.
USD	120,000	BRL	480,000	1/11/2016	857	Macquarie Bank Ltd.
BRL	480,000	USD	123,235	1/11/2016	2,378	Macquarie Bank Ltd.
BRL	960,000	USD	246,787	1/11/2016	5,072	Nomura International PLC
BRL	960,000	USD	247,332	1/11/2016	5,617	BNP Paribas
BRL	960,000	USD	250,980	1/11/2016	9,266	Morgan Stanley
EUR	5,581,797	USD	6,407,736	1/19/2016	339,577	JPMorgan Chase Securities, Inc.
USD	780,647	NZD	1,192,000	1/19/2016	33,959	Citigroup, Inc.
USD	3,492,437	EUR	3,278,579	1/19/2016	71,816	JPMorgan Chase Securities, Inc.
USD	494,138	MXN	8,600,000	1/20/2016	4,119	BNP Paribas
ZAR	8,600,000	USD	562,593	1/20/2016	8,556	JPMorgan Chase Securities, Inc.
ZAR	17,200,000	USD	1,154,967	1/20/2016	46,892	BNP Paribas
ZAR	5,320,000	USD	348,393	1/28/2016	6,190	JPMorgan Chase Securities, Inc.
MXN	2,042,900	USD	118,619	1/28/2016	330	JPMorgan Chase Securities, Inc.
CNY	3,200,000	USD	485,971	2/25/2016	2,951	Australia & New Zealand Banking Group Ltd.
Total unrealized appreciation					**549,347**	

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
USD	731,703	BRL	2,880,000	1/5/2016	(4,980)	Macquarie Bank Ltd.
MXN	10,200,322	ZAR	8,600,000	1/11/2016	(36,372)	Nomura International PLC
USD	246,945	BRL	960,000	1/11/2016	(5,231)	Nomura International PLC
USD	610,900	MXN	10,200,320	1/11/2016	(19,529)	JPMorgan Chase Securities, Inc.
NZD	1,192,000	USD	801,949	1/19/2016	(12,657)	BNP Paribas
USD	2,522,554	EUR	2,303,218	1/19/2016	(18,648)	Citigroup, Inc.
USD	1,127,740	ZAR	17,200,000	1/20/2016	(19,664)	BNP Paribas
USD	225,370	COP	700,000,000	1/20/2016	(5,323)	Morgan Stanley
USD	226,025	COP	700,000,000	1/20/2016	(5,978)	BNP Paribas
USD	521,212	INR	34,400,000	1/29/2016	(3,763)	Morgan Stanley
USD	498,210	CNY	3,200,000	2/25/2016	(15,189)	Australia & New Zealand Banking Group Ltd.
Total unrealized depreciation					**(147,334)**	

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

Currency Abbreviations

ARS	Argentine Peso	EUR	Euro	MXN	Mexican Peso
BRL	Brazilian Real	HUF	Hungarian Forint	NZD	New Zealand Dollar
CNY	Chinese Yuan	IDR	Indonesian Rupiah	USD	United States Dollar
COP	Colombian Peso	INR	Indian Rupee	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.

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, 2015 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	$ —	$ 15,847,041	$ —	$ 15,847,041
Mortgage-Backed Securities Pass-Throughs	—	2,621,863	—	2,621,863
Asset-Backed	—	574,927	—	574,927
Commercial Mortgage-Backed Securities	—	708,325	—	708,325
Collateralized Mortgage Obligations	—	4,489,422	—	4,489,422
Government & Agency Obligations	—	6,798,977	—	6,798,977
Loan Participations and Assignments	—	1,424,007	—	1,424,007
Convertible Bond	—	—	143,752	143,752
Preferred Security	—	80,275	—	80,275
Common Stocks (m)	318,440	—	8,675	327,115
Warrant	—	—	145	145
Short-Term Investments (m)	1,766,148	—	—	1,766,148
Derivatives (n)				
Purchased Options	—	67,008	—	67,008
Futures Contracts	26,760	—	—	26,760
Credit Default Swap Contracts	—	1,707	—	1,707
Interest Rate Swap Contracts	—	77,542	—	77,542
Forward Foreign Currency Exchange Contracts	—	549,347	—	549,347
Total	**$ 2,111,348**	**$ 33,240,441**	**$ 152,572**	**$ 35,504,361**

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivatives (n)				
Futures Contracts	$ (68,408)	$ —	$ —	$ (68,408)
Written Options	—	(155,560)	—	(155,560)
Credit Default Swap Contracts	—	(33,988)	—	(33,988)
Interest Rate Swap Contracts	—	(207,135)	—	(207,135)
Forward Foreign Currency Exchange Contracts	—	(147,334)	—	(147,334)
Total	**$ (68,408)**	**$ (544,017)**	**$ —**	**$ (612,425)**

There have been no transfers between fair value measurement levels during the year ended December 31, 2015.

(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, 2015

Assets	
Investments:	
Investments in non-affiliated securities, at value (cost $34,770,298) — including $879,681 of securities loaned	$ 33,082,857
Investment in Daily Assets Fund (cost $912,928)*	912,928
Investment in Central Cash Management Fund (cost $853,220)	853,220
Total investments in securities, at value (cost $36,536,446)	34,849,005
Foreign currency, at value (cost $486,563)	453,955
Deposit from broker on bilateral swap contracts	490,000
Receivable for investments sold	609,752
Receivable for Fund shares sold	4,833
Dividends receivable	10,210
Interest receivable	354,706
Receivable for variation margin on futures contracts	21,363
Unrealized appreciation on bilateral swap contracts	1,707
Unrealized appreciation on forward foreign currency exchange contracts	549,347
Upfront payments paid on bilateral swap contracts	577,628
Foreign taxes recoverable	597
Other assets	1,575
Total assets	$ 37,924,678
Liabilities	
Cash overdraft	547,625
Payable upon return of securities loaned	912,928
Payable for investments purchased — when-issued/delayed delivery securities	2,627,609
Payable for Fund shares redeemed	14,728
Payable for variation margin on centrally cleared swaps	48,108
Payable upon return of deposit for bilateral swap contracts	490,000
Options written, at value (premiums received $305,407)	155,560
Unrealized depreciation on bilateral swap contracts	27,748
Unrealized depreciation on forward foreign currency exchange contracts	147,334
Accrued Trustees' fees	1,456
Other accrued expenses and payables	162,834
Total liabilities	5,135,930
Net assets, at value	**$ 32,788,748**
Net Assets Consist of	
Undistributed net investment income	1,922,375
Net unrealized appreciation (depreciation) on:	
Investments	(1,687,441)
Swap contracts	(161,874)
Futures	(41,648)
Foreign currency	369,327
Written options	149,847
Accumulated net realized gain (loss)	(3,302,987)
Paid-in capital	35,541,149
Net assets, at value	**$ 32,788,748**
Class A	
Net Asset Value, offering and redemption price per share ($32,788,748 ÷ 3,142,272 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 10.43**

* 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, 2015

Investment Income	
Income:	
Interest (net of foreign taxes withheld of $812)	$ 2,075,018
Dividends	19,107
Income distributions — Central Cash Management Fund	4,099
Securities lending income, including income from Daily Assets Fund, net of borrower rebates	2,617
Total income	2,100,841
Expenses:	
Management fee	264,123
Administration fee	48,022
Services to shareholders	725
Custodian fee	69,630
Professional fees	91,018
Reports to shareholders	22,132
Trustees' fees and expenses	4,442
Pricing fee	45,159
Other	5,335
Total expenses before expense reductions	550,586
Expense reductions	(212,412)
Total expenses after expense reductions	338,174
Net investment income	**1,762,667**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	(1,760,613)
Swap contracts	(255,036)
Futures	(627,344)
Foreign currency	592,955
	(2,050,038)
Change in net unrealized appreciation (depreciation) on:	
Investments	(1,145,501)
Swap contracts	(190,244)
Futures	(26,112)
Written options	33,138
Foreign currency	387,340
	(941,379)
Net gain (loss)	**(2,991,417)**
Net increase (decrease) in net assets resulting from operations	**$ (1,228,750)**

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, 2015	2014
Operations:		
Net investment income	$ 1,762,667	$ 2,471,475
Net realized gain (loss)	(2,050,038)	(166,856)
Change in net unrealized appreciation (depreciation)	(941,379)	(970,135)
Net increase (decrease) in net assets resulting from operations	(1,228,750)	1,334,484
Distributions to shareholders from:		
Net investment income:		
Class A	(2,026,151)	(2,905,554)
Total distributions	(2,026,151)	(2,905,554)
Fund share transactions:		
Class A		
Proceeds from shares sold	1,567,297	3,829,411
Reinvestment of distributions	2,026,151	2,905,554
Payments for shares redeemed	(21,135,428)	(12,535,275)
Net increase (decrease) in net assets from Class A share transactions	(17,541,980)	(5,800,310)
Increase (decrease) in net assets	(20,796,881)	(7,371,380)
Net assets at beginning of period	53,585,629	60,957,009
Net assets at end of period (including undistributed net investment income of $1,922,375 and $2,083,561, respectively)	**$ 32,788,748**	**$ 53,585,629**

Other Information		
Class A		
Shares outstanding at beginning of period	4,786,192	5,284,551
Shares sold	142,362	334,959
Shares issued to shareholders in reinvestment of distributions	184,028	258,501
Shares redeemed	(1,970,310)	(1,091,819)
Net increase (decrease) in Class A shares	(1,643,920)	(498,359)
Shares outstanding at end of period	**3,142,272**	**4,786,192**

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

Financial Highlights

Class A	Years Ended December 31, 2015	2014	2013	2012	2011
Selected Per Share Data					
Net asset value, beginning of period	**$11.20**	**$11.53**	**$12.60**	**$11.90**	**$11.96**
Income (loss) from investment operations:					
Net investment income[a]	.40	.49	.49	.57	.63
Net realized and unrealized gain (loss)	(.72)	(.23)	(.59)	.92	(.01)
Total from investment operations	(.32)	.26	(.10)	1.49	.62
Less distributions from:					
Net investment income	(.45)	(.59)	(.62)	(.76)	(.68)
Net realized gains	—	—	(.35)	(.03)	—
Total distributions	(.45)	(.59)	(.97)	(.79)	(.68)
Net asset value, end of period	**$10.43**	**$11.20**	**$11.53**	**$12.60**	**$11.90**
Total Return (%)[b]	(3.02)	2.23	(1.04)	13.08	5.31
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	33	54	61	73	69
Ratio of expenses before expense reductions (%)	1.15	1.08	1.02	.99	.99
Ratio of expenses after expense reductions (%)	.70	.77	.74	.77	.79
Ratio of net investment income (%)	3.67	4.23	4.16	4.72	5.38
Portfolio turnover rate (%)	185	185	183	164	144

[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 (the "Fund") is a diversified series of Deutsche 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.

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. The 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. During the year ended December 31, 2015, the Fund invested the cash collateral in Daily Assets Fund, an affiliated money market fund managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.08% annualized effective rate as of December 31, 2015) on the cash collateral invested in Daily Assets Fund. 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, 2015, 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. If affiliates of the Advisor participate in the primary and secondary market for senior loans, legal limitations may restrict the Fund's ability to participate in restructuring or acquiring some senior loans. 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, a portion of which may be recoverable. Based upon the current interpretation of the tax rules and regulations, estimated tax liabilities and recoveries 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, 2015, the Fund had net tax basis capital loss carryforwards of approximately $3,338,000, which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($1,955,000) and long-term losses ($1,383,000).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2015 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, 2015, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 2,302,738
Capital loss carryforwards	$ (3,338,000)
Unrealized appreciation (depreciation) on investments	$ (1,693,830)

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

	Years Ended December 31, 2015	**2014**
Distributions from ordinary income*	$ 2,026,151	$ 2,905,554

* 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, 2015, 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, 2015 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2015, the investment in interest rate swap contracts had a total notional amount generally indicative of a range from $13,300,000 to $18,007,000.

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, 2015, the Fund entered into credit default swap agreements to gain exposure to the underlying issuer's credit quality characteristics and to hedge the risk of default on fund securities.

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, 2015 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2015, the investment in credit default swap contracts purchased had a total notional value generally indicative of a range from $0 to $7,618,000, and the investment in credit default swap contracts sold had a total notional value generally indicative of a range from $30,000 to $5,075,000.

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, 2015, 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, 2015 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, 2015, the investment in written option contracts had a total value generally indicative of a range from approximately $114,000 to $216,000, and purchased option contracts had a total value generally indicative of a range from approximately $67,000 to $121,000.

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, 2015, 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, 2015 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2015, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $2,533,000 to $13,917,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from approximately $3,123,000 to $18,678,000.

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, 2015, 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, 2015, is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2015, the investment in forward currency contracts short vs. U.S. dollars had a total contract value generally indicative of a range from approximately $8,466,000 to $19,951,000, and the investment in forward currency contracts long vs. U.S. dollars had a total contract value generally indicative of a range from approximately $5,878,000 to $14,683,000. The investment in forward currency contracts long vs. other foreign currencies sold had a total contract value generally indicative of a range from approximately $618,000 to $9,640,000.

The following tables summarize the value of the Fund's derivative instruments held as of December 31, 2015 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)	$ 67,008	$ —	$ 77,542	$ 26,760	$ 171,310
Credit Contracts (c)	—	—	1,707	—	1,707
Foreign Exchange Contracts (d)	—	549,347	—	—	549,347
	$ 67,008	**$ 549,347**	**$ 79,249**	**$ 26,760**	**$ 722,364**

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.

(c) Unrealized appreciation on bilateral swap contracts

(d) Unrealized appreciation on forward foreign currency exchange contracts

Liability Derivatives	**Written Options**	**Forward Contracts**	**Swap Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (a) (b)	$ (155,560)	$ —	$ (207,135)	$ (68,408)	$ (431,103)
Credit Contracts (b) (c)	—	—	(33,988)	—	(33,988)
Foreign Exchange Contracts (d)	—	(147,334)	—	—	(147,334)
	$ (155,560)	**$ (147,334)**	**$ (241,123)**	**$ (68,408)**	**$ (612,425)**

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 of bilateral swap contracts

(d) 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, 2015 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)	$ —	$ (157,515)	$ (627,344)	$ (784,859)
Credit Contracts (a)	—	(97,521)	—	(97,521)
Foreign Exchange Contracts (b)	599,125	—	—	599,125
	$ 599,125	**$ (255,036)**	**$ (627,344)**	**$ (283,255)**

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)	$ (26,937)	$ 33,138	$ —	$ (136,084)	$ (26,112)	$ (155,995)
Credit Contracts (a)	—	—	—	(54,160)	—	(54,160)
Foreign Exchange Contracts (b)	—	—	416,819	—	—	416,819
	$ (26,937)	**$ 33,138**	**$ 416,819**	**$ (190,244)**	**$ (26,112)**	**$ 206,664**

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, 2015, 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	Non-Cash Collateral Received	Cash Collateral Received (a)	Net Amount of Derivative Assets
Australia & New Zealand Banking Group Ltd.	$ 2,951	$ (2,951)	$ —	$ —	$ —
Barclays Bank PLC	1,707	—	—	—	1,707
BNP Paribas	92,290	(92,290)	—	—	—
Citigroup, Inc.	33,959	(33,959)	—	—	—
JPMorgan Chase Securities, Inc.	457,781	(105,305)	—	(352,476)	—
Macquarie Bank Ltd.	15,002	(4,980)	—	—	10,022
Morgan Stanley	9,266	(9,086)	—	—	180
Nomura International PLC	5,106	(5,106)	—	—	—
	$ 618,062	**$ (253,677)**	**$ —**	**$ (352,476)**	**$ 11,909**

Counterparty	Gross Amounts of Liabilities Presented in the Statement of Assets and Liabilities	Financial Instruments and Derivatives Available for Offset	Non-Cash Collateral Pledged	Cash Collateral Pledged	Net Amount of Derivative Liabilities
Australia & New Zealand Banking Group Ltd.	$ 15,189	$ (2,951)	$ —	$ —	$ 12,238
BNP Paribas	101,993	(92,290)	—	—	9,703
Citigroup, Inc.	39,226	(33,959)	—	—	5,267
JPMorgan Chase Securities, Inc.	105,305	(105,305)	—	—	—
Macquarie Bank Ltd.	4,980	(4,980)	—	—	—
Morgan Stanley	9,086	(9,086)	—	—	—
Nomura International PLC	54,863	(5,106)	—	—	49,757
	$ 330,642	**$ (253,677)**	**$ —**	**$ —**	**$ 76,965**

(a) The actual collateral received may be more than the amounts shown.

C. Purchases and Sales of Securities

During the year ended December 31, 2015, purchases and sales of investment transactions (excluding short-term investments and U.S. Treasury obligations) aggregated $73,255,465 and $82,407,206, respectively. Purchases and sales of U.S. Treasury obligations aggregated $8,063,692 and $7,640,496, respectively.

For the year ended December 31, 2015, transactions for written options on interest rate swap contracts were as follows:

	Contract Amount	Premiums
Outstanding, beginning of period	4,100,000	$ 248,407
Options written	3,000,000	57,000
Outstanding, end of period	**7,100,000**	**$ 305,407**

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, 2015, 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, 2015 through September 30, 2015, 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 0.70%.

Effective October 1, 2015 through September 30, 2016, 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 0.68%.

For the year ended December 31, 2015, fees waived and/or expenses reimbursed amounted to $212,412.

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, 2015, the Administration Fee was $48,022, of which $2,914 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, 2015, the amounts charged to the Fund by DSC aggregated $147, 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, 2015, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $17,082, of which $7,689 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 1940 Act, 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, 2015, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $228.

Transactions with Affiliates. The Fund may purchase securities from, or sell securities to, an affiliated fund provided the affiliation is solely due to having a common investment adviser, common officers, or common trustees. During the year ended December 31, 2015, the Fund engaged in securities purchases of $30,131 with an affiliated fund in compliance with Rule 17a-7 under the 1940 Act.

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, 2015, 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% and 40%.

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 the one-month 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, 2015.

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 (one of the funds constituting Deutsche Variable Series II) (the "Fund"), as of December 31, 2015, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the 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, 2015, 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 (one of the funds constituting Deutsche Variable Series II) at December 31, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Boston, Massachusetts
February 12, 2016

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, 2015 to December 31, 2015).

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, 2015

Actual Fund Return	**Class A**
Beginning Account Value 7/1/15	$1,000.00
Ending Account Value 12/31/15	$ 959.60
Expenses Paid per $1,000*	$ 3.46

Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 7/1/15	$1,000.00
Ending Account Value 12/31/15	$1,021.68
Expenses Paid per $1,000*	$ 3.57

* 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	.70%

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 2015.

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

— In September 2015, 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 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 from 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's ("Deutsche Bank") Asset and Wealth Management ("Deutsche AWM") division. Deutsche AWM is a global asset management business that offers a wide range of investing expertise and resources, including research capabilities in many countries throughout the world. Deutsche Bank has advised the Independent Trustees that the U.S. asset management business continues to be a critical and integral part of Deutsche Bank, and that Deutsche Bank will continue to make significant investments in Deutsche AWM, including ongoing enhancements to Deutsche AWM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AWM division.

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.

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 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 additional reporting from DIMA regarding such funds and, where appropriate, 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, 2014, 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 outperformed its benchmark in the three- and five-year periods and has underperformed its benchmark in the one-year period ended December 31, 2014. 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, 2014). 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, 2014, and analyzing Lipper expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Lipper Universe Expenses"). The Board noted that the expense limitation agreed to by DIMA was expected to help the Fund's total (net) operating expenses remain competitive. The Board considered the Fund's management fee rate as compared to fees charged by DIMA to comparable Deutsche U.S. registered funds ("Deutsche Funds") and considered differences between the Fund and the comparable Deutsche Funds. The information requested by the Board as part of its review of fees and expenses also included information about institutional accounts (including any sub-advised funds and accounts) and funds offered primarily to European investors ("Deutsche Europe funds") managed by Deutsche AWM. The Board noted that DIMA indicated that Deutsche AWM 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 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 also reviewed certain publicly available information regarding the profitability of certain similar investment management firms. The Board noted that while information regarding the profitability of such firms is limited (and in some cases is not necessarily prepared on a comparable basis), DIMA and its affiliates' overall profitability with respect to the Deutsche Funds (after taking into account distribution and other services provided to the funds by DIMA and its affiliates) was lower than the overall profitability levels of most comparable firms for which such data was available.

Economies of Scale. The Board considered whether there are economies of scale with respect to the management of the Fund and whether the Fund benefits from any economies of scale. The Board noted that the Fund's investment 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. 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 considered these benefits in reaching its conclusion that the Fund's management fees were reasonable.

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 the individual serving as 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	Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); 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)	106	—
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	106	—
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	106	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); 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; North Bennett Street School (Boston)	106	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)	106	—
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)	106	—
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	106	—

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
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)	106	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)	106	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)	106	—
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)	106	—

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 Management (2013–present); formerly: Head of Business Management and Consulting at Invesco, Ltd. (2010–2012)
John Millette[7] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (since 2015); and Director and Vice President, DeAWM Trust Company (since 2016)
Melinda Morrow[6] (1970) Vice President, 2012–present	Director,[3] Deutsche Asset Management
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset Management; and Chairman, Director and President, DeAWM Trust Company (since 2013); formerly, Director, DeAWM Trust Company (2009–2013)
Caroline Pearson[7] (1962) Chief Legal Officer, 2010–present	Managing Director,[3] Deutsche Asset Management; Secretary, DeAWM Distributors, Inc; and Secretary, DeAWM Service Company
Robert Kloby[6] (1962) Chief Compliance Officer, 2006–present	Managing Director,[3] Deutsche Asset Management
Wayne Salit[6] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Hepsen Uzcan[6] (1974) Assistant Secretary, 2013–present	Director,[3] Deutsche Asset Management
Paul Antosca[7] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Jack Clark[7] (1967) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management
Diane Kenneally[7] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

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

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 Management

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Dreyfus Investment Portfolios, MidCap Stock Portfolio

ANNUAL REPORT
December 31, 2015

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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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, 2015, through December 31, 2015. 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.

2015 was a year of varied and, at times, conflicting economic influences. On one hand, the U.S. economy continued to grow as domestic labor markets posted significant gains, housing markets recovered, and lower fuel prices put cash in consumers' pockets. Indeed, these factors, along with low inflation, prompted the Federal Reserve Board in December to raise short-term interest rates for the first time in nearly a decade. On the other hand, the global economy continued to disappoint, particularly in China and other emerging markets, when reduced industrial demand and declining currency values sparked substantial declines in commodity prices.

Although several broad measures of stock and bond performance ended 2015 roughly unchanged, high levels of volatility prevailed across most financial markets. Among U.S. equities, moderate gains from consumer discretionary and health care stocks were balanced by pronounced weakness in the energy and materials sectors. Bonds also saw bifurcated performance, with municipal bonds and intermediate-term U.S. government securities faring well compared to high yield and emerging-markets debt.

Market volatility is likely to persist until investors see greater clarity from the global economy. We expect to see wide differences in underlying fundamental and technical influences across various asset classes, economic sectors, and regional markets in 2016, suggesting that selectivity may be an important determinant of investment success. As always, we encourage you to discuss the implications of our observations with your financial advisor.

Thank you for your continued confidence and support.

Sincerely,

J. Charles Cardona
President
The Dreyfus Corporation
January 15, 2016

DISCUSSION OF FUND PERFORMANCE

For the period of January 1, 2015, through December 31, 2015, as provided by C. Wesley Boggs, William S. Cazalet, CAIA, and Ronald P. Gala, CFA, Portfolio Managers

Fund and Market Performance Overview

For the 12-month period ended December 31, 2015, Dreyfus Investment Portfolios, MidCap Stock Portfolio's Initial shares produced a total return of –2.29%, and its Service shares produced a total return of –2.52%.[1] In comparison, the fund's benchmark, the Standard & Poor's MidCap 400® Index (the "S&P 400 Index"), produced a total return of –2.18% for the same period.[2]

Midcap stocks in 2015 produced modest losses, on average, due to concerns surrounding deteriorating global economic sentiment and sharply declining commodity prices. The fund lagged its benchmark, mainly due to stock selection shortfalls in the financials and industrials 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.

Global Economic Concerns Sparked Market Turmoil

The reporting period began in the wake of a stock market rally stemming from robust U.S. employment gains and improved consumer and business confidence. The rally paused early in 2015 amid disappointing domestic economic data, but the market's advance soon got back on track, driving the S&P 400 Index to record highs by late June.

However, a debt crisis in Greece and slowing economic growth in China sent U.S. stock prices broadly lower over the summer. Midcap stocks slid into negative territory in August after Chinese authorities devaluated the country's currency, but a strong rally in October partly erased previous losses when U.S labor markets continued to gain momentum and several U.S. companies reported better-than-expected financial results. Investors again grew concerned that global economic instability and falling energy prices might dampen economic conditions in the United States, and midcap stocks declined over the final month of the year.

In this environment, midcap stocks trailed large-cap stocks and, to a lesser extent, small-cap stocks. Moreover, investors favored companies exhibiting high levels of earnings growth, often seemingly regardless of their valuations.

Some Stock Selections Dampened Relative Performance

Our quantitative investment process enabled the fund to navigate a volatile investment environment during 2015, but results for the year overall fell slightly short of the benchmark. Notable laggards included the financials sector, where investment manager Waddell & Reed

Financial reported inconsistent earnings and revenues, and investors grew increasingly concerned about the potential for heightened regulatory oversight. In the industrials sector, several machinery producers trailed sector averages due to concerns surrounding the global economic slowdown, the adverse impact of a strong U.S. dollar on exports, and reduced demand for industrial goods from energy production companies. Likewise, offshore energy services company *Helix Energy Solutions Group* was hurt by weak demand, leading analysts to reduce their earnings targets. In other areas, apparel designer *Kate Spade & Co.* reported disappointing sales volumes, prompting a decline in its share price.

In contrast, the fund achieved strong relative performance from other holdings. In the information technology sector, Internet services provider *Verisign* advanced amid robust domain-name renewal volumes and rising demand from international customers for .com and .net web addresses. Meanwhile, semiconductor manufacturer Integrated Device Technology posted better-than-expected earnings over four successive quarters and increased its share buyback program. Among healthcare companies, managed care provider Health Net reported robust earnings early in the year, and its stock advanced strongly after the company accepted a merger proposal from managed care company Centene. Investors responded positively to the merger agreement, which they expect to form a diversified healthcare enterprise. In other areas, media and entertainment company *Starz* exceeded analysts' earnings expectations over the first half of 2015, driving its stock price higher. We sold the stock when it reached a fuller valuation, and the fund avoided subsequent declines.

Companies with Solid Fundamentals

As of the reporting period's end, our quantitative models have continued to identify what we believe are attractive investment opportunities across a broad spectrum of midcap companies and industry groups. Indeed, recent bouts of volatility have provided opportunities to purchase the stocks of companies ranked highly by our process. When the fund's holdings reach what we perceive to be fuller valuations, we expect to replace them with high quality companies that display then-currently attractive valuations in our model. In addition, we continue to maintain a broadly diversified portfolio.

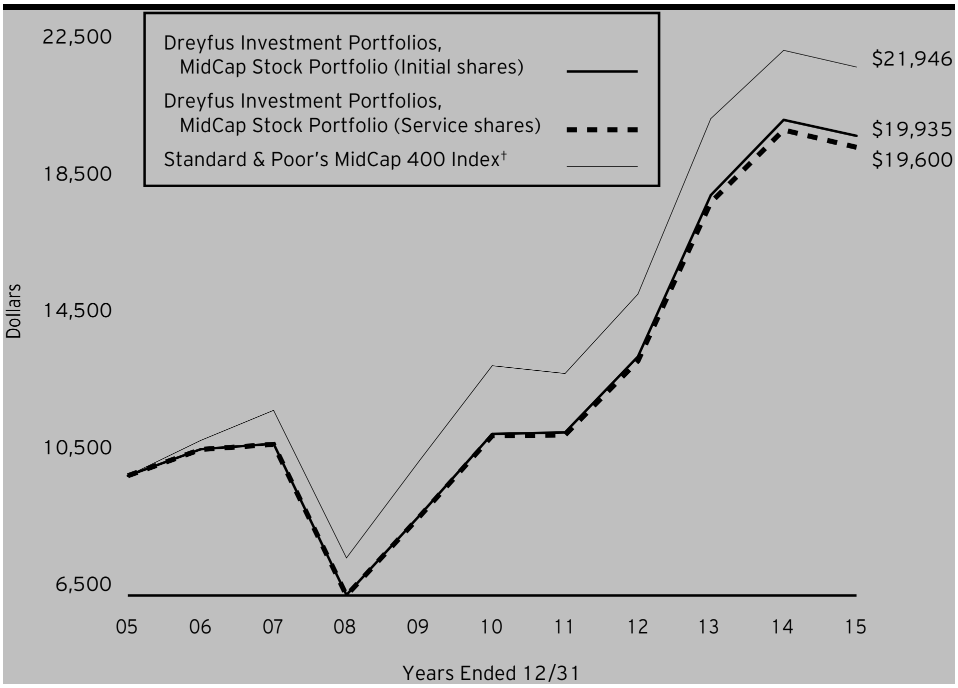
January 15, 2016

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 12/31/15

	1 Year	5 Years	10 Years
Initial shares	**-2.29%**	**12.18%**	**7.14%**
Service shares	**-2.52%**	**11.90%**	**6.96%**
Standard & Poor's MidCap 400 Index	**-2.18%**	**10.68%**	**8.18%**

† 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 12/31/05 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, 2015 to December 31, 2015. 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, 2015

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.19	$ 5.47
Ending value (after expenses)	$956.10	$955.00

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, 2015

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.33	$ 5.65
Ending value (after expenses)	$1,020.92	$1,019.61

† *Expenses are equal to the fund's annualized expense ratio of .85% for Initial shares and 1.11% for Service shares, multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period).*

STATEMENT OF INVESTMENTS
December 31, 2015

Common Stocks - 99.5%	Shares	Value ($)
Banks - 5.9%		
Associated Banc-Corp	116,600	2,186,250
BancorpSouth	79,100	1,897,609
Cathay General Bancorp	74,500	2,334,085
Commerce Bancshares	5,255	223,548
Cullen/Frost Bankers	24,100	1,446,000
East West Bancorp	5,500	228,580
First Horizon National	127,200 [a]	1,846,944
		10,163,016
Capital Goods - 9.9%		
Allison Transmission Holdings	81,200	2,102,268
GATX	39,300	1,672,215
Huntington Ingalls Industries	24,200	3,069,770
Lincoln Electric Holdings	49,500	2,568,555
Owens Corning	36,500	1,716,595
Spirit Aerosystems Holdings, Cl. A	47,300 [b]	2,368,311
Trinity Industries	68,000	1,633,360
Wabtec	26,600	1,891,792
		17,022,866
Commercial & Professional Services - 1.4%		
Deluxe	41,000	2,236,140
Pitney Bowes	8,900	183,785
		2,419,925
Consumer Durables & Apparel - 3.9%		
Brunswick	59,500	3,005,345
Carter's	32,300	2,875,669
NVR	540 [b]	887,220
		6,768,234
Consumer Services - 4.6%		
Brinker International	42,900	2,057,055
Darden Restaurants	34,100	2,170,124
Jack in the Box	34,700	2,661,837
ServiceMaster Global Holdings	18,400 [b]	722,016
Wyndham Worldwide	4,900	355,985
		7,967,017
Diversified Financials - 4.6%		
Affiliated Managers Group	14,880 [b]	2,377,229
CBOE Holdings	12,100	785,290

Common Stocks - 99.5% (continued)	Shares		Value ($)
Diversified Financials - 4.6% (continued)			
SEI Investments	61,300		3,212,120
T. Rowe Price Group	2,500		178,725
Waddell & Reed Financial, Cl. A	47,100		1,349,886
			7,903,250
Energy - 5.0%			
Cameron International	16,200	b	1,023,840
Dril-Quip	6,900	b	408,687
HollyFrontier	16,600		662,174
Oceaneering International	37,400		1,403,248
Tesoro	11,100		1,169,607
Western Refining	43,500		1,549,470
World Fuel Services	63,700		2,449,902
			8,666,928
Food & Staples Retailing - 1.2%			
SUPERVALU	307,000	b	**2,081,460**
Food, Beverage & Tobacco - 4.8%			
Boston Beer, Cl. A	5,370	a,b	1,084,257
Bunge	17,700		1,208,556
Coca-Cola Enterprises	8,700		428,388
Dean Foods	131,900		2,262,085
Ingredion	34,900		3,344,816
			8,328,102
Health Care Equipment & Services - 8.3%			
DENTSPLY International	17,200		1,046,620
Health Net	29,000	b	1,985,340
Hologic	89,200	b	3,451,148
LifePoint Health	18,300	b	1,343,220
Molina Healthcare	38,500	b	2,315,005
Teleflex	20,300		2,668,435
Universal Health Services, Cl. B	6,800		812,532
VCA	12,400	b	682,000
			14,304,300
Insurance - 4.3%			
American Financial Group	4,400		317,152
Everest Re Group	17,400		3,185,766
First American Financial	4,600		165,140
FNF Group	10,100		350,167
Reinsurance Group of America	13,900		1,189,145

Common Stocks - 99.5% (continued)	Shares		Value ($)
Insurance - 4.3% (continued)			
The Hanover Insurance Group	28,200		2,293,788
			7,501,158
Materials - 5.4%			
Bemis	16,600		741,854
Crown Holdings	14,000	b	709,800
Minerals Technologies	27,600		1,265,736
PolyOne	37,200		1,181,472
Reliance Steel & Aluminum	46,200		2,675,442
Sealed Air	18,400		820,640
Steel Dynamics	107,200		1,915,664
			9,310,608
Media - 1.1%			
John Wiley & Sons, Cl. A	3,700		166,611
New York Times, Cl. A	131,800		1,768,756
			1,935,367
Pharmaceuticals, Biotechnology & Life Sciences - 4.1%			
Agilent Technologies	24,600		1,028,526
Charles River Laboratories International	29,300	b	2,355,427
Mettler-Toledo International	10,140	b	3,438,778
United Therapeutics	1,300	b	203,593
			7,026,324
Real Estate - 9.7%			
Camden Property Trust	15,600	c	1,197,456
CBL & Associates Properties	86,900	c	1,074,953
Corrections Corporation of America	72,835	c	1,929,400
General Growth Properties	77,000	c	2,095,170
Lamar Advertising, Cl. A	48,400		2,903,032
LaSalle Hotel Properties	8,500	c	213,860
National Retail Properties	37,300	c	1,493,865
Taubman Centers	39,400	c	3,022,768
Weingarten Realty Investors	81,300	c	2,811,354
			16,741,858
Retailing - 3.3%			
Big Lots	55,900	a	2,154,386
Foot Locker	43,200		2,811,888
GNC Holdings, Cl. A	15,800		490,116
O'Reilly Automotive	860	b	217,941
			5,674,331

Common Stocks - 99.5% (continued)	Shares		Value ($)
Semiconductors & Semiconductor Equipment - 1.6%			
Integrated Device Technology	107,600	b	**2,835,260**
Software & Services - 8.8%			
ANSYS	6,900	b	638,250
CA	12,700		362,712
Citrix Systems	5,000	b	378,250
Computer Sciences	35,800		1,169,944
Convergys	57,500		1,431,175
CoreLogic	52,100	b	1,764,106
DST Systems	25,044		2,856,518
Genpact	10,700	b	267,286
NeuStar, Cl. A	54,100	a,b	1,296,777
Nuance Communications	121,600	b	2,418,624
WEX	29,100	b	2,572,440
			15,156,082
Technology Hardware & Equipment - 3.6%			
Arrow Electronics	32,800	b	1,777,104
Ciena	10,200	b	211,038
InterDigital	21,600		1,059,264
IPG Photonics	3,400	a,b	303,144
NCR	106,500	b	2,604,990
Polycom	13,500	b	169,965
			6,125,505
Telecommunication Services - .5%			
CenturyLink	37,100		**933,436**
Transportation - 3.7%			
Alaska Air Group	11,900	a	958,069
JetBlue Airways	128,700	b	2,915,055
Old Dominion Freight Line	43,800	b	2,587,266
			6,460,390
Utilities - 3.8%			
DTE Energy	14,700		1,178,793
FirstEnergy	73,200		2,322,636
Westar Energy	72,400		3,070,484
			6,571,913
Total Common Stocks (cost $163,852,207)			**171,897,330**
Other Investment - .3%			
Registered Investment Company;			
Dreyfus Institutional Preferred Plus Money Market Fund (cost $458,721)	458,721	d	**458,721**

Investment of Cash Collateral for Securities Loaned - 1.4%	Shares	Value ($)
Registered Investment Company;		
Dreyfus Institutional Cash Advantage Fund (cost $2,401,926)	2,401,926 [d]	**2,401,926**
Total Investments (cost $166,712,854)	**101.2%**	**174,757,977**
Liabilities, Less Cash and Receivables	**(1.2%)**	**(2,040,384)**
Net Assets	**100.0%**	**172,717,593**

[a] *Security, or portion thereof, on loan. At December 31, 2015, the value of the fund's securities on loan was $4,448,421 and the value of the collateral held by the fund was $4,645,951, consisting of cash collateral of $2,401,926 and U.S. Government & Agency securities valued at $2,244,025.*
[b] *Non-income producing security.*
[c] *Investment in real estate investment trust.*
[d] *Investment in affiliated money market mutual fund.*

Portfolio Summary (Unaudited) †	Value (%)
Capital Goods	9.9
Real Estate	9.7
Software & Services	8.8
Health Care Equipment & Services	8.3
Banks	5.9
Materials	5.4
Energy	5.0
Food, Beverage & Tobacco	4.8
Consumer Services	4.6
Diversified Financials	4.6
Insurance	4.3
Pharmaceuticals, Biotechnology & Life Sciences	4.1
Consumer Durables & Apparel	3.9
Utilities	3.8
Transportation	3.7
Technology Hardware & Equipment	3.6
Retailing	3.3
Money Market Investments	1.7
Semiconductors & Semiconductor Equipment	1.6
Commercial & Professional Services	1.4
Food & Staples Retailing	1.2
Media	1.1
Telecommunication Services	.5
	101.2

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

STATEMENT OF ASSETS AND LIABILITIES

December 31, 2015

	Cost	Value
Assets ($):		
Investments in securities—See Statement of Investments (including securities on loan, valued at $4,448,421)—Note 1(b):		
Unaffiliated issuers	163,852,207	171,897,330
Affiliated issuers	2,860,647	2,860,647
Cash		520,453
Dividends, interest and securities lending income receivable		245,049
Prepaid expenses		2,506
		175,525,985
Liabilities ($):		
Due to The Dreyfus Corporation and affiliates—Note 3(b)		140,726
Liability for securities on loan—Note 1(b)		2,401,926
Payable for shares of Beneficial Interest redeemed		191,207
Accrued expenses		74,533
		2,808,392
Net Assets ($)		**172,717,593**
Composition of Net Assets ($):		
Paid-in capital		151,172,520
Accumulated undistributed investment income—net		1,718,036
Accumulated net realized gain (loss) on investments		11,781,914
Accumulated net unrealized appreciation (depreciation) on investments		8,045,123
Net Assets ($)		**172,717,593**

Net Asset Value Per Share	Initial Shares	Service Shares
Net Assets ($)	123,354,106	49,363,487
Shares Outstanding	6,509,881	2,615,134
Net Asset Value Per Share ($)	**18.95**	**18.88**

See notes to financial statements.

STATEMENT OF OPERATIONS
Year Ended December 31, 2015

Investment Income ($):	
Income:	
Cash dividends:	
Unaffiliated issuers	3,353,863
Affiliated issuers	1,079
Income from securities lending—Note 1(b)	116,815
Interest	6
Total Income	**3,471,763**
Expenses:	
Management fee—Note 3(a)	1,482,767
Distribution fees—Note 3(b)	113,398
Professional fees	64,640
Trustees' fees and expenses—Note 3(c)	51,591
Prospectus and shareholders' reports	29,958
Custodian fees—Note 3(b)	21,313
Loan commitment fees—Note 2	3,831
Shareholder servicing costs—Note 3(b)	1,355
Interest expense—Note 2	58
Miscellaneous	20,648
Total Expenses	**1,789,559**
Less—reduction in fees due to earnings credits—Note 3(b)	(4)
Net Expenses	**1,789,555**
Investment Income—Net	**1,682,208**
Realized and Unrealized Gain (Loss) on Investments—Note 4 ($):	
Net realized gain (loss) on investments	11,812,133
Net unrealized appreciation (depreciation) on investments	(17,983,109)
Net Realized and Unrealized Gain (Loss) on Investments	**(6,170,976)**
Net (Decrease) in Net Assets Resulting from Operations	**(4,488,768)**

See notes to financial statements.

STATEMENT OF CHANGES IN NET ASSETS

	Year Ended December 31,	
	2015	2014
Operations ($):		
Investment income—net	1,682,208	1,126,667
Net realized gain (loss) on investments	11,812,133	31,053,585
Net unrealized appreciation (depreciation) on investments	(17,983,109)	(11,297,380)
Net Increase (Decrease) in Net Assets Resulting from Operations	**(4,488,768)**	**20,882,872**
Dividends to Shareholders from ($):		
Investment income—net:		
Initial Shares	(944,587)	(1,600,836)
Service Shares	(179,129)	(180,578)
Net realized gain on investments:		
Initial Shares	(24,657,461)	(868,833)
Service Shares	(6,393,134)	(126,481)
Total Dividends	**(32,174,311)**	**(2,776,728)**
Beneficial Interest Transactions ($):		
Net proceeds from shares sold:		
Initial Shares	9,905,018	9,644,215
Service Shares	28,104,037	16,589,102
Dividends reinvested:		
Initial Shares	25,602,048	2,469,669
Service Shares	6,572,263	307,059
Cost of shares redeemed:		
Initial Shares	(44,189,452)	(25,817,267)
Service Shares	(12,307,883)	(8,124,921)
Increase (Decrease) in Net Assets from Beneficial Interest Transactions	**13,686,031**	**(4,932,143)**
Total Increase (Decrease) in Net Assets	**(22,977,048)**	**13,174,001**
Net Assets ($):		
Beginning of Period	195,694,641	182,520,640
End of Period	**172,717,593**	**195,694,641**
Undistributed investment income—net	1,718,036	1,160,450
Capital Share Transactions (Shares):		
Initial Shares		
Shares sold	482,702	444,102
Shares issued for dividends reinvested	1,278,824	117,940
Shares redeemed	(2,221,204)	(1,194,189)
Net Increase (Decrease) in Shares Outstanding	**(459,678)**	**(632,147)**
Service Shares		
Shares sold	1,364,856	749,291
Shares issued for dividends reinvested	328,942	14,678
Shares redeemed	(611,910)	(375,381)
Net Increase (Decrease) in Shares Outstanding	**1,081,888**	**388,588**

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	2015	2014	2013	2012	2011
Per Share Data ($):					
Net asset value, beginning of period	23.03	20.87	15.68	13.16	13.17
Investment Operations:					
Investment income—net[a]	.18	.14	.20	.23	.06
Net realized and unrealized gain (loss) on investments	(.50)	2.35	5.24	2.36	.00[b]
Total from Investment Operations	(.32)	2.49	5.44	2.59	.06
Distributions:					
Dividends from investment income—net	(.14)	(.21)	(.25)	(.07)	(.07)
Dividends from net realized gain on investments	(3.62)	(.12)	-	-	-
Total Distributions	(3.76)	(.33)	(.25)	(.07)	(.07)
Net asset value, end of period	18.95	23.03	20.87	15.68	13.16
Total Return (%)	(2.29)	12.09	34.99	19.67	.40
Ratios/Supplemental Data (%):					
Ratio of total expenses to average net assets	.85	.85	.86	.85	.86
Ratio of net expenses to average net assets	.85	.85	.86	.85	.86
Ratio of net investment income to average net assets	.89	.64	1.11	1.58	.50
Portfolio Turnover Rate	80.27	83.06	68.72	73.96	81.48
Net Assets, end of period ($ x 1,000)	123,354	160,482	158,682	128,410	123,187

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

Service Shares	Year Ended December 31, 2015	2014	2013	2012	2011
Per Share Data ($):					
Net asset value, beginning of period	22.97	20.83	15.65	13.14	13.16
Investment Operations:					
Investment income—net[a]	.15	.09	.16	.19	.02
Net realized and unrealized gain (loss) on investments	(.52)	2.34	5.23	2.35	.01
Total from Investment Operations	(.37)	2.43	5.39	2.54	.03
Distributions:					
Dividends from investment income—net	(.10)	(.17)	(.21)	(.03)	(.05)
Dividends from net realized gain on investments	(3.62)	(.12)	-	-	-
Total Distributions	(3.72)	(.29)	(.21)	(.03)	(.05)
Net asset value, end of period	18.88	22.97	20.83	15.65	13.14
Total Return (%)	(2.52)	11.76	34.70	19.34	.20
Ratios/Supplemental Data (%):					
Ratio of total expenses to average net assets	1.10	1.10	1.11	1.10	1.11
Ratio of net expenses to average net assets	1.10	1.10	1.11	1.10	1.11
Ratio of net investment income to average net assets	.72	.40	.86	1.32	.18
Portfolio Turnover Rate	80.27	83.06	68.72	73.96	81.48
Net Assets, end of period ($ x 1,000)	49,363	35,213	23,838	17,836	17,050

[a] *Based on average shares outstanding.*

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1—Significant Accounting Policies:

MidCap Stock Portfolio (the "fund") is a separate diversified series of Dreyfus Investment Portfolios (the "Company"), which is registered under the Investment Company Act of 1940, as amended (the "Act"), as an open-end management investment company and operates as a series company currently offering four series, including 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'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 Dreyfus, 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. 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 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, 2015 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†	171,630,044	-	-	**171,630,044**
Equity Securities-Foreign Common Stocks†	267,286	-	-	**267,286**
Mutual Funds	2,860,647	-	-	**2,860,647**

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

At December 31, 2015, there were no transfers between levels 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 Dreyfus, 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, 2015, The Bank of New York Mellon earned $28,906 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, 2015 were as follows:

Affiliated Investment Company	Value 12/31/2014 ($)	Purchases ($)	Sales ($)	Value 12/31/2015 ($)	Net Assets (%)
Dreyfus Institutional Preferred Plus Money Market Fund	1,336,380	33,423,647	34,301,306	458,721	.3
Dreyfus Institutional Cash Advantage Fund	5,489,803	47,141,326	50,229,203	2,401,926	1.4
Total	**6,826,183**	**80,564,973**	**84,530,509**	**2,860,647**	**1.7**

(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, 2015, 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, 2015, the fund did not incur any interest or penalties.

Each tax year in the four-year period ended December 31, 2015 remains subject to examination by the Internal Revenue Service and state taxing authorities.

At December 31, 2015, the components of accumulated earnings on a tax basis were as follows: undistributed ordinary income $1,673,775, undistributed capital gains $11,875,257 and unrealized appreciation $7,951,780.

The tax character of distributions paid to shareholders during the fiscal periods ended December 31, 2015 and December 31, 2014 were as follows: ordinary income $8,873,053 and $1,781,414, and long-term capital gains $23,301,258 and $995,314, respectively.

During the period ended December 31, 2015, as a result of permanent book to tax differences, primarily due to dividend reclassification, the fund decreased accumulated undistributed investment income-net by $906 and increased accumulated net realized gain (loss) on investments by the same amount. Net assets and net asset value per share were not affected by this reclassification.

NOTE 2—Bank Lines of Credit:

The fund participates with other Dreyfus-managed funds in a $480 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 7, 2015, the unsecured credit facility with Citibank, N.A. was $430 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, 2015, was approximately $5,200 with a related weighted average annualized interest rate of 1.12%.

NOTE 3—Management Fee and Other Transactions with Affiliates:

(a) Pursuant to a management agreement with Dreyfus, 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, 2015, Service shares were charged $113,398 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 Dreyfus, 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, 2015, the fund was charged $1,137 for transfer agency services and $84 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, 2015, the fund was charged $21,313 pursuant to the custody agreement.

During the period ended December 31, 2015, the fund was charged $10,946 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 $112,689, Distribution Plan fees $10,425, custodian fees $14,798, Chief Compliance Officer fees $2,647 and transfer agency fees $167.

(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, 2015, amounted to $156,609,772 and $172,752,055, respectively.

At December 31, 2015, the cost of investments for federal income tax purposes was $166,806,197; accordingly, accumulated net unrealized appreciation on investments was $7,951,780, consisting of $21,061,663 gross unrealized appreciation and $13,109,883 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, 2015, 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, 2015 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, 2015, 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, 2016

IMPORTANT TAX INFORMATION (Unaudited)

For federal tax purposes, the fund hereby reports 30.83% of the ordinary dividends paid during the fiscal year ended December 31, 2015 as qualifying for the corporate dividends received deduction. Shareholders will receive notification in early 2016 of the percentage applicable to the preparation of their 2015 income tax returns. Also, the fund hereby reports $.9023 per share as a short-term capital gain distribution and $2.7131 per share as a long-term capital gain distribution paid on March 25, 2015.

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

At a meeting of the fund's Board of Trustees held on July 22-23, 2015, 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, 2015, 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 (ranking first or second in the Performance Group for several 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 at the Expense Group and Expense Universe medians and the fund's total expenses were below the Expense Group median and 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.

<u>Analysis of Profitability and Economies of Scale.</u> 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 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 (72)
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)

No. of Portfolios for which Board Member Serves: 139

Francine J. Bovich (64)
Board Member (2014)

Principal Occupation During Past 5 Years:

- Trustee, The Bradley Trusts, private trust funds (2011-present)
- Managing Director, Morgan Stanley Investment Management (1993-2010)

Other Public Company Board Memberships During Past 5 Years:

- Annaly Capital Management, Inc., Board Member (May 2014-present)

No. of Portfolios for which Board Member Serves: 79

Gordon J. Davis (74)
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 (1997-2014)
- The Phoenix Companies, Inc., a life insurance company, Director (2000-2014)

No. of Portfolios for which Board Member Serves: 60

Nathan Leventhal (72)
Board Member (2009)

Principal Occupation During Past 5 Years:

- President Emeritus of Lincoln Center for the Performing Arts (2001-present)
- Chairman of the Avery Fisher Artist Program (1997-2014)
- Commissioner, NYC Planning Commission (2007-2011)

Other Public Company Board Memberships During Past 5 Years:

- Movado Group, Inc., Director (2003-present)

No. of Portfolios for which Board Member Serves: 50

Robin A. Melvin (52)
Board Member (2014)

Principal Occupation During Past 5 Years:

- Co-chairman, Illinois Mentoring Partnership, non-profit organization dedicated to increasing the quantity and quality of mentoring services in Illinois; (2014-present; a board member since 2013)
- 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: 110

Roslyn M. Watson (66)
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: 65

Benaree Pratt Wiley (69)
Board Member (2009)

Principal Occupation During Past 5 Years:

- Principal, The Wiley Group, a firm specializing in strategy and business development (2005-present)

Other Public Company Board Memberships During Past 5 Years:

- CBIZ (formerly, Century Business Services, Inc.), a provider of outsourcing functions for small and medium size companies, Director (2008-present)

No. of Portfolios for which Board Member Serves: 65

J. Charles Cardona (60)
Board Member (2014)

Principal Occupation During Past 5 Years:

- President and a Director of the Manager (2008-present), Chairman of the Distributor (2013-present; previously, Executive Vice President, 1997-2013), President of Dreyfus Institutional Services Division

No. of Portfolios for which Board Member Serves: 36

J. Charles Cardona is deemed to be an "interested person" (as defined under the Act) of the Company as a result of his affiliation with The Dreyfus Corporation.

Isabel P. Dunst (68)
Board Member (2014)

Principal Occupation During Past 5 Years:

- Of Counsel to the law firm of Hogan Lovells LLP (2015-present; previously, Partner, 1990-2014)

No. of Portfolios for which Board Member Serves: 36

Isabel P. Dunst is deemed to be an "interested person" (as defined under 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.

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
George L. Perry, Emeritus Board Member

OFFICERS OF THE FUND (Unaudited)

BRADLEY J. SKAPYAK, President since January 2010.

Chief Operating Officer and a director of the Manager since June 2009, 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 65 investment companies (comprised of 139 portfolios) managed by the Manager. He is 57 years old and has been an employee of the Manager since February 1988.

BENNETT A. MACDOUGALL, Chief Legal Officer since October 2015

Chief Legal Officer of the Manager since June 2015; from June 2005 to June 2015, Director and Associate General Counsel of Deutsche Bank – Asset & Wealth Management Division, and Chief Legal Officer of Deutsche Investment Management Americas Inc. He is an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 44 years old and has been an employee of the Manager since June 2015.

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

Assistant General Counsel of BNY Mellon, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. She is 53 years old and has been an employee of the Manager since February 1984.

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

Managing Counsel of BNY Mellon and Secretary of the Manager, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 49 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 66 investment companies (comprised of 164 portfolios) managed by the Manager. She is 60 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 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 54 years old and has been an employee of the Manager since June 2000.

MAUREEN E. KANE, Vice President and Assistant Secretary since April 2015.

Managing Counsel of BNY Mellon since July 2014; from October 2004 until July 2014, General Counsel, and from May 2009 until July 2014, Chief Compliance Officer of Century Capital Management. She is an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. She is 53 years old and has been an employee of the Manager since July 2014.

SARAH S. KELLEHER, Vice President and Assistant Secretary since April 2014.

Senior Counsel of BNY Mellon, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager; from August 2005 to March 2013, Associate General Counsel of Third Avenue Management. She is 40 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 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 50 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 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 57 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 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 56 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 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 47 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 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 51 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 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 48 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 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 48 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 (66 investment companies, comprised of 164 portfolios). He is 58 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.

CARI M. CAROSELLA, Anti-Money Laundering Compliance Officer since January 2016

Anti-Money Laundering Compliance Officer of the Dreyfus Family of Funds and BNY Mellon Funds Trust since January 2016; from May 2015 to December 2015, Interim Anti-Money Laundering Compliance Officer of the Dreyfus Family of Funds and BNY Mellon Funds Trust and the Distributor; from January 2012 to May 2015, AML Surveillance Officer of the Distributor and from 2007 to December 2011, Financial Processing Manager of the Distributor. She is an officer of 62 investment companies (comprised of 160 portfolios) managed by the Manager. She is 47 years old and has been an employee of the Distributor since 1997.

NOTES

NOTES

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
225 Liberty 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 1-800-242-8671 or 1-800-346-3621

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

E-mail Send your request to info@dreyfus.com

Internet Information can be viewed online or downloaded at www.dreyfus.com

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.

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The Dreyfus Socially Responsible Growth Fund, Inc.

ANNUAL REPORT
December 31, 2015

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.

Not FDIC-Insured • Not Bank-Guaranteed • May Lose Value

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FOR MORE INFORMATION

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A LETTER FROM THE PRESIDENT

Dear Shareholder:

We are pleased to present this annual report for The Dreyfus Socially Responsible Growth Fund, Inc., covering the 12-month period from January 1, 2015, through December 31, 2015. 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.

2015 was a year of varied and, at times, conflicting economic influences. On one hand, the U.S. economy continued to grow as domestic labor markets posted significant gains, housing markets recovered, and lower fuel prices put cash in consumers' pockets. Indeed, these factors, along with low inflation, prompted the Federal Reserve Board in December to raise short-term interest rates for the first time in nearly a decade. On the other hand, the global economy continued to disappoint, particularly in China and other emerging markets, when reduced industrial demand and declining currency values sparked substantial declines in commodity prices.

Although several broad measures of stock and bond performance ended 2015 roughly unchanged, high levels of volatility prevailed across most financial markets. Among U.S. equities, moderate gains from consumer discretionary and health care stocks were balanced by pronounced weakness in the energy and materials sectors. Bonds also saw bifurcated performance, with municipal bonds and intermediate-term U.S. government securities faring well compared to high yield and emerging-markets debt.

Market volatility is likely to persist until investors see greater clarity from the global economy. We expect to see wide differences in underlying fundamental and technical influences across various asset classes, economic sectors, and regional markets in 2016, suggesting that selectivity may be an important determinant of investment success. As always, we encourage you to discuss the implications of our observations with your financial advisor.

Thank you for your continued confidence and support.

Sincerely,

J. Charles Cardona
President
The Dreyfus Corporation
January 15, 2016

DISCUSSION OF FUND PERFORMANCE

For the reporting period of January 1, 2015, through December 31, 2015, as provided by C. Wesley Boggs, William S. Cazalet, CAIA, and Ronald P. Gala, CFA, Portfolio Managers

Fund and Market Performance Overview

For the 12-month period ended December 31, 2015, The Dreyfus Socially Responsible Growth Fund's Initial shares produced a total return of –3.20%, and the fund's Service shares returned –3.41%.[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 1.39% for the same period.[2]

Mildly positive stock market results during 2015 masked heightened volatility amid shifting economic sentiment. The fund underperformed its benchmark, mainly due to shortfalls from our quantitative stock ranking process and environmental, social, and corporate governance (ESG) ratings.

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.

Global Economic Concerns Sparked Market Turmoil

Employment gains helped drive the S&P 500 Index higher from the start of 2015 through the end of February despite plummeting energy prices. Stocks reversed course in March when severe winter weather and a strengthening U.S. dollar dampened economic growth, but the U.S. economy soon regained traction, and by May, the benchmark had advanced to new record highs. However, uncertainty surrounding a debt crisis in Greece and slowing growth in China sent stock prices lower over the summer.

In August, the Chinese central bank unexpectedly devalued the country's currency, intensifying global economic concerns. Stocks dipped into negative territory as investors grew more risk-averse, but a strong October rally erased previous losses. Stock prices remained volatile over the remainder of the year amid renewed worries that global instability might dampen domestic economic growth. The market rebounded somewhat near year-end when the Federal Reserve Board raised short-term interest rates, ending months of uncertainty and enabling the S&P 500 Index to close 2015 in positive territory.

Quantitative Models Dampened Relative Results

The fund lagged its benchmark in 2015 as global macroeconomic developments took investors' focus away from company fundamentals and hurt the efficacy of stock picking. In addition, because some large companies are ineligible for the fund due to low environmental, social, and corporate governance (ESG) ratings, the fund maintained a bias toward smaller companies, which generally underperformed their larger counterparts. For similar reasons, the fund held underweighted exposure to the strong-performing consumer discretionary sector. For example, the fund did not hold Internet retailer Amazon.com which more than doubled in value but ranks low on corporate governance, toxic emissions, labor relations, and health and safety factors. Apparel maker PVH Corp. fell sharply after releasing disappointing quarterly earnings.

In the information technology sector, Alphabet (formerly Google) gained considerable value, but the fund held underweighted exposure due to the company's BBB ESG rating and low ranking in one of our models. Meanwhile, data analysis specialist Teradata struggled after revenues fell below expectations due to customers deferring contracts and trading down to lower-end products. Among energy companies, Spectra Energy was hurt by plummeting oil prices.

The fund achieved better results in the consumer staples sector. Household goods maker Clorox advanced when strong organic sales growth drove earnings higher, and food-and-beverage company Mondelez International expanded its revenues and profits in an otherwise challenging global marketplace. In the health care sector, medical equipment producer PerkinElmer's environmental health business benefited from improving food safety trends in China, and rising birth rates and stronger blood screenings helped its diagnostic business. In other areas, International Flavors & Fragrances posted strong organic growth, and oil refiner Marathon Petroleum benefited from lower input costs and higher profit margins.

Maintaining a Disciplined Approach

Although our quantitative process does not directly consider macroeconomic factors, it is worth noting that the U.S. economy has continued to grow despite global economic instability. As of year-end, our models have continued to identify opportunities meeting our criteria for attractive valuations, earnings quality, behavioral factors, and social responsibility. We have maintained mildly overweighted exposure to the health care and information technology sectors, and underweighted exposure to the consumer staples and industrial sectors.

January 15, 2016

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.

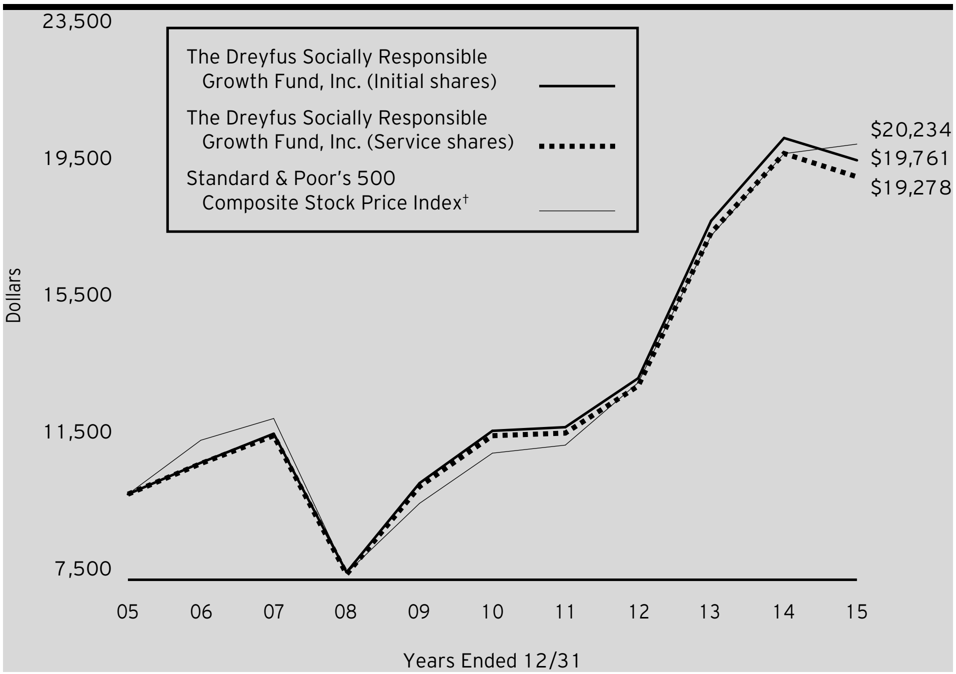
The fund's socially responsible investment criteria may limit the number of investment opportunities available to the fund, and as a result, at times, the fund may produce more modest gains than funds that are not subject to such special investment considerations.

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.*

FUND PERFORMANCE



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

Average Annual Total Returns as of 12/31/15

	1 Year	5 Years	10 Years
Initial shares	**-3.20%**	**10.76%**	**7.05%**
Service shares	**-3.41%**	**10.48%**	**6.78%**
Standard & Poor's 500 Composite Stock Price Index	**1.39%**	**12.55%**	**7.30%**

† *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 12/31/05 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, 2015 to December 31, 2015. 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, 2015

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.31	$ 5.55
Ending value (after expenses)	$ 967.40	$ 966.40

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

Using the SEC's method to compare expenses

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

Expenses and Value of a $1,000 Investment

assuming a hypothetical 5% annualized return for the six months ended December 31, 2015

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.43	$ 5.70
Ending value (after expenses)	$ 1,020.82	$ 1,019.56

† *Expenses are equal to the fund's annualized expense ratio of .87% for Initial shares and 1.12% 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, 2015

Common Stocks - 99.0%	Shares		Value ($)
Banks - 2.9%			
Comerica	27,800		1,162,874
People's United Financial	116,600	a	1,883,090
PNC Financial Services Group	40,700		3,879,117
			6,925,081
Capital Goods - 4.6%			
3M	34,050		5,129,292
Cummins	25,700		2,261,857
General Electric	105,050		3,272,308
Snap-on	1,750		300,003
			10,963,460
Consumer Durables & Apparel - 3.4%			
NIKE, Cl. B	83,800		5,237,500
PVH	38,500		2,835,525
			8,073,025
Consumer Services - 1.2%			
Marriott International, Cl. A	41,050	a	**2,751,992**
Diversified Financials - 5.9%			
American Express	41,050		2,855,028
Franklin Resources	24,100		887,362
Legg Mason	33,400		1,310,282
Morgan Stanley	16,000		508,960
Northern Trust	56,600		4,080,294
T. Rowe Price Group	60,750		4,343,017
			13,984,943
Energy - 7.1%			
Baker Hughes	24,500		1,130,675
Exxon Mobil	10,400		810,680
Hess	41,350		2,004,648
Marathon Petroleum	93,200		4,831,488
Phillips 66	13,350		1,092,030
Spectra Energy	129,750		3,106,215
Tesoro	2,900		305,573
Valero Energy	49,200		3,478,932
			16,760,241
Food, Beverage & Tobacco - 5.5%			
Campbell Soup	29,800	a	1,565,990
Coca-Cola Enterprises	90,850		4,473,454

Common Stocks - 99.0% (continued)	Shares		Value ($)
Food, Beverage & Tobacco - 5.5% (continued)			
General Mills	4,800		276,768
Mondelez International, Cl. A	101,400		4,546,776
PepsiCo	22,100		2,208,232
			13,071,220
Health Care Equipment & Services - 5.8%			
AmerisourceBergen	38,400		3,982,464
Cardinal Health	50,100		4,472,427
Cigna	9,700		1,419,401
Henry Schein	24,100	[b]	3,812,379
			13,686,671
Household & Personal Products - 1.5%			
Clorox	27,450		**3,481,484**
Insurance - 5.4%			
ACE	42,300		4,942,755
Marsh & McLennan	49,900		2,766,955
Travelers	44,600		5,033,556
			12,743,266
Materials - 3.0%			
Ecolab	35,150		4,020,457
International Flavors & Fragrances	25,200		3,014,928
			7,035,385
Media - 5.5%			
Discovery Communications, Cl. A	46,900	[a,b]	1,251,292
Time Warner	60,300		3,899,601
Time Warner Cable	16,150		2,997,279
Walt Disney	47,700		5,012,316
			13,160,488
Pharmaceuticals, Biotechnology & Life Sciences - 13.2%			
Agilent Technologies	106,050		4,433,950
Biogen	9,150	[b]	2,803,102
Gilead Sciences	64,750		6,552,052
Johnson & Johnson	16,400		1,684,608
Merck & Co.	101,800		5,377,076
PerkinElmer	30,400		1,628,528
Waters	32,450	[b]	4,367,121
Zoetis	93,600		4,485,312
			31,331,749
Retailing - 2.7%			
Best Buy	8,000	[a]	243,600

Common Stocks - 99.0% (continued)	Shares		Value ($)
Retailing - 2.7% (continued)			
Signet Jewelers	21,200		2,622,228
Tiffany & Co.	46,700		3,562,743
			6,428,571
Semiconductors & Semiconductor Equipment - 4.2%			
Avago Technologies	19,800	a	2,873,970
Intel	24,300		837,135
NVIDIA	125,900		4,149,664
Skyworks Solutions	27,300		2,097,459
			9,958,228
Software & Services - 10.4%			
Accenture, Cl. A	49,650		5,188,425
Alphabet, Cl. A	1,500	b	1,167,015
Alphabet, Cl. C	1,500	b	1,138,320
Electronic Arts	53,300	b	3,662,776
Intuit	26,450		2,552,425
Microsoft	142,750		7,919,770
Symantec	50		1,050
Teradata	50,300	b	1,328,926
Xerox	160,300		1,703,989
			24,662,696
Technology Hardware & Equipment - 8.8%			
Apple	107,100		11,273,346
Cisco Systems	182,175		4,946,962
Corning	191,500		3,500,620
EMC	49,625		1,274,370
			20,995,298
Telecommunication Services - 1.4%			
CenturyLink	129,000		3,245,640
Verizon Communications	4,000		184,880
			3,430,520
Transportation - 2.4%			
Expeditors International of Washington	19,400		874,940
Southwest Airlines	113,200		4,874,392
			5,749,332
Utilities - 4.1%			
Exelon	156,900		4,357,113
NextEra Energy	51,400		5,339,946
			9,697,059
Total Common Stocks (cost $199,472,035)			**234,890,709**

Other Investment - 1.0%	Shares	Value ($)
Registered Investment Company;		
Dreyfus Institutional Preferred Plus Money Market Fund (cost $2,404,446)	2,404,446 [c]	**2,404,446**
Investment of Cash Collateral for Securities Loaned - .9%		
Registered Investment Company;		
Dreyfus Institutional Cash Advantage Fund (cost $2,079,721)	2,079,721 [c]	**2,079,721**
Total Investments (cost $203,956,202)	**100.9%**	**239,374,876**
Liabilities, Less Cash and Receivables	**(.9%)**	**(2,022,757)**
Net Assets	**100.0%**	**237,352,119**

[a] *Security, or portion thereof, on loan. At December 31, 2015, the value of the fund's securities on loan was $7,821,086 and the value of the collateral held by the fund was $8,084,890, consisting of cash collateral of $2,079,721 and U.S. Government & Agency securities valued at $6,005,169.*

[b] *Non-income producing security.*

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

Portfolio Summary (Unaudited) †	Value (%)
Pharmaceuticals, Biotechnology & Life Sciences	13.2
Software & Services	10.4
Technology Hardware & Equipment	8.8
Energy	7.1
Diversified Financials	5.9
Health Care Equipment & Services	5.8
Media	5.5
Food, Beverage & Tobacco	5.5
Insurance	5.4
Capital Goods	4.6
Semiconductors & Semiconductor Equipment	4.2
Utilities	4.1
Consumer Durables & Apparel	3.4
Materials	3.0
Banks	2.9
Retailing	2.7
Transportation	2.4
Money Market Investments	1.9
Household & Personal Products	1.5
Telecommunication Services	1.4
Consumer Services	1.2
	100.9

† *Based on net assets.*

See notes to financial statements.

STATEMENT OF ASSETS AND LIABILITIES
December 31, 2015

	Cost	Value
Assets ($):		
Investments in securities—See Statement of Investments		
(including securities on loan, valued at $7,821,086)—Note 1(b):		
Unaffiliated issuers	199,472,035	234,890,709
Affiliated issuers	4,484,167	4,484,167
Cash		36,383
Dividends and securities lending income receivable		321,804
Prepaid expenses		8,614
		239,741,677
Liabilities ($):		
Due to The Dreyfus Corporation and affiliates—Note 3(c)		173,707
Liability for securities on loan—Note 1(b)		2,079,721
Payable for shares of Common Stock redeemed		34,989
Accrued expenses		101,141
		2,389,558
Net Assets ($)		**237,352,119**
Composition of Net Assets ($):		
Paid-in capital		176,348,136
Accumulated undistributed investment income—net		2,958,265
Accumulated net realized gain (loss) on investments		22,627,044
Accumulated net unrealized appreciation (depreciation) on investments		35,418,674
Net Assets ($)		**237,352,119**

Net Asset Value Per Share	Initial Shares	Service Shares
Net Assets ($)	227,482,967	9,869,152
Shares Outstanding	5,899,114	258,429
Net Asset Value Per Share ($)	**38.56**	**38.19**

See notes to financial statements.

STATEMENT OF OPERATIONS
Year Ended December 31, 2015

Investment Income ($):	
Income:	
Cash dividends:	
Unaffiliated issuers	5,246,291
Affiliated issuers	2,236
Income from securities lending—Note 1(b)	8,871
Total Income	**5,257,398**
Expenses:	
Management fee—Note 3(a)	1,974,147
Professional fees	92,342
Prospectus and shareholders' reports	78,143
Directors' fees and expenses—Note 3(d)	68,672
Distribution fees—Note 3(b)	26,453
Custodian fees—Note 3(c)	24,787
Loan commitment fees—Note 2	2,532
Shareholder servicing costs—Note 3(c)	1,871
Miscellaneous	26,744
Total Expenses	**2,295,691**
Less—reduction in fees due to earnings credits—Note 3(c)	(5)
Net Expenses	**2,295,686**
Investment Income—Net	**2,961,712**
Realized and Unrealized Gain (Loss) on Investments—Note 4 ($):	
Net realized gain (loss) on investments	22,653,145
Net unrealized appreciation (depreciation) on investments	(33,587,174)
Net Realized and Unrealized Gain (Loss) on Investments	**(10,934,029)**
Net (Decrease) in Net Assets Resulting from Operations	**(7,972,317)**

See notes to financial statements.

STATEMENT OF CHANGES IN NET ASSETS

	Year Ended December 31,	
	2015	2014
Operations ($):		
Investment income—net	2,961,712	2,774,159
Net realized gain (loss) on investments	22,653,145	35,125,017
Net unrealized appreciation (depreciation) on investments	(33,587,174)	(3,224,985)
Net Increase (Decrease) in Net Assets Resulting from Operations	**(7,972,317)**	**34,674,191**
Dividends to Shareholders from ($):		
Investment income—net:		
Initial Shares	(2,689,794)	(2,824,636)
Service Shares	(85,867)	(79,619)
Net realized gain on investments:		
Initial Shares	(33,743,127)	(18,473,730)
Service Shares	(1,384,964)	(647,248)
Total Dividends	**(37,903,752)**	**(22,025,233)**
Capital Stock Transactions ($):		
Net proceeds from shares sold:		
Initial Shares	12,284,196	25,341,730
Service Shares	1,679,368	1,819,641
Dividends reinvested:		
Initial Shares	36,432,921	21,298,366
Service Shares	1,470,831	726,867
Cost of shares redeemed:		
Initial Shares	(47,663,749)	(53,057,045)
Service Shares	(2,090,656)	(1,143,249)
Increase (Decrease) in Net Assets from Capital Stock Transactions	**2,112,911**	**(5,013,690)**
Total Increase (Decrease) in Net Assets	**(43,763,158)**	**7,635,268**
Net Assets ($):		
Beginning of Period	281,115,277	273,480,009
End of Period	**237,352,119**	**281,115,277**
Undistributed investment income—net	2,958,265	2,772,856
Capital Share Transactions (Shares):		
Initial Shares		
Shares sold	294,421	572,802
Shares issued for dividends reinvested	885,584	514,577
Shares redeemed	(1,165,121)	(1,207,470)
Net Increase (Decrease) in Shares Outstanding	**14,884**	**(120,091)**
Service Shares		
Shares sold	41,251	41,632
Shares issued for dividends reinvested	36,032	17,672
Shares redeemed	(52,097)	(26,392)
Net Increase (Decrease) in Shares Outstanding	**25,186**	**32,912**

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	2015	2014	2013	2012	2011
Per Share Data ($):					
Net asset value, beginning of period	45.97	44.09	33.24	29.91	29.90
Investment Operations:					
Investment income—net[a]	.47	.45	.46	.44	.24
Net realized and unrealized gain (loss) on investments	(1.54)	5.07	10.87	3.15	.04
Total from Investment Operations	(1.07)	5.52	11.33	3.59	.28
Distributions:					
Dividends from investment income—net	(.47)	(.48)	(.48)	(.26)	(.27)
Dividends from net realized gain on investments	(5.87)	(3.16)	–	–	–
Total Distributions	(6.34)	(3.64)	(.48)	(.26)	(.27)
Net asset value, end of period	38.56	45.97	44.09	33.24	29.91
Total Return (%)	(3.20)	13.45	34.34	11.98	.90
Ratios/Supplemental Data (%):					
Ratio of total expenses to average net assets	.86	.84	.86	.85	.85
Ratio of net expenses to average net assets	.86	.84	.86	.85	.85
Ratio of net investment income to average net assets	1.14	1.02	1.19	1.34	.80
Portfolio Turnover Rate	59.57	45.05	38.81	48.84	67.88
Net Assets, end of period ($ x 1,000)	227,483	270,483	264,713	207,383	208,013

[a] *Based on average shares outstanding.*
See notes to financial statements.

Service Shares	Year Ended December 31, 2015	2014	2013	2012	2011
Per Share Data ($):					
Net asset value, beginning of period	45.58	43.76	33.01	29.70	29.71
Investment Operations:					
Investment income—net[a]	.36	.33	.36	.36	.17
Net realized and unrealized gain (loss) on investments	(1.52)	5.04	10.78	3.13	.02
Total from Investment Operations	(1.16)	5.37	11.14	3.49	.19
Distributions:					
Dividends from investment income—net	(.36)	(.39)	(.39)	(.18)	(.20)
Dividends from net realized gain on investments	(5.87)	(3.16)	–	–	–
Total Distributions	(6.23)	(3.55)	(.39)	(.18)	(.20)
Net asset value, end of period	38.19	45.58	43.76	33.01	29.70
Total Return (%)	(3.41)	13.13	33.99	11.70	.65
Ratios/Supplemental Data (%):					
Ratio of total expenses to average net assets	1.11	1.09	1.11	1.10	1.10
Ratio of net expenses to average net assets	1.11	1.09	1.11	1.10	1.10
Ratio of net investment income to average net assets	.89	.76	.93	1.09	.55
Portfolio Turnover Rate	59.57	45.05	38.81	48.84	67.88
Net Assets, end of period ($ x 1,000)	9,869	10,632	8,767	6,552	6,167

[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 is only offered to separate accounts established by insurance companies to fund variable annuity contracts and variable life insurance policies. The fund's investment objective is to seek to provide capital growth. 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 Dreyfus, 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 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 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, 2015 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†	229,394,511	-	-	**229,394,511**
Equity Securities - Foreign Common Stocks†	5,496,198	-	-	**5,496,198**
Mutual Funds	4,484,167	-	-	**4,484,167**

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

At December 31, 2015, there were no transfers between levels 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 Dreyfus, 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, 2015, The Bank of New York Mellon earned $2,005 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, 2015 were as follows:

Affiliated Investment Company	Value 12/31/2014 ($)	Purchases ($)	Sales ($)	Value 12/31/2015 ($)	Net Assets (%)
Dreyfus Institutional Preferred Plus Money Market Fund	3,814,776	30,672,451	32,082,781	2,404,446	1.0
Dreyfus Institutional Cash Advantage Fund	1,507,543	34,177,442	33,605,264	2,079,721	.9
Total	**5,322,319**	**64,849,893**	**65,688,045**	**4,484,167**	**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, 2015, 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, 2015, the fund did not incur any interest or penalties.

Each tax year in the four-year period ended December 31, 2015 remains subject to examination by the Internal Revenue Service and state taxing authorities.

At December 31, 2015, the components of accumulated earnings on a tax basis were as follows: undistributed ordinary income $2,958,265, undistributed capital gains $22,690,686 and unrealized appreciation $35,355,032.

The tax character of distributions paid to shareholders during the fiscal periods ended December 31, 2015 and December 31, 2014 were as follows: ordinary income $4,666,391 and $3,658,185, and long-term capital gains $33,237,361 and $18,367,048, respectively.

During the period ended December 31, 2015, as a result of permanent book to tax differences, primarily due to dividend reclassification, the fund decreased accumulated undistributed investment income-net by $642 and increased accumulated net realized gain (loss) on investments by the same amount. Net assets and net asset value per share were not affected by this reclassification.

NOTE 2—Bank Lines of Credit:

The fund participates with other Dreyfus-managed funds in a $480 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 7, 2015, the unsecured credit facility with Citibank, N.A. was $430 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, 2015, the fund did not borrow under the Facilities.

NOTE 3—Management Fee and Other Transactions with Affiliates:

(a) Pursuant to management agreement with Dreyfus, 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, 2015, Service shares were charged $26,453 pursuant to the Distribution Plan.

(c) Under the Shareholder Services Plan, Initial shares reimburse the Distributor at an amount not to exceed an annual rate of .25% of the value of its average daily net assets for certain allocated expenses with respect to servicing and/or maintaining Initial shares' shareholder accounts. During the period ended December 31, 2015, Initial shares were charged $105 pursuant to the Shareholders Services 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 Dreyfus, 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, 2015, the fund was charged $1,466 for transfer agency services and $111 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 $5.

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, 2015, the fund was charged $24,787 pursuant to the custody agreement.

During the period ended December 31, 2015, the fund was charged $10,946 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 $152,745, Distribution Plan fees $2,113, custodian fees $16,000, Chief Compliance Officer fees $2,647 and transfer agency fees $202.

(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, 2015, amounted to $154,768,438 and $186,309,492, respectively.

At December 31, 2015, the cost of investments for federal income tax purposes was \$204,019,844; accordingly, accumulated net unrealized appreciation on investments was \$35,355,032, consisting of \$45,620,482 gross unrealized appreciation and \$10,265,450 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, 2015, 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, 2015 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, 2015, 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, 2016

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, 2015 as qualifying for the corporate dividends received deduction. Shareholders will receive notification in early 2016 of the percentage applicable to the preparation of their 2015 income tax returns. Also, the fund hereby reports $.3160 per share as a short-term capital gain distribution and $5.5550 per share as a long-term capital gain distribution paid on March 23, 2015.

At a meeting of the fund's Board of Directors held on July 22-23, 2015, 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 ("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, 2015, (2) at the request of Dreyfus, the fund's performance with the performance of a group of social criteria funds from various Lipper categories ("Performance Group 2") and with a broader group of social criteria funds ("Performance Universe 2"), all for various periods ended May 31, 2015, 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: at or below the Performance Group 1 median for all periods except the four-year period, when it was above the Performance Group 1 median; above the Performance Group 2 median for all periods except the three-year period when it was below the Performance Group 2 median; and above the Performance Universe 1 and Performance Universe 2 medians for all periods except the one- and three-year periods when it was below the 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 each Expense Group and Expense Universe and discussed the results of the comparisons. The Board noted that: the fund's contractual management fee was below the Expense Group 1 median but slightly above the Expense Group 2 median; the fund's actual management fee was above the Expense Group 1 and 2 medians and above the Expense Universe 1 and 2 medians; and the fund's total expenses were above the Expense Group 1 and Expense Universe 1 medians but below the Expense Group 2 and Expense Universe 2 medians.

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.

<u>Analysis of Profitability and Economies of Scale.</u> 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 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 (72)
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)

No. of Portfolios for which Board Member Serves: 139

Francine J. Bovich (64)
Board Member (2015)

Principal Occupation During Past 5 Years:

- Trustee, The Bradley Trusts, private trust funds (2011-present)
- Managing Director, Morgan Stanley Investment Management (1993-2010)

Other Public Company Board Memberships During Past 5 Years:

- Annaly Capital Management, Inc., Board Member (May 2014-present)

No. of Portfolios for which Board Member Serves: 79

Gordon J. Davis (74)
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 (1997-2014)
- The Phoenix Companies, Inc., a life insurance company, Director (2000-2014)

No. of Portfolios for which Board Member Serves: 60

Nathan Leventhal (72)
Board Member (2009)

Principal Occupation During Past 5 Years:

- President Emeritus of Lincoln Center for the Performing Arts (2001-present)
- Chairman of the Avery Fisher Artist Program (1997-2014)
- Commissioner, NYC Planning Commission (2007-2011)

Other Public Company Board Memberships During Past 5 Years:

- Movado Group, Inc., Director (2003-present)

No. of Portfolios for which Board Member Serves: 50

Robin A. Melvin (52)
Board Member (2014)

Principal Occupation During Past 5 Years:

- Co-chairman, Illinois Mentoring Partnership, non-profit organization dedicated to increasing the quantity and quality of mentoring services in Illinois; (2014-present; a board member since 2013)
- 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: 110

Roslyn M. Watson (66)
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: 65

Benaree Pratt Wiley (69)
Board Member (2009)

Principal Occupation During Past 5 Years:

- Principal, The Wiley Group, a firm specializing in strategy and business development (2005-present)

Other Public Company Board Memberships During Past 5 Years:

- CBIZ (formerly, Century Business Services, Inc.), a provider of outsourcing functions for small and medium size companies, Director (2008-present)

No. of Portfolios for which Board Member Serves: 65

J. Charles Cardona (60)
Board Member (2014)

Principal Occupation During Past 5 Years:

- President and a Director of the Manager (2008-present), Chairman of the Distributor (2013-present; previously, Executive Vice President, 1997-2013), President of Dreyfus Institutional Services Division

No. of Portfolios for which Board Member Serves: 36

J. Charles Cardona is deemed to be an "interested person" (as defined under the Act) of the fund as a result of his affiliation with The Dreyfus Corporation.

Isabel P. Dunst (68)
Board Member (2014)

Principal Occupation During Past 5 Years:

- Of Counsel to the law firm of Hogan Lovells LLP (2015-present; previously, Partner, 1990-2014)

No. of Portfolios for which Board Member Serves: 36

Isabel P. Dunst is deemed to be an "interested person" (as defined under 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.

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
George L. Perry, Emeritus Board Member

OFFICERS OF THE FUND (Unaudited)

BRADLEY J. SKAPYAK, President since January 2010.

Chief Operating Officer and a director of the Manager since June 2009, 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 65 investment companies (comprised of 139 portfolios) managed by the Manager. He is 57 years old and has been an employee of the Manager since February 1988.

BENNETT A. MACDOUGALL, Chief Legal Officer since October 2015

Chief Legal Officer of the Manager since June 2015; from June 2005 to June 2015, Director and Associate General Counsel of Deutsche Bank – Asset & Wealth Management Division, and Chief Legal Officer of Deutsche Investment Management Americas Inc. He is an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 44 years old and has been an employee of the Manager since June 2015.

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

Assistant General Counsel of BNY Mellon, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. She is 53 years old and has been an employee of the Manager since February 1984.

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

Managing Counsel of BNY Mellon and Secretary of the Manager, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 49 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 66 investment companies (comprised of 164 portfolios) managed by the Manager. She is 60 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 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 54 years old and has been an employee of the Manager since June 2000.

MAUREEN E. KANE, Vice President and Assistant Secretary since April 2015.

Managing Counsel of BNY Mellon since July 2014; from October 2004 until July 2014, General Counsel, and from May 2009 until July 2014, Chief Compliance Officer of Century Capital Management. She is an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager. She is 53 years old and has been an employee of the Manager since July 2014.

SARAH S. KELLEHER, Vice President and Assistant Secretary since April 2014.

Senior Counsel of BNY Mellon, and an officer of 66 investment companies (comprised of 164 portfolios) managed by the Manager; from August 2005 to March 2013, Associate General Counsel of Third Avenue Management. She is 40 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 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 50 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 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 57 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 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 56 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 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 47 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 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 51 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 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 48 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 66 investment companies (comprised of 164 portfolios) managed by the Manager. He is 48 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 (66 investment companies, comprised of 164 portfolios). He is 58 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.

CARI M. CAROSELLA, Anti-Money Laundering Compliance Officer since January 2016

Anti-Money Laundering Compliance Officer of the Dreyfus Family of Funds and BNY Mellon Funds Trust since January 2016; from May 2015 to December 2015, Interim Anti-Money Laundering Compliance Officer of the Dreyfus Family of Funds and BNY Mellon Funds Trust and the Distributor; from January 2012 to May 2015, AML Surveillance Officer of the Distributor and from 2007 to December 2011, Financial Processing Manager of the Distributor. She is an officer of 62 investment companies (comprised of 160 portfolios) managed by the Manager. She is 47 years old and has been an employee of the Distributor since 1997.

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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
225 Liberty 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 1-800-242-8671 or 1-800-346-3621

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

E-mail Send your request to info@dreyfus.com

Internet Information can be viewed online or downloaded at www.dreyfus.com

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 www.sec.gov and may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. (phone 1-800-SEC-0330 for information).

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 www.dreyfus.com and on the SEC's website at www.sec.gov and without charge, upon request, by calling 1-800-DREYFUS.

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BNY MELLON | Dreyfus

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

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

Management's Discussion of Fund Performance

Performance summary

For the year ended December 31, 2015, Series I shares of Invesco V.I. Managed Volatility Fund (the Fund), outperformed the Russell 1000 Value Index, the Fund's broad market benchmark.

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

Fund vs. Indexes

Total returns, 12/31/14 to 12/31/15, excluding variable product issuer charges. If variable product issuer charges were included, returns would be lower.

Series I Shares	-2.15%
Series II Shares	-2.37
Russell 1000 Value Index▼ (Broad Market Index)	-3.83
Barclays U.S. Government/Credit Index▼ (Style-Specific Index)	0.15
Lipper VUF Mixed-Asset Target Allocation Growth Funds Index■ (Peer Group Index)*	-0.82
Lipper VUF Equity Income Funds Index■ (Former Peer Group Index)*	-3.77

Source(s): ▼FactSet Research Systems Inc.; ■Lipper Inc.

*During the reporting period, the Fund elected to use the Lipper VUF Mixed-Asset Target Allocation Growth Funds Index as its peer group benchmark rather than the Lipper VUF Equity Income Funds Index because the Lipper VUF Mixed-Asset Target Allocation Growth Funds Index more closely reflects the performance of the types of securities in which the Fund invests.

Market conditions and your Fund

The US economy continued its modest, but steady growth, during the year ended December 31, 2015 — although the health of individual economic sectors varied dramatically. The headline economic story was a steady decline in already-battered energy markets, as oil prices plummeted when increased supply overwhelmed demand. This decline particularly affected companies with US-based offshore or shale-based resources — companies whose cost to recover oil is higher than many traditional producers. On the other end of the spectrum, the improved position of the US consumer was the more subtle story which drove the US economy forward during the year.

As the year began, economic growth appeared to be stronger in the US than in the rest of the world. US equity markets were recovering from the crash of oil prices initiated by OPEC's decision to maintain high production despite low prices and slowing global growth. The view that the US Federal Reserve (the Fed) would begin raising rates while other central banks were loosening monetary policy led the US dollar to strengthen against many currencies. This hurt commodity- and materials-based economies — and companies in related sectors. Additionally, US-based multinational companies faced foreign exchange headwinds. Low interest rates, the increasing availability of credit and an improving employment picture all contributed to higher consumer confidence and consumer spending, which drove US equity markets higher, particularly through the spring, and helped overcome fears that Greece and the eurozone would fail to reach an agreement on a financial bailout plan.

In the summer of 2015, US equity markets moved sharply lower. A significant downturn in China's financial markets and weak global economic growth led the Fed to delay raising interest rates; this, in turn, increased investor uncertainty and market volatility. A continued decline in oil prices also contributed to market volatility. In the fall of 2015, however, US markets rallied, the Fed saw enough economic stabilization to finally raise interest rates, and most major US market indexes ended the year barely in positive territory.

For the reporting period, most US equity market indexes delivered muted gains, at best, with value underperforming growth by a large margin, across market-cap. Sector performance within the Russell 1000 Value Index was mainly negative, with the health care, telecommunication services and industrials being the only sectors with positive results.

On the positive side, the Fund's underweight allocation in the energy sector was a significant contributor to the Fund's performance relative to the broad market benchmark. The sector was the worst-performing sector during the year, as continued weakness in oil prices drove down stock prices.

Strong stock selection within the information technology sector was also a large contributor to the Fund's relative returns for the reporting period. Notably, **Amdocs**, in the software and services industry, was a large driver of performance, posting double-digit returns for the reporting period. Amdocs' stock price increased when the company reported record revenues in July 2015, after expanding its product suite and renewing major service contracts. In addition, not owning HP helped the Fund's relative performance, as the company's stock struggled during the year.

Stock selection in the consumer discretionary sector also added to relative returns. Within the sector, **Carnival** was a notable contributor, posting returns of over 20% for the reporting period. The cruise line operator reported higher-

Portfolio Composition

By sector	% of total net assets
Financials	28.4%
Health Care	14.1
Information Technology	13.6
Consumer Discretionary	9.0
Energy	8.3
Consumer Staples	6.8
Industrials	6.2
U.S. Government Securities	5.3
Telecommunication Services	2.8
Utilities	1.7
Materials	0.5
Money Market Funds Plus Other Assets Less Liabilities	3.3

Top 10 Equity Holdings*

	% of total net assets
1. JPMorgan Chase & Co.	3.2%
2. Citigroup Inc.	3.0
3. General Electric Co.	2.5
4. Bank of America Corp.	1.9
5. Morgan Stanley	1.6
6. Carnival Corp.	1.3
7. PNC Financial Services Group, Inc. (The)	1.3
8. Citizens Financial Group Inc.	1.3
9. Target Corp.	1.2
10. Merck & Co., Inc.	1.2

Total Net Assets	$53.9 million
Total Number of Holdings*	266

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.

Data presented here are as of December 31, 2015.

than-expected earnings and raised its outlook for 2016.

On the negative side, stock selection in the health care sector and our allocation to health care stocks detracted from the Fund's performance relative to the Russell 1000 Value Index. Specifically, an underweight allocation to health care services and not owning names like Cigna were large detractors, as those stocks performed well for the reporting period.

Stock selection in the consumer staples sector also hurt the Fund's relative performance. Notably, positions in **Archer-Daniels-Midland** declined during the fourth quarter as investors weighed third-quarter profits that missed analyst expectations and guidance that the company may continue to have a challenging operating environment due to the strong US dollar and depressed ethanol margins.

Stock selection in and an underweight allocation to the industrials sector also dampened the Fund's relative performance. **Tyco International**, within the commercial and professional services industry, performed poorly for the reporting period, posting negative double-digit returns. In the fourth quarter, Tyco International met analysts' earnings expectations; however, revenue numbers fell short due to the impact from foreign currency versus the strong US dollar.

The Fund's allocation to high-grade bonds and convertible bonds contributed to relative performance versus the Russell 1000 Value Index, as the holdings within traditional and convertible bonds outperformed large value equities, which posted negative returns. The Fund's fixed income allocation potentially may provide income and capital preservation during equity and market downturns.

Currency forward contracts were used during the reporting period and had a large positive impact on the Fund's performance relative to its broad market benchmark for the reporting period. This was mainly due to the strength of the US dollar compared to the foreign currencies in which the Fund's non-US holdings were denominated. We used currency forward contracts for the purpose of hedging currency exposure of non-US-based companies held in the portfolio. Currency forward contracts were used solely for the purpose of hedging and not for speculative purposes or leverage.

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. S&P 500 futures contracts 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 positive impact on the Fund's performance relative to the Russell 1000 Value Index for the reporting period.

Equity markets experienced continued volatility during the reporting period. Reasons for volatility included political unrest in Eastern Europe, a sluggish Chinese economy and the effects on the global economy of 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.

Brian Jurkash
Portfolio Manager, is manager of Invesco V.I. Managed Volatility Fund. He joined Invesco in 2000. Mr. Jurkash earned a BBA degree in finance from Stephen F. Austin State University and an MBA in finance from the University of Houston.

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 Chief Investment Officer of Invesco Solutions, 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.

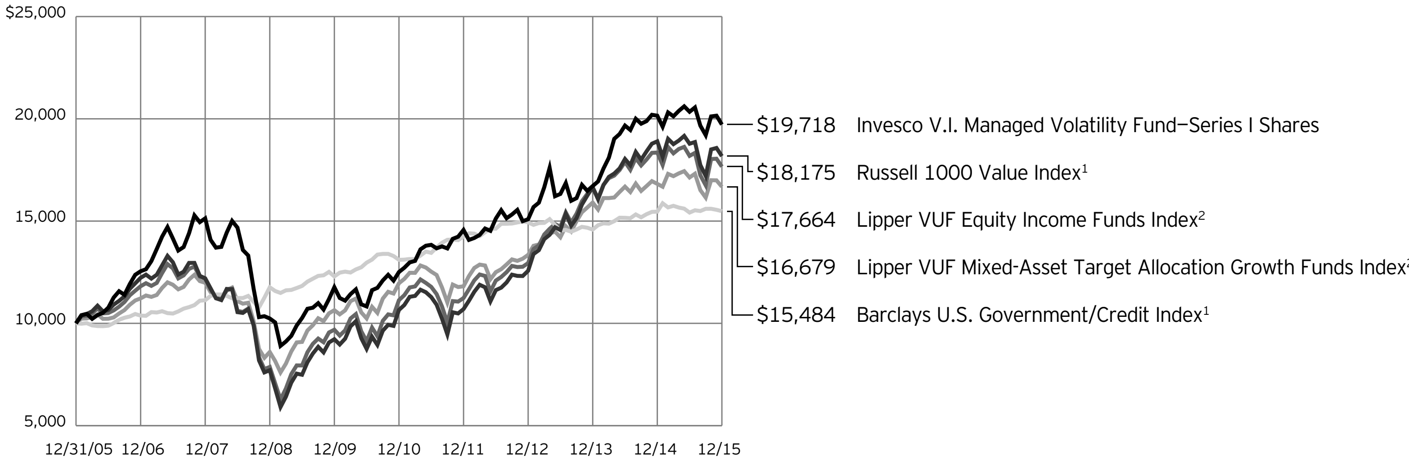
James Roeder
Chartered Financial Analyst, Portfolio Manager, is manager of Invesco V.I. Managed Volatility Fund. He joined Invesco in 2010. Mr. Roeder earned a BS in accounting from Clemson University and an MBA in economics and finance from the University of Chicago Booth School of Business.

Matthew Titus
Chartered Financial Analyst, Portfolio Manager, is manager of Invesco V.I. Managed Volatility Fund. He joined the management team effective January 25, 2016, after the close of the reporting period. Mr. Titus earned a bachelor's degree in accounting and economics from Luther College in Decorah, Iowa, and an MBA from Ohio State University.

Your Fund's Long-Term Performance

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

Fund and index data from 12/31/05



1 Source: FactSet Research Systems Inc.
2 Source: Lipper Inc.

Past performance cannot guarantee comparable future results.

During the reporting period, the Fund elected to use the Lipper VUF Mixed-Asset Target Allocation Growth Funds Index as its peer group benchmark rather than the Lipper VUF Equity Income Funds Index because the Lipper VUF Mixed-Asset Target Allocation Growth Funds Index more closely reflects the performance of the types of securities in which the Fund invests. Because this is the first reporting period since we have adopted the new index, SEC guidelines require that we compare performance to both the old and new indexes.

Average Annual Total Returns *As of 12/31/15*	
Series I Shares	
Inception (12/30/94)	7.19%
10 Years	7.03
5 Years	9.53
1 Year	-2.15
Series II Shares	
Inception (4/30/04)	9.10%
10 Years	6.76
5 Years	9.26
1 Year	-2.37

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 1.10% and 1.35%, respectively.[1] The total annual Fund operating expense ratio set forth in the most recent Fund prospectus as of the date of this report for Series I and Series II shares was 1.11% and 1.36%, 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.

Fund performance reflects any applicable fee waivers and/or expense reimbursements. Had the adviser not waived fees and/or reimbursed expenses currently or in the past, returns would have been lower. See current prospectus for more information.

1 Total annual Fund operating expenses after any contractual fee waivers and/or expense reimbursements by the adviser in effect through at least June 30, 2017. 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, 2015, 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.

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.

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. In addition, the Fund's investment strategy to manage volatility may cause the Fund to underperform the broader markets in which the Fund invests during market rallies. Such underperformance could be significant during sudden or significant market rallies.

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.

Real estate investment trust (REIT)/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. Shares of real estate related companies, which tend to be small- and mid-cap companies, may be more volatile and less liquid.

Short sales risk. If the Fund sells short a security that it does not own and the security increases in value, the Fund will pay a higher price to repurchase the security. The more the Fund pays, the more it will lose on the transaction, which adversely affects its share price. As there is no limit on how much the price of the security can increase, the Fund's exposure is unlimited.

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. The higher yields and interest rates on pay-in-kind securities reflect the payment deferral and increased credit risk associated with such instruments and that such investments may represent a higher credit risk than coupon loans. Pay-in-kind securities may have a potential variability in valuations because their continuing accruals require continuing judgments about the collectability of the deferred payments and the value of any associated collateral.

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 Mixed-Asset Target Allocation Growth Funds Index** is an unmanaged index considered representative of mixed-asset target allocation growth variable insurance underlying funds tracked by Lipper.

The **Lipper VUF Equity Income Funds Index** is an unmanaged index considered representative of equity income variable insurance underlying funds tracked by Lipper.

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, 2015

	Shares	Value
Common Stocks & Other Equity Interests-65.28%		
Aerospace & Defense-0.84%		
General Dynamics Corp.	3,302	$ 453,563
Agricultural Products-0.68%		
Archer-Daniels-Midland Co.	10,010	367,167
Application Software-0.61%		
Citrix Systems, Inc.[b]	4,336	328,018
Asset Management & Custody Banks-1.70%		
Northern Trust Corp.	5,509	397,144
State Street Corp.	7,830	519,599
		916,743
Automobile Manufacturers-0.59%		
General Motors Co.	9,419	320,340
Biotechnology-0.82%		
Amgen Inc.	2,190	355,503
Baxalta Inc.	2,221	86,685
		442,188
Broadcasting-0.17%		
CBS Corp.-Class B	1,905	89,783
Cable & Satellite-1.55%		
Comcast Corp.-Class A	8,598	485,185
Time Warner Cable Inc.	1,876	348,167
		833,352
Communications Equipment-2.72%		
Cisco Systems, Inc.	20,986	569,875
Juniper Networks, Inc.	16,047	442,897
QUALCOMM, Inc.	9,029	451,314
		1,464,086
Construction Machinery & Heavy Trucks-0.46%		
Caterpillar Inc.	3,624	246,287
Data Processing & Outsourced Services-0.76%		
PayPal Holdings, Inc.[b]	11,259	407,576
Diversified Banks-8.79%		
Bank of America Corp.	62,108	1,045,278
Citigroup Inc.	31,555	1,632,971
Comerica Inc.	7,897	330,331
JPMorgan Chase & Co.[c]	26,167	1,727,807
		4,736,387
Electric Utilities-0.54%		
FirstEnergy Corp.	9,229	292,836
Fertilizers & Agricultural Chemicals-0.44%		
Mosaic Co. (The)	8,637	238,295
Food Distributors-0.54%		
Sysco Corp.	7,088	290,608

	Shares	Value
General Merchandise Stores-1.20%		
Target Corp.	8,906	$ 646,665
Health Care Equipment-1.61%		
Baxter International Inc.	9,226	351,972
Medtronic PLC	6,701	515,441
		867,413
Health Care Services-0.57%		
Express Scripts Holding Co.[b]	3,502	306,110
Hotels, Resorts & Cruise Lines-1.32%		
Carnival Corp.	13,087	712,980
Household Products-0.88%		
Procter & Gamble Co. (The)	5,963	473,522
Hypermarkets & Super Centers-1.06%		
Wal-Mart Stores, Inc.	9,319	571,255
Industrial Conglomerates-2.50%		
General Electric Co.	43,274	1,347,985
Industrial Machinery-0.54%		
Ingersoll-Rand PLC	5,271	291,433
Insurance Brokers-2.09%		
Aon PLC	4,071	375,387
Marsh & McLennan Cos., Inc.	7,069	391,976
Willis Group Holdings PLC	7,350	356,989
		1,124,352
Integrated Oil & Gas-3.13%		
Exxon Mobil Corp.	4,039	314,840
Occidental Petroleum Corp.	5,159	348,800
Royal Dutch Shell PLC-Class A (United Kingdom)	27,892	626,615
TOTAL S.A. (France)	8,844	393,875
		1,684,130
Integrated Telecommunication Services-1.12%		
Koninklijke KPN N.V. (Netherlands)	26,771	101,088
Orange S.A. (France)	6,004	100,725
Telecom Italia S.p.A. (Italy)[b]	56,069	70,670
Telefónica, S.A. (Spain)	4,742	52,341
Verizon Communications Inc.	6,021	278,291
		603,115
Internet Software & Services-0.70%		
eBay Inc.[b]	13,770	378,399
Investment Banking & Brokerage-3.05%		
Charles Schwab Corp. (The)	12,047	396,708
Goldman Sachs Group, Inc. (The)	2,149	387,314
Morgan Stanley	27,032	859,888
		1,643,910

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

	Shares	Value
IT Consulting & Other Services-0.43%		
Amdocs Ltd.	4,238	$ 231,268
Managed Health Care-0.99%		
Anthem, Inc.	1,980	276,091
UnitedHealth Group Inc.	2,182	256,691
		532,782
Movies & Entertainment-0.47%		
Time Warner Inc.	3,931	254,218
Multi-Utilities-0.52%		
PG&E Corp.	5,265	280,045
Oil & Gas Equipment & Services-1.24%		
Baker Hughes Inc.	7,167	330,757
Weatherford International PLC[(b)]	39,910	334,845
		665,602
Oil & Gas Exploration & Production-2.52%		
Anadarko Petroleum Corp.	3,228	156,816
Apache Corp.	12,524	556,942
Canadian Natural Resources Ltd. (Canada)	15,515	338,738
Devon Energy Corp.	9,515	304,480
		1,356,976
Other Diversified Financial Services-0.82%		
Voya Financial, Inc.	11,987	442,440
Packaged Foods & Meats-0.91%		
Mondelez International, Inc.-Class A	10,900	488,756
Pharmaceuticals-5.15%		
Eli Lilly and Co.	4,992	420,626
Merck & Co., Inc.	12,134	640,918
Novartis AG (Switzerland)	5,780	494,030
Pfizer Inc.	11,361	366,733
Sanofi (France)	4,087	349,106
Teva Pharmaceutical Industries Ltd.-ADR (Israel)	7,624	500,439
		2,771,852
Publishing-0.47%		
Thomson Reuters Corp.	6,705	253,881
Railroads-0.60%		
CSX Corp.	12,503	324,453
Regional Banks-4.34%		
BB&T Corp.	8,345	315,524
Citizens Financial Group Inc.	26,278	688,221
Fifth Third Bancorp	19,932	400,633
First Horizon National Corp.	16,205	235,297
PNC Financial Services Group, Inc. (The)	7,316	697,288
		2,336,963
Security & Alarm Services-0.62%		
Tyco International PLC	10,522	335,546

	Shares	Value
Semiconductor Equipment-0.71%		
Applied Materials, Inc.	20,418	$ 381,204
Semiconductors-0.90%		
Intel Corp.	14,086	485,263
Specialized Finance-0.43%		
CME Group Inc.-Class A	2,577	233,476
Systems Software-0.93%		
Microsoft Corp.	9,009	499,819
Technology Hardware, Storage & Peripherals-0.64%		
NetApp, Inc.	12,989	344,598
Tobacco-0.96%		
Philip Morris International Inc.	5,879	516,823
Wireless Telecommunication Services-0.65%		
Vodafone Group PLC-ADR (United Kingdom)	10,765	347,279
Total Common Stocks & Other Equity Interests (Cost $34,867,938)		35,161,742

	Principal Amount	
Bonds and Notes-25.91%		
Aerospace & Defense-0.24%		
Boeing Capital Corp., Sr. Unsec. Notes, 2.13%, 08/15/2016	$ 35,000	35,251
L-3 Communications Corp., Sr. Unsec. Gtd. Global Notes, 3.95%, 05/28/2024	52,000	49,475
Lockheed Martin Corp., Sr. Unsec. Global Notes, 2.13%, 09/15/2016	35,000	35,215
Northrop Grumman Corp., Sr. Unsec. Global Notes, 3.85%, 04/15/2045	10,000	8,909
		128,850
Airlines-0.16%		
American Airlines Pass Through Trust, Series 2014-1, Class A, Sr. Sec. First Lien Pass Through Ctfs., 3.70%, 10/01/2026	23,546	23,649
Continental Airlines Pass Through Trust, Series 2009-1, Sr. Sec. First Lien Pass Through Ctfs., 9.00%, 07/08/2016	17,071	17,645
United Airlines Pass Through Trust, Series 2014-2, Class A, Sr. Sec. First Lien Pass Through Ctfs., 3.75%, 09/03/2026	30,000	30,356
Virgin Australia Pass Through Trust (Australia), Series 2013-1, Class A, Sec. Gtd. Pass Through Ctfs., 5.00%, 10/23/2023[(d)]	14,696	15,095
		86,745
Apparel Retail-0.03%		
Ross Stores, Inc., Sr. Unsec. Notes, 3.38%, 09/15/2024	19,000	18,745

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

	Principal Amount	Value
Apparel, Accessories & Luxury Goods–0.14%		
Iconix Brand Group Inc., Sr. Unsec. Sub. Conv. Bonds, 1.50%, 03/15/2018	$ 66,000	$ 32,670
Sr. Unsec. Sub. Conv. Notes, 2.50%, 06/01/2016	49,000	44,100
		76,770
Application Software–0.64%		
Citrix Systems, Inc., Sr. Unsec. Conv. Bonds, 0.50%, 04/15/2019	268,000	292,790
Nuance Communications, Inc., Sr. Unsec. Conv. Notes, 1.00%, 12/15/2022[(d)(e)]	51,000	49,311
		342,101
Asset Management & Custody Banks–0.51%		
Apollo Management Holdings L.P., Sr. Unsec. Gtd. Notes, 4.00%, 05/30/2024[(d)]	40,000	39,554
Blackstone Holdings Finance Co. LLC, Sr. Unsec. Gtd. Notes, 5.00%, 06/15/2044[(d)]	150,000	153,784
KKR Group Finance Co. III LLC, Sr. Unsec. Gtd. Bonds, 5.13%, 06/01/2044[(d)]	85,000	83,613
		276,951
Auto Parts & Equipment–0.28%		
Johnson Controls, Inc., Sr. Unsec. Notes, 5.50%, 01/15/2016	150,000	150,180
Automobile Manufacturers–0.37%		
Ford Motor Credit Co. LLC, Sr. Unsec. Global Notes, 4.13%, 08/04/2025	200,000	199,744
Biotechnology–0.72%		
AbbVie Inc., Sr. Unsec. Global Notes, 4.50%, 05/14/2035	38,000	37,344
Amgen Inc., Sr. Unsec. Notes, 2.30%, 06/15/2016	35,000	35,208
BioMarin Pharmaceutical Inc., Sr. Unsec. Sub. Conv. Notes, 1.50%, 10/15/2020	115,000	154,244
Celgene Corp., Sr. Unsec. Global Notes, 4.63%, 05/15/2044	100,000	94,987
5.00%, 08/15/2045	9,000	9,075
Gilead Sciences, Inc., Sr. Unsec. Global Notes, 3.05%, 12/01/2016	30,000	30,516
4.40%, 12/01/2021	25,000	26,973
		388,347
Brewers–0.07%		
Anheuser-Busch InBev Worldwide Inc. (Belgium), Sr. Unsec. Gtd. Global Notes, 2.88%, 02/15/2016	40,000	40,091
Broadcasting–0.59%		
Liberty Media Corp., Sr. Unsec. Conv. Bonds, 1.38%, 10/15/2023	324,000	318,938
Cable & Satellite–0.79%		
CCO Safari II, LLC, Sr. Sec. Gtd. First Lien Notes, 4.46%, 07/23/2022[(d)]	60,000	59,995

	Principal Amount	Value
Cable & Satellite–(continued)		
Comcast Corp., Sr. Unsec. Gtd. Global Notes, 5.70%, 05/15/2018	$ 150,000	$ 164,154
Sr. Unsec. Gtd. Notes, 4.40%, 08/15/2035	35,000	35,479
Cox Communications, Inc., Sr. Unsec. Notes, 8.38%, 03/01/2039[(d)]	150,000	165,253
		424,881
Catalog Retail–0.31%		
Liberty Interactive LLC, Sr. Unsec. Conv. Global Deb., 0.75%, 03/30/2023[(e)]	81,000	122,209
QVC, Inc., Sr. Sec. Gtd. First Lien Global Notes, 5.45%, 08/15/2034	50,000	43,377
		165,586
Communications Equipment–0.48%		
Ciena Corp., Sr. Unsec. Conv. Notes, 4.00%, 12/15/2020[(d)]	81,000	105,604
Viavi Solutions Inc., Sr. Unsec. Conv. Deb., 0.63%, 08/15/2018[(e)]	165,000	155,409
		261,013
Consumer Finance–0.03%		
American Express Co., Unsec. Sub. Global Notes, 3.63%, 12/05/2024	18,000	17,857
Data Processing & Outsourced Services–0.23%		
Visa Inc., Sr. Unsec. Global Notes, 3.15%, 12/14/2025	40,000	40,152
4.15%, 12/14/2035	30,000	30,384
4.30%, 12/14/2045	20,000	20,353
Xerox Corp., Sr. Unsec. Global Notes, 4.80%, 03/01/2035	38,000	35,273
		126,162
Diversified Banks–1.91%		
Abbey National Treasury Services PLC (United Kingdom), Sr. Unsec. Gtd. Global Notes, 4.00%, 04/27/2016	115,000	116,043
BNP Paribas S.A. (France), Unsec. Sub. Gtd. Medium-Term Notes, 4.25%, 10/15/2024	200,000	198,470
Citigroup Inc., Unsec. Sub. Notes, 4.00%, 08/05/2024	60,000	59,654
HSBC Finance Corp., Sr. Unsec. Global Notes, 5.50%, 01/19/2016	100,000	100,166
JPMorgan Chase & Co., Unsec. Sub. Global Notes, 4.25%, 10/01/2027	15,000	14,937
Series V, Jr. Unsec. Sub. Global Notes, 5.00%[(f)]	150,000	143,250
Series X, Jr. Unsec. Sub. Global Notes, 6.10%[(f)]	60,000	60,750
Series Z, Jr. Unsec. Sub. Global Notes, 5.30%[(f)]	40,000	40,050

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

	Principal Amount	Value
Diversified Banks–(continued)		
Wells Fargo & Co., Sr. Unsec. Medium-Term Notes, 3.55%, 09/29/2025	$ 30,000	$ 30,282
Sr. Unsec. Notes, 3.90%, 05/01/2045	75,000	68,788
Unsec. Sub. Medium-Term Notes, 4.10%, 06/03/2026	95,000	96,285
4.65%, 11/04/2044	100,000	97,732
		1,026,407
Diversified Chemicals–0.08%		
Eastman Chemical Co., Sr. Unsec. Global Notes, 2.70%, 01/15/2020	43,000	42,589
Diversified Real Estate Activities–0.05%		
Brookfield Asset Management Inc. (Canada), Sr. Unsec. Notes, 4.00%, 01/15/2025	25,000	24,471
Drug Retail–0.14%		
CVS Health Corp., Sr. Unsec. Global Bonds, 3.38%, 08/12/2024	20,000	19,808
Walgreens Boots Alliance Inc., Sr. Unsec. Global Notes, 3.30%, 11/18/2021	32,000	31,390
4.50%, 11/18/2034	24,000	21,979
		73,177
Electric Utilities–0.08%		
Georgia Power Co., Sr. Unsec. Notes, 3.00%, 04/15/2016	45,000	45,249
Environmental & Facilities Services–0.04%		
Waste Management, Inc., Sr. Unsec. Gtd. Global Notes, 3.90%, 03/01/2035	25,000	23,467
Fertilizers & Agricultural Chemicals–0.03%		
Monsanto Co., Sr. Unsec. Global Notes, 2.13%, 07/15/2019	15,000	14,986
Food Retail–0.10%		
Kraft Heinz Co. (The), Sr. Unsec. Gtd. Notes, 1.60%, 06/30/2017[(d)]	56,000	55,862
General Merchandise Stores–0.23%		
Dollar General Corp., Sr. Unsec. Global Notes, 3.25%, 04/15/2023	20,000	19,115
Target Corp., Sr. Unsec. Notes, 5.88%, 07/15/2016	100,000	102,616
		121,731
Health Care Distributors–0.17%		
McKesson Corp., Sr. Unsec. Notes, 3.25%, 03/01/2016	90,000	90,324
Health Care Equipment–1.27%		
Becton, Dickinson and Co., Sr. Unsec. Global Bonds, 4.88%, 05/15/2044	170,000	172,335
Sr. Unsec. Global Notes, 1.75%, 11/08/2016	15,000	15,082
3.88%, 05/15/2024	165,000	167,945
Sr. Unsec. Notes, 2.68%, 12/15/2019	17,000	17,115

	Principal Amount	Value
Health Care Equipment–(continued)		
Medtronic, Inc., Sr. Unsec. Gtd. Global Notes, 3.15%, 03/15/2022	$ 58,000	$ 58,707
4.38%, 03/15/2035	21,000	21,270
NuVasive Inc., Sr. Unsec. Conv. Notes, 2.75%, 07/01/2017	94,000	128,721
Wright Medical Group, Inc., Sr. Unsec. Conv. Notes, 2.00%, 02/15/2020[(d)]	101,000	104,977
		686,152
Health Care Facilities–0.80%		
Brookdale Senior Living Inc., Sr. Unsec. Conv. Notes, 2.75%, 06/15/2018	174,000	173,891
HealthSouth Corp., Sr. Unsec. Sub. Conv. Notes, 2.00%, 12/01/2020[(e)]	235,000	254,388
		428,279
Health Care REIT's–0.05%		
HCP, Inc., Sr. Unsec. Global Notes, 3.88%, 08/15/2024	25,000	24,320
Health Care Services–0.38%		
Express Scripts Holding Co., Sr. Unsec. Gtd. Global Notes, 2.25%, 06/15/2019	30,000	29,810
Sr. Unsec. Gtd. Notes, 3.13%, 05/15/2016	120,000	120,818
Laboratory Corp. of America Holdings, Sr. Unsec. Notes, 3.20%, 02/01/2022	33,000	32,471
4.70%, 02/01/2045	22,000	20,188
		203,287
Industrial Machinery–0.04%		
Valmont Industries, Inc., Sr. Unsec. Gtd. Global Notes, 5.25%, 10/01/2054	22,000	18,815
Integrated Oil & Gas–0.17%		
Chevron Corp., Sr. Unsec. Global Notes, 1.37%, 03/02/2018	77,000	76,390
Suncor Energy Inc. (Canada), Sr. Unsec. Notes, 3.60%, 12/01/2024	18,000	17,095
		93,485
Integrated Telecommunication Services–0.93%		
AT&T Inc., Sr. Unsec. Global Notes, 3.00%, 06/30/2022	28,000	27,265
3.40%, 05/15/2025	15,000	14,444
4.50%, 05/15/2035	25,000	23,296
DIRECTV Holdings LLC/ DIRECTV Financing Co., Inc., Sr. Unsec. Gtd. Global Notes, 5.15%, 03/15/2042	150,000	140,271
Telefonica Emisiones S.A.U. (Spain), Sr. Unsec. Gtd. Global Notes, 7.05%, 06/20/2036	150,000	182,065
Verizon Communications Inc., Sr. Unsec. Global Notes, 4.40%, 11/01/2034	120,000	112,452
		499,793

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

	Principal Amount	Value
Internet Retail–0.02%		
Amazon.com, Inc., Sr. Unsec. Global Notes, 4.80%, 12/05/2034	$ 9,000	$ 9,458
Investment Banking & Brokerage–0.85%		
Goldman Sachs Group, Inc. (The), Unsec. Sub. Notes, 4.25%, 10/21/2025	27,000	26,860
Jefferies Group LLC, Sr. Unsec. Conv. Deb., 3.88%, 11/01/2017[e]	163,000	162,796
Lazard Group LLC, Sr. Unsec. Global Notes, 3.75%, 02/13/2025	62,000	57,307
Morgan Stanley, Sr. Unsec. Medium-Term Global Notes, 2.38%, 07/23/2019	175,000	174,595
4.00%, 07/23/2025	35,000	36,136
		457,694
Life & Health Insurance–0.05%		
MetLife, Inc., Sr. Unsec. Global Notes, 4.60%, 05/13/2046	25,000	25,304
Movies & Entertainment–0.14%		
Live Nation Entertainment, Inc., Sr. Unsec. Conv. Bonds, 2.50%, 05/15/2019	61,000	62,334
Viacom Inc., Sr. Unsec. Global Deb., 4.85%, 12/15/2034	19,000	15,566
		77,900
Multi-Line Insurance–0.66%		
American Financial Group, Inc., Sr. Unsec. Notes, 9.88%, 06/15/2019	150,000	182,088
American International Group, Inc., Sr. Unsec. Global Notes, 2.30%, 07/16/2019	20,000	19,867
4.38%, 01/15/2055	40,000	34,626
Farmers Exchange Capital III, Unsec. Sub. Notes, 5.45%, 10/15/2054[d]	70,000	68,373
Nationwide Financial Services Inc., Sr. Unsec. Notes, 5.30%, 11/18/2044[d]	50,000	50,250
		355,204
Multi-Utilities–0.33%		
Enable Midstream Partners, LP, Sr. Unsec. Gtd. Global Notes, 2.40%, 05/15/2019	200,000	180,116
Office REIT's–0.27%		
Highwoods Realty L.P., Sr. Unsec. Notes, 3.20%, 06/15/2021	150,000	146,814
Oil & Gas Equipment & Services–0.12%		
Helix Energy Solutions Group, Inc., Sr. Unsec. Conv. Notes, 3.25%, 03/15/2018[e]	84,000	66,623
Oil & Gas Exploration & Production–0.59%		
Cobalt International Energy Inc., Sr. Unsec. Conv. Notes, 2.63%, 12/01/2019	129,000	73,611
ConocoPhillips Co., Sr. Unsec. Gtd. Global Notes, 2.88%, 11/15/2021	46,000	44,737
4.15%, 11/15/2034	49,000	42,671

	Principal Amount	Value
Oil & Gas Exploration & Production–(continued)		
Devon Energy Corp., Sr. Unsec. Global Notes, 2.25%, 12/15/2018	$ 25,000	$ 23,047
3.25%, 05/15/2022	6,000	5,097
Stone Energy Corp., Sr. Unsec. Gtd. Conv. Notes, 1.75%, 03/01/2017	174,000	129,412
		318,575
Oil & Gas Storage & Transportation–0.48%		
Energy Transfer Partners, L.P., Sr. Unsec. Notes, 4.90%, 03/15/2035	19,000	13,852
Enterprise Products Operating LLC, Sr. Unsec. Gtd. Notes, 3.20%, 02/01/2016	150,000	150,051
2.55%, 10/15/2019	20,000	19,180
Kinder Morgan Inc., Sr. Unsec. Gtd. Notes, 5.30%, 12/01/2034	23,000	18,113
Spectra Energy Partners, L.P., Sr. Unsec. Notes, 2.95%, 06/15/2016	55,000	55,246
Williams Partners L.P., Sr. Unsec. Global Notes, 5.10%, 09/15/2045	2,000	1,320
		257,762
Other Diversified Financial Services–0.15%		
Athene Global Funding, Sec. Notes, 2.88%, 10/23/2018[d]	31,000	30,511
ERAC USA Finance LLC, Sr. Unsec. Gtd. Notes, 2.35%, 10/15/2019[d]	50,000	49,263
		79,774
Packaged Foods & Meats–0.72%		
ConAgra Foods, Inc., Sr. Unsec. Global Notes, 1.30%, 01/25/2016	30,000	30,004
General Mills, Inc., Sr. Unsec. Global Notes, 0.88%, 01/29/2016	45,000	44,996
2.20%, 10/21/2019	45,000	45,173
Grupo Bimbo S.A.B. de C.V. (Mexico), Sr. Unsec. Gtd. Notes, 3.88%, 06/27/2024[d]	200,000	194,498
Mead Johnson Nutrition Co., Sr. Unsec. Global Notes, 4.13%, 11/15/2025	3,000	3,027
Mondelez International, Inc., Sr. Unsec. Global Notes, 4.13%, 02/09/2016	60,000	60,165
Tyson Foods, Inc., Sr. Unsec. Gtd. Global Bonds, 4.88%, 08/15/2034	11,000	11,256
		389,119
Personal Products–0.19%		
Unilever Capital Corp. (Netherlands), Sr. Unsec. Gtd. Global Notes, 2.75%, 02/10/2016	100,000	100,210
Pharmaceuticals–1.63%		
Actavis Funding SCS, Sr. Unsec. Gtd. Global Notes, 1.85%, 03/01/2017	49,000	49,010
4.85%, 06/15/2044	150,000	148,898

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

	Principal Amount	Value
Pharmaceuticals-(continued)		
Allergan, Inc., Sr. Unsec. Gtd. Global Notes, 5.75%, 04/01/2016	$ 50,000	$ 50,551
Bayer US Finance LLC (Germany), Sr. Unsec. Gtd. Notes, 3.00%, 10/08/2021[(d)]	200,000	202,052
Jazz Investments I Ltd., Sr. Unsec. Gtd. Conv. Bonds, 1.88%, 08/15/2021	76,000	79,895
Merck & Co., Inc., Sr. Unsec. Global Notes, 0.70%, 05/18/2016	100,000	100,013
Sanofi (France), Sr. Unsec. Global Notes, 2.63%, 03/29/2016	145,000	145,609
Zoetis Inc., Sr. Unsec. Global Notes, 1.15%, 02/01/2016	100,000	99,995
		876,023
Property & Casualty Insurance-0.31%		
Liberty Mutual Group Inc., Sr. Unsec. Gtd. Bonds, 4.85%, 08/01/2044[(d)]	100,000	94,105
Old Republic International Corp., Sr. Unsec. Conv. Notes, 3.75%, 03/15/2018	57,000	72,461
		166,566
Railroads-0.08%		
Canadian National Railway Co. (Canada), Sr. Unsec. Notes, 5.80%, 06/01/2016	20,000	20,403
Union Pacific Corp., Sr. Unsec. Notes, 4.15%, 01/15/2045	25,000	24,726
		45,129
Regional Banks-0.55%		
BB&T Corp., Series A, Sr. Unsec. Medium-Term Notes, 3.20%, 03/15/2016	40,000	40,106
Fifth Third Bancorp, Sr. Unsec. Notes, 3.63%, 01/25/2016	140,000	140,221
SunTrust Banks, Inc., Sr. Unsec. Notes, 3.60%, 04/15/2016	115,000	115,619
		295,946
Renewable Electricity-0.27%		
Oglethorpe Power Corp., Sr. Sec. First Mortgage Bonds, 4.55%, 06/01/2044	150,000	142,747
Research & Consulting Services-0.04%		
Verisk Analytics, Inc., Sr. Unsec. Global Notes, 5.50%, 06/15/2045	25,000	23,927
Retail REIT's-0.28%		
Realty Income Corp., Sr. Unsec. Notes, 2.00%, 01/31/2018	150,000	150,080
Semiconductor Equipment-0.59%		
Lam Research Corp., Sr. Unsec. Global Notes, 3.80%, 03/15/2025	35,000	33,209
Series B, Sr. Unsec. Conv. Notes, 1.25%, 05/15/2018	198,000	284,501
		317,710
Semiconductors-1.78%		
Microchip Technology Inc., Sr. Unsec. Sub. Conv. Notes, 1.63%, 02/15/2025[(d)]	94,000	93,882

	Principal Amount	Value
Semiconductors-(continued)		
Micron Technology, Inc., Series G, Sr. Unsec. Conv. Global Bonds, 3.00%, 11/15/2028[(e)]	$ 243,000	$ 203,209
NVIDIA Corp., Sr. Unsec. Conv. Bonds, 1.00%, 12/01/2018	297,000	496,176
ON Semiconductor Corp., Sr. Unsec. Gtd. Conv. Notes, 1.00%, 12/01/2020[(d)]	174,000	162,907
		956,174
Soft Drinks-0.45%		
Coca-Cola Co. (The), Sr. Unsec. Global Notes, 1.80%, 09/01/2016	30,000	30,190
Dr Pepper Snapple Group, Inc., Sr. Unsec. Gtd. Global Notes, 2.90%, 01/15/2016	80,000	80,042
PepsiCo, Inc., Sr. Unsec. Notes, 2.50%, 05/10/2016	130,000	130,822
		241,054
Specialized Finance-0.64%		
Air Lease Corp., Sr. Unsec. Global Notes, 2.63%, 09/04/2018	45,000	44,609
4.25%, 09/15/2024	35,000	34,453
Aviation Capital Group Corp., Sr. Unsec. Notes, 2.88%, 09/17/2018[(d)]	35,000	34,698
4.88%, 10/01/2025[(d)]	40,000	39,965
Intercontinental Exchange, Inc., Sr. Unsec. Gtd. Global Notes, 3.75%, 12/01/2025	30,000	30,110
Moody's Corp., Sr. Unsec. Global Notes, 4.88%, 02/15/2024	150,000	160,238
		344,073
Specialty Stores-0.06%		
GNC Holdings, Inc., Sr. Unsec. Gtd. Conv. Notes, 1.50%, 08/15/2020[(d)]	42,000	33,836
Systems Software-0.58%		
FireEye, Inc., Series A, Sr. Unsec. Conv. Notes, 1.00%, 06/01/2020[(d)(e)]	52,000	44,492
Series B, Sr. Unsec. Conv. Notes, 1.63%, 06/01/2022[(d)(e)]	52,000	41,958
Microsoft Corp., Sr. Unsec. Global Notes, 3.50%, 02/12/2035	37,000	34,191
NetSuite Inc., Sr. Unsec. Conv. Notes, 0.25%, 06/01/2018	162,000	160,380
Oracle Corp., Sr. Unsec. Global Notes, 4.30%, 07/08/2034	30,000	29,808
		310,829
Technology Hardware, Storage & Peripherals-0.86%		
Apple Inc., Sr. Unsec. Global Notes, 2.15%, 02/09/2022	39,000	38,027
Hewlett Packard Enterprise Co., Sr. Unsec. Gtd. Notes, 2.85%, 10/05/2018[(d)]	65,000	65,006
6.20%, 10/15/2035[(d)]	35,000	33,814

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

	Principal Amount	Value
Technology Hardware, Storage & Peripherals–(continued)		
SanDisk Corp., Sr. Unsec. Conv. Bonds, 0.50%, 10/15/2020	$ 237,000	$ 246,480
Seagate HDD Cayman, Sr. Unsec. Gtd. Global Bonds, 4.75%, 01/01/2025	65,000	54,438
Sr. Unsec. Gtd. Notes, 5.75%, 12/01/2034[d]	37,000	26,455
		464,220
Thrifts & Mortgage Finance–0.69%		
MGIC Investment Corp., Sr. Unsec. Conv. Notes, 5.00%, 05/01/2017	170,000	175,737
2.00%, 04/01/2020	46,000	64,170
Radian Group Inc., Sr. Unsec. Conv. Notes, 3.00%, 11/15/2017	72,000	90,495
2.25%, 03/01/2019	30,000	38,794
		369,196
Tobacco–0.12%		
Philip Morris International Inc., Sr. Unsec. Global Bonds, 1.25%, 08/11/2017	11,000	11,018
Sr. Unsec. Global Notes, 2.50%, 05/16/2016	55,000	55,336
		66,354
Wireless Telecommunication Services–0.35%		
Crown Castle Towers LLC, Sr. Sec. Gtd. First Lien Notes, 4.88%, 08/15/2020[d]	178,000	190,471
Total Bonds and Notes (Cost $14,363,539)		13,954,243

	Principal Amount	Value
U.S. Treasury Securities–5.31%		
U.S. Treasury Notes–5.31%		
0.88%, 11/30/2017	$2,335,000	$ 2,328,652
1.25%, 12/15/2018	235,000	234,548
1.63%, 11/30/2020	274,300	272,746
2.00%, 11/30/2022	21,000	20,882
Total U.S. Treasury Securities (Cost $2,862,135)		2,856,828
	Shares	
Preferred Stocks–0.20%		
Asset Management & Custody Banks–0.20%		
AMG Capital Trust II, $2.58 Jr. Unsec. Gtd. Sub. Conv. Pfd. (Cost $118,793)	1,900	107,112
Money Market Funds–3.33%		
Liquid Assets Portfolio–Institutional Class, 0.29%[g]	897,839	897,839
Premier Portfolio–Institutional Class, 0.24%[g]	897,839	897,839
Total Money Market Funds (Cost $1,795,678)		1,795,678
TOTAL INVESTMENTS–100.03% (Cost $54,008,083)		53,875,603
OTHER ASSETS LESS LIABILITIES–(0.03)%		(14,856)
NET ASSETS–100.00%		$53,860,747

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. – Subordinated
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) All or a portion of the value was pledged as collateral to cover margin requirements for open futures contracts. See Note 1K and Note 4.
(d) 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, 2015 was $2,289,584, which represented 4.25% of the Fund's Net Assets.
(e) Security has an irrevocable call by the issuer or mandatory put by the holder. Maturity date reflects such call or put.
(f) Perpetual bond with no specified maturity date.
(g) The money market fund and the Fund are affiliated by having the same investment adviser. The rate shown is the 7-day SEC standardized yield as of December 31, 2015.

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

Statement of Assets and Liabilities

December 31, 2015

Assets:	
Investments, at value (Cost $52,212,405)	$52,079,925
Investments in affiliated money market funds, at value and cost	1,795,678
Total investments, at value (Cost $54,008,083)	53,875,603
Foreign currencies, at value (Cost $17,470)	17,387
Receivable for:	
Investments sold	15,074
Variation margin — futures	28,389
Fund shares sold	4,585
Dividends and interest	180,744
Investment for trustee deferred compensation and retirement plans	63,931
Unrealized appreciation on forward foreign currency contracts outstanding	28,890
Other assets	1,529
Total assets	54,216,132
Liabilities:	
Payable for:	
Investments purchased	11,847
Fund shares reacquired	206,392
Accrued fees to affiliates	35,251
Accrued trustees' and officers' fees and benefits	134
Accrued other operating expenses	33,478
Trustee deferred compensation and retirement plans	68,283
Total liabilities	355,385
Net assets applicable to shares outstanding	$53,860,747
Net assets consist of:	
Shares of beneficial interest	$51,973,510
Undistributed net investment income	779,551
Undistributed net realized gain	1,212,324
Net unrealized appreciation (depreciation)	(104,638)
	$53,860,747
Net Assets:	
Series I	$52,360,323
Series II	$ 1,500,424
Shares outstanding, $0.001 par value per share, with an unlimited number of shares authorized:	
Series I	4,600,770
Series II	133,255
Series I:	
Net asset value per share	$ 11.38
Series II:	
Net asset value per share	$ 11.26

Statement of Operations

For the year ended December 31, 2015

Investment income:	
Dividends (net of foreign withholding taxes of $26,650)	$ 963,848
Dividends from affiliated money market funds	2,992
Interest	438,249
Total investment income	1,405,089
Expenses:	
Advisory fees	392,932
Administrative services fees	202,433
Custodian fees	20,682
Distribution fees — Series II	4,082
Transfer agent fees	19,902
Trustees' and officers' fees and benefits	20,285
Professional services fees	42,789
Other	21,437
Total expenses	724,542
Less: Fees waived	(12,515)
Net expenses	712,027
Net investment income	693,062
Realized and unrealized gain (loss) from:	
Net realized gain (loss) from:	
Investment securities	1,128,188
Foreign currencies	(5,153)
Forward foreign currency contracts	324,151
Futures contracts	155,499
	1,602,685
Change in net unrealized appreciation (depreciation) of:	
Investment securities	(3,461,461)
Foreign currencies	2,131
Forward foreign currency contracts	(52,359)
Futures contracts	(224)
	(3,511,913)
Net realized and unrealized gain (loss)	(1,909,228)
Net increase (decrease) in net assets resulting from operations	$(1,216,166)

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, 2015 and 2014

	2015	2014
Operations:		
Net investment income	$ 693,062	$ 882,573
Net realized gain	1,602,685	22,977,439
Change in net unrealized appreciation (depreciation)	(3,511,913)	(11,008,043)
Net increase (decrease) in net assets resulting from operations	(1,216,166)	12,851,969
Distributions to shareholders from net investment income:		
Series I	(883,070)	(1,956,705)
Series II	(18,185)	(44,780)
Total distributions from net investment income	(901,255)	(2,001,485)
Distributions to shareholders from net realized gains:		
Series I	(22,008,256)	(3,200,299)
Series II	(561,485)	(80,119)
Total distributions from net realized gains	(22,569,741)	(3,280,418)
Share transactions–net:		
Series I	5,715,114	1,534,064
Series II	321,994	(63,252)
Net increase in net assets resulting from share transactions	6,037,108	1,470,812
Net increase (decrease) in net assets	(18,650,054)	9,040,878
Net assets:		
Beginning of year	72,510,801	63,469,923
End of year (includes undistributed net investment income of $779,551 and $717,068, respectively)	$ 53,860,747	$ 72,510,801

Notes to Financial Statements

December 31, 2015

NOTE 1—Significant Accounting Policies

Invesco V.I. Managed Volatility Fund (the "Fund") is a series portfolio of AIM Variable Insurance Funds (Invesco Variable Insurance Funds) (the "Trust"). The Trust is a Delaware statutory trust registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as an open-end series management investment company consisting of twenty-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 asked 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 asked prices. For purposes of determining net asset value ("NAV") 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 asked 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/asked 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 Fund 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 the Statement of Changes in Net Assets, or the net investment income per share and the 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 two parties ("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. Collateral – To the extent the Fund has designated or segregated a security as collateral and that security is subsequently sold, it is the Fund's practice to replace such collateral no later than the next business day. This practice does not apply to securities pledged as collateral for securities lending transactions.

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 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 Affiliated Sub-Adviser(s).

Effective May 1, 2015, the Adviser has contractually agreed, through at least June 30, 2016, 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. Prior to May 1, 2015, 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 1.03% and Series II shares to 1.28% 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 June 30, 2016. The fee waiver agreement cannot be terminated during its term.

Further, the Adviser has contractually agreed, through at least June 30, 2017, 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, 2015, the Adviser waived advisory fees of $12,515.

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, 2015, Invesco was paid $50,000 for accounting and fund administrative services and reimbursed $152,433 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, 2015, 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, 2015, expenses incurred under the Plan are detailed in the Statement of Operations as *Distribution fees*.

For the year ended December 31, 2015, the Fund incurred $241 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, 2015. 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	$35,118,076	$ 1,946,456	$–	$37,064,532
U.S. Treasury Securities	–	2,856,828	–	2,856,828
Corporate Debt Securities	–	13,954,243	–	13,954,243
	35,118,076	18,757,527	–	53,875,603
Forward Foreign Currency Contracts*	–	28,890	–	28,890
Futures Contracts*	(224)	–	–	(224)
Total Investments	$35,117,852	$18,786,417	$–	$53,904,269

* Unrealized appreciation (depreciation).

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, 2015:

	Value	
Risk Exposure/Derivative Type	**Assets**	**Liabilities**
Currency risk:		
Forward foreign currency contracts[(a)]	$28,890	$ –
Equity risk:		
Futures contracts[(b)]	–	(224)
Total	$28,890	$(224)

(a) Values are disclosed on the Statement of Assets and Liabilities under the caption *Unrealized appreciation on forward foreign currency contracts outstanding*.
(b) Includes cumulative appreciation (depreciation) of futures contracts. Only current day's variation margin receivable is reported within the Statement of Assets and Liabilities.

Effect of Derivative Investments for the year ended December 31, 2015

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:		
Currency risk	$324,151	$ –
Equity risk	–	155,499
Change in Net Unrealized Appreciation (Depreciation):		
Currency risk	(52,359)	–
Equity risk	–	(224)
Total	$271,792	$155,275

The table below summarizes the twelve month average notional value of forward foreign currency contracts and the six month average notional value of futures contracts outstanding during the period.

	Forward Foreign Currency Contracts	Futures Contracts
Average notional value	$4,124,901	$8,909,631

Open Forward Foreign Currency Contracts

Settlement Date	Counterparty	Contract to Deliver	Contract to Receive	Notional Value	Unrealized Appreciation
1/15/16	Bank of New York Mellon (The)	CAD 303,940	USD 223,641	$219,593	$ 4,048
1/15/16	State Street Bank and Trust Co.	CAD 303,940	USD 223,595	219,593	4,002
1/15/16	Bank of New York Mellon (The)	CHF 184,887	USD 186,692	184,704	1,988
1/15/16	State Street Bank and Trust Co.	CHF 184,887	USD 186,730	184,704	2,026
1/15/16	Bank of New York Mellon (The)	EUR 378,978	USD 413,324	412,010	1,314
1/15/16	State Street Bank and Trust Co.	EUR 378,977	USD 413,443	412,009	1,434
1/15/16	Bank of New York Mellon (The)	GBP 248,767	USD 373,340	366,735	6,605
1/15/16	State Street Bank and Trust Co.	GBP 248,768	USD 373,465	366,736	6,729
1/15/16	Bank of New York Mellon (The)	ILS 732,563	USD 188,581	188,311	270
1/15/16	State Street Bank and Trust Co.	ILS 732,564	USD 188,785	188,311	474
Total Open Forward Foreign Currency Contracts — Currency Risk					$28,890

Currency Abbreviations:

CAD – Canadian Dollar
CHF – Swiss Franc
EUR – Euro
GBP – British Pound Sterling
ILS – Israeli Shekel
USD – U.S. Dollar

Open Futures Contracts — Equity Risk

Futures Contracts	Type of Contract	Number of Contracts	Expiration Month	Notional Value	Unrealized Appreciation (Depreciation)
E-Mini S&P 500 Index	Short	14	March-2016	$(1,424,780)	$(224)

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 the Fund's 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.

The following tables present derivative instruments that are either subject to an enforceable netting agreement or offset by collateral arrangements as of December 31, 2015.

		Gross Amounts Not Offset in the Statement of Assets and Liabilities			
			Collateral Received		
Counterparty	Gross amounts of Recognized Assets	Financial Instruments	Non-Cash	Cash	Net Amount
Bank of New York Mellon (The)	$14,225	$–	$–	$–	$14,225
State Street Bank and Trust Co.	14,665	–	–	–	14,665
Total	$28,890	$–	$–	$–	$28,890

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, 2015 and 2014:

	2015	2014
Ordinary income	$ 2,074,591	$2,001,485
Long-term capital gain	21,396,405	3,280,418
Total distributions	$23,470,996	$5,281,903

Tax Components of Net Assets at Period-End:

	2015
Undistributed ordinary income	$ 983,365
Undistributed long-term gain	1,392,683
Net unrealized appreciation (depreciation) — investments	(418,713)
Net unrealized appreciation (depreciation) — other investments	(824)
Temporary book/tax differences	(69,274)
Shares of beneficial interest	51,973,510
Total net assets	$53,860,747

The difference between book-basis and tax-basis unrealized appreciation (depreciation) is due to differences in the timing of recognition of gains and losses on investments for tax and book purposes. The Fund's net unrealized appreciation (depreciation) difference is attributable primarily to wash sales 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, 2015.

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, 2015 was $16,507,760 and $27,113,903, respectively. During the same period, purchases and sales of U.S. Treasury obligations were $55,540,421 and $58,150,021, 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	$ 3,493,489
Aggregate unrealized (depreciation) of investment securities	(3,912,202)
Net unrealized appreciation (depreciation) of investment securities	$ (418,713)

Cost of investments for tax purposes is $54,294,316.

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, 2015, undistributed net investment income was increased by $270,676 and undistributed net realized gain was decreased by $270,676. This reclassification had no effect on the net assets of the Fund.

NOTE 10—Share Information

	Summary of Share Activity			
	Years ended December 31,			
	2015[a]		2014	
	Shares	Amount	Shares	Amount
Sold:				
Series I	281,770	$ 4,951,536	717,540	$ 13,584,291
Series II	4,400	73,277	16,173	299,184
Issued as reinvestment of dividends:				
Series I	2,053,034	22,891,326	276,664	5,157,004
Series II	52,506	579,670	6,744	124,899
Reacquired:				
Series I	(1,451,733)	(22,127,748)	(906,605)	(17,207,231)
Series II	(18,649)	(330,953)	(26,293)	(487,335)
Net increase in share activity	921,328	$ 6,037,108	84,223	$ 1,470,812

[a] There are entities that are record owners of more than 5% of the outstanding shares of the Fund and in the aggregate own 58% 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 (losses) on securities (both realized and unrealized)	Total from investment operations	Dividends from net investment income	Distributions from net realized gains	Total distributions	Net asset value, end of period	Total return[b]	Net assets, end of period (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 12/31/15	$19.02	$0.18	$(0.74)	$(0.56)	$(0.27)	$(6.81)	$(7.08)	$11.38	(2.15)%	$52,360	1.08%[d]	1.10%[d]	1.07%[d]	117%
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	1.10	1.26	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
Series II														
Year ended 12/31/15	18.88	0.13	(0.72)	(0.59)	(0.22)	(6.81)	(7.03)	11.26	(2.37)	1,500	1.33[d]	1.35[d]	0.82[d]	117
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	1.35	1.01	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

[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 $63,856 and $1,633 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 (one of the funds constituting AIM Variable Insurance Funds (Invesco Variable Insurance Funds), hereafter referred to as the "Fund") at December 31, 2015, 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, 2015 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 15, 2016

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, 2015 through December 31, 2015.

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 (07/01/15)	Ending Account Value (12/31/15)[1]	Expenses Paid During Period[2]	Ending Account Value (12/31/15)	Expenses Paid During Period[2]	Annualized Expense Ratio
Series I	$1,000.00	$969.30	$5.56	$1,019.56	$5.70	1.12%
Series II	1,000.00	968.10	6.80	1,018.30	6.97	1.37

[1] The actual ending account value is based on the actual total return of the Fund for the period July 1, 2015 through December 31, 2015, 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, 2015:

Federal and State Income Tax	
Long-Term Capital Gain Distributions	$21,396,405
Corporate Dividends Received Deduction*	53.46%
U.S. Treasury Obligations*	3.71%

* 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)	146	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 Chairman, Invesco Investment Services, Inc. (formerly known as Invesco Aim Investment Services, Inc.) (registered transfer agent) Chief Executive Officer, Invesco Corporate Class 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), Short-Term Investments Trust and Invesco Management Trust); Trustee and Executive Vice President, The Invesco Funds (AIM Treasurer's Series Trust (Invesco Treasurer's Series Trust), Short-Term Investments Trust and Invesco Management 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 President, INVESCO Funds Group, Inc. (registered investment adviser and registered transfer agent); Director and Chairman, IVZ Distributors, Inc. (formerly known as INVESCO Distributors, Inc.) (registered broker dealer); Director, President and Chairman, Invesco Inc. (holding company), Invesco Canada Holdings Inc. (holding company), Trimark Investments Ltd./Placements Trimark Ltèe and Invesco Financial Services Ltd/ Services Financiers Invesco Ltèe; Chief Executive Officer, Invesco Canada Fund Inc (corporate mutual fund company); 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	146	None

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				
Bruce L. Crockett – 1944 Trustee and Chair	2003	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); Independent Directors Council and Investment Company Institute	146	ALPS (Attorneys Liability Protection Society) (insurance company) and Globe Specialty Metals, Inc. (metallurgical company)
David C. Arch – 1945 Trustee	2010	Chairman of Blistex Inc., a consumer health care products manufacturer	146	Board member of the Illinois Manufacturers' Association; Member of the Board of Visitors, Institute for the Humanities, University of Michigan
James T. Bunch – 1942 Trustee	2000	Managing Member, Grumman Hill Group LLC (family office/private equity investments) Formerly: Chairman of the Board of Trustees, Evans Scholars Foundation and Chairman, Board of Governors, Western Golf Association	146	Trustee, Evans Scholars Foundation; and Chairman of the Board, Denver Film Society
Albert R. Dowden – 1941 Trustee	2003	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)	146	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	2003	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	146	Insperity, Inc. (formerly known as Administaff)
Eli Jones – Trustee	2016	Professor and Dean, Mays Business School, Texas A&M University Formerly: Professor and Dean, Walton College of Business, University of Arkansas, and E.J. Ourso College of Business, Louisiana State University	146	Director, Insperity, Inc., (2011-present) and ARVEST Bank (2012-2015)
Prema Mathai-Davis – 1950 Trustee	2003	Retired. Formerly: Chief Executive Officer, YWCA of the U.S.A.	146	None
Larry Soll – 1942 Trustee	1997	Retired. Formerly: Chairman, Chief Executive Officer and President, Synergen Corp. (a biotechnology company)	146	None
Robert C. Troccoli – Trustee	2016	Retired. Formerly: Senior Partner, KPMG LLP	146	None
Raymond Stickel, Jr. – 1944 Trustee	2005	Retired. Formerly: Director, Mainstay VP Series Funds, Inc. (25 portfolios) and Partner, Deloitte & Touche	146	None
Suzanne H. Woolsey – 1941 Trustee	2014	Chief Executive Officer of Woolsey Partners LLC	146	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

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				
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.); Senior Vice President, Chief Legal Officer and Secretary, The Invesco Funds; Managing Director, 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, Vice President and Secretary, IVZ Distributors, Inc. (formerly known as INVESCO distributors, Inc.); Director and Vice President, INVESCO Funds Group, Inc.; 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	2003	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

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	2003	Senior Managing Director, Investments, Invesco Ltd.; 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; Vice President, The Invesco Funds (other than AIM Treasurer's Series Trust (Invesco Treasurer's Series Trust), Short-Term Investments Trust and Invesco Management Trust); and President and Principal Executive Officer, The Invesco Funds (AIM Treasurer's Series Trust (Invesco Treasurer's Series Trust), Short-Term Investments Trust and Invesco Management Trust only) Formerly: Director and President, INVESCO Asset Management (Bermuda) Ltd., 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; Anti-Money Laundering Compliance Officer and Bank Secrecy Act Officer, INVESCO National Trust Company and Invesco Trust Company; and Fraud Prevention Manager and Controls and Risk Analysis Manager for Invesco Investment Services, Inc.	N/A	N/A
Lisa O. Brinkley – 1959 Chief Compliance Officer	2015	Senior Vice President and Chief Compliance Officer, Invesco Advisers, Inc. (registered investment adviser) (formerly known as Invesco Institutional (N.A., Inc.); and Chief Compliance Officer, The Invesco Funds Formerly: Global Assurance Officer, Invesco Ltd. and Vice President, The Invesco Funds; Chief Compliance Officer, Invesco Distributors, Inc. (formerly known as Invesco Aim Distributors, Inc.), Invesco Investment Services, Inc.(formerly known as Invesco Aim Investment Services, Inc.) and Van Kampen Investor Services Inc.; Senior Vice President, Invesco Management Group, Inc.; Senior Vice President and Chief Compliance Officer, Invesco Advisers, Inc. and The Invesco Funds; Vice President and Chief Compliance Officer, Invesco Aim Capital Management, Inc. and Invesco Distributors, Inc.; Vice President, Invesco Investment Services, Inc. and Fund Management Company	N/A	N/A

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
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11 Greenway Plaza, Suite 1000
Houston, TX 77046-1173

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

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ANNUAL REPORT
December 31, 2015

Janus Aspen Forty Portfolio

Janus Aspen Series

HIGHLIGHTS

- Portfolio management perspective
- Investment strategy behind your fund
- Portfolio performance, characteristics and holdings

JANUS®

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Janus Aspen Forty Portfolio

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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, 2015, Janus Aspen Forty Portfolio's Institutional Shares and Service Shares returned 12.22% and 11.94%, respectively, versus a return of 5.67% for the Portfolio's primary benchmark, the Russell 1000 Growth Index. The Portfolio's secondary benchmark, the S&P 500 Index, returned 1.38% for the period.

INVESTMENT ENVIRONMENT

The multi-year equities rally encountered significant turbulence during 2015. Cooling growth, weak commodities prices, a surging U.S. dollar and a shift in monetary policy were some of the factors investors had to consider when valuing stock portfolios. Volatility began early in the year as the slide in crude prices started being considered a potential harbinger for sagging demand rather than solely a consequence of overproduction. Global volatility was in the minds of Federal Reserve (Fed) officials when they chose to delay raising interest rates at their September meeting. However, improving U.S. employment data later led to a consensus that rates would indeed rise by the end of the year, and investors digested their first hike in nearly a decade with relative ease. Although markets were again roiled late year by energy prices coming under renewed pressure, bringing back the prospect that global growth may fall short of projections, large caps ended the year up.

PERFORMANCE DISCUSSION

The Portfolio outperformed both its primary benchmark, the Russell 1000 Growth Index, and its secondary benchmark, the S&P 500 Index, during the period. As part of our investment strategy, we seek companies that have built clear, sustainable competitive moats around their businesses, which 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 these sustainable competitive advantages can be a meaningful driver of outperformance over longer time horizons because the market often underestimates the duration of growth for these companies and the long-term potential return to shareholders. During the year, we saw a number of companies in our portfolio put up impressive results, further validating our view that they are well positioned to grow in excess of the market.

Amazon was the largest individual contributor to performance. The company benefited as its gross merchandise volume (GMV) sales accelerated. Continued improvements in operating leverage in its core retail business also aided results. We believe Amazon is a good example of the types of competitively advantaged companies we tend to seek in our portfolio. Amazon has already 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, Amazon's cloud business, Amazon Web Services, has come to market with scale and a disruptive pricing model for businesses seeking cloud-based services, and has continued to experience rapid growth.

Alphabet Inc., formerly known as Google, was also a strong contributor to performance. The company continued to benefit from the acceleration of its core business. Strong earnings also continued to indicate that the company is well positioned to consolidate advertising spending as advertising becomes increasingly connected and personalized, and as it transitions from offline channels such as print and television to more measurable online channels such as mobile and online video. The market continued to be encouraged by the new CFO's focus on expense discipline. The stock also benefited from increased visibility of the monetization of YouTube after the completion of Google's restructuring under

Alphabet. As the network effects around Alphabet's advertising business and Android ecosystem grow, we believe it further deepens the company's competitive moat and enables it to better understand users' context and intent and connect those users with suppliers of products and services.

Pharmacyclics was another top contributor to performance during the period. The stock was up significantly in the first quarter after it was announced that AbbVie had won a bidding war to acquire the company. The high interest Pharmacyclics received from other companies bidding for it validated our view that its blood cancer treatments are truly innovative and offer significant growth potential. We sold the stock after the announcement.

While pleased with our performance during the year, we did hold companies that detracted from performance. Canadian Pacific Railway was a large detractor. Softer rail volumes due to a weaker commodity market had a broad impact on the railroad industry, and Canadian Pacific was not immune to the slowdown. However, we continue to have a high level of conviction in the long-term potential of the company. 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 Canadian Pacific can continue to grow revenues and railroad volumes as it improves execution around its railroad network. The company has made substantial investments to improve its service and reliability to customers, and as service improves, which should drive more shippers to use Canadian Pacific instead of trucking services.

Chipotle Mexican Grill also detracted after news about food-related illnesses created volatility and headwinds for the company during the period. However, we continue to like the stock; we believe Chipotle's higher throughput rates, which have led to higher unit economics at each store, still separate it from most competitors in the fast-food or fast-casual industry. We believe that, in time, the company will be able to re-establish its reputation for food integrity.

Alibaba also detracted. The Chinese e-commerce company provides consumer-to-consumer, business-to-consumer and business-to-business sales services via Web and mobile platforms. The weakness of the Chinese economy weighed on the stock's performance and we exited our position during the period.

OUTLOOK

We believe that volatility will stay elevated amid continuing questions about global economic growth. While household balance sheets are strong and improving employment and early signs of wage growth are supportive of U.S consumer spending, the modern consumer is also sober minded, as shown by their long-term focus on using savings from cheaper gas and utilities to build up their personal savings. We expect this mindset to continue for the foreseeable future.

While there are concerns about the global economy, we think it underscores the importance of finding those select companies with truly sustainable competitive advantages that can take market share and continue to grow earnings, even without the backdrop of a strong global economy. Such companies are more appreciated in a world where growth is harder to come by, as they can create their own path to creating value.

Thank you for your investment in Janus Aspen Forty Portfolio.

Janus Aspen Forty Portfolio (unaudited)
Portfolio At A Glance
December 31, 2015

5 Top Performers - Holdings

	Contribution
Casey's General Stores, Inc.	2.47%
Amazon.com, Inc.	2.03%
Alphabet Inc. - Class C	1.31%
Pharmacyclics, Inc.	1.21%
Starbucks Corp.	1.05%

5 Bottom Performers - Holdings

	Contribution
Canadian Pacific Railway Limited	-1.16%
Chipotle Mexican Grill, Inc.	-0.99%
Alibaba Group Holding Ltd. Sponsored ADR	-0.70%
Precision Castparts Corp.	-0.64%
Biogen Inc.	-0.40%

5 Top Performers - Sectors*

	Portfolio Contribution	Portfolio Weighting (Average % of Equity)	Russell 1000® Growth Index Weighting
Health Care	2.46%	17.64%	15.88%
Consumer Discretionary	2.43%	26.07%	20.02%
Information Technology	1.17%	26.69%	28.15%
Materials	1.03%	2.85%	3.79%
Financials	1.00%	12.68%	5.33%

5 Bottom Performers - Sectors*

	Portfolio Contribution	Portfolio Weighting (Average % of Equity)	Russell 1000® Growth Index Weighting
Consumer Discretionary	-0.69%	0.25%	10.74%
Industrials	-0.46%	9.46%	11.37%
Other**	-0.30%	3.43%	0.00%
Utilities	0.02%	0.00%	0.06%
Telecommunication Services	0.18%	0.30%	2.07%

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 ("GICS") codes, which are the exclusive property and a service mark of MSCI Inc. and Standard & Poor's.

** Not a GICS classified sector.

Janus Aspen Forty Portfolio (unaudited)
Portfolio At A Glance
December 31, 2015

5 Largest Equity Holdings - (% of Net Assets)

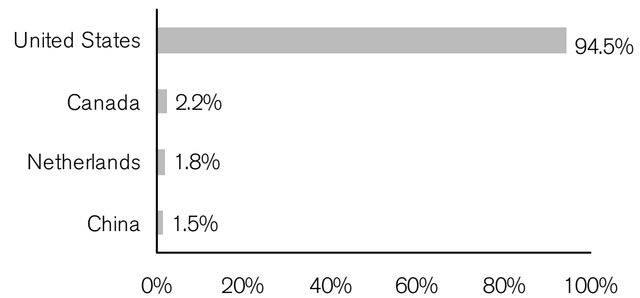
Alphabet, Inc. - Class C	
Internet Software & Services	6.1%
Lowe's Cos., Inc.	
Specialty Retail	4.8%
General Electric Co.	
Industrial Conglomerates	4.1%
MasterCard, Inc. - Class A	
Information Technology Services	4.0%
Adobe Systems, Inc.	
Software	3.7%
	22.7%

Asset Allocation - (% of Net Assets)

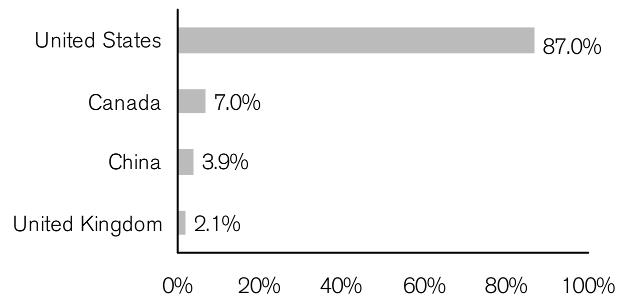
Common Stocks	97.0%
Investment Companies	3.1%
Other	(0.1)%
	100.0%

Top Country Allocations - Long Positions - (% of Investment Securities)

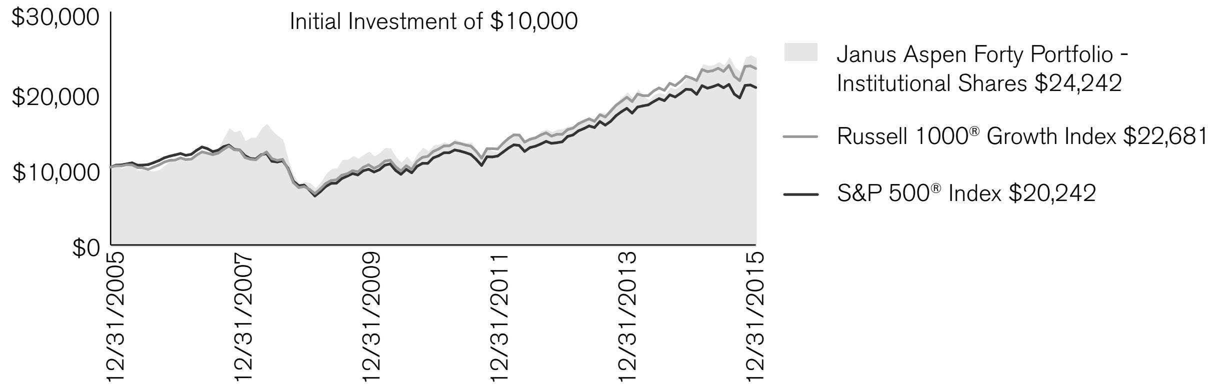
As of December 31, 2015



As of December 31, 2014



Janus Aspen Forty Portfolio (unaudited)
Performance



Average Annual Total Return - for the periods ended December 31, 2015					Expense Ratios - per the May 1, 2015 prospectuses
	One Year	Five Year	Ten Year	Since Inception*	Total Annual Fund Operating Expenses
Institutional Shares	12.22%	13.15%	9.26%	11.02%	0.57%
Service Shares	11.94%	12.87%	8.99%	10.71%	0.82%
Russell 1000® Growth Index	5.67%	13.53%	8.53%	6.61%	
S&P 500® Index	1.38%	12.57%	7.31%	7.13%	
Morningstar Quartile - Institutional Shares	1st	1st	1st	1st	
Morningstar Ranking - based on total returns for Large Growth Funds	15/1,745	361/1,548	116/1,331	17/741	

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, lower liquidity 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.

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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.

See important disclosures on the next page.

Janus Aspen Forty Portfolio (unaudited)
Performance

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

Janus Aspen Forty Portfolio (unaudited)
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, such as any charges at the separate account level or contract level. 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 (7/1/15)	Ending Account Value (12/31/15)	Expenses Paid During Period (7/1/15 - 12/31/15)†	Beginning Account Value (7/1/15)	Ending Account Value (12/31/15)	Expenses Paid During Period (7/1/15 - 12/31/15)†	Net Annualized Expense Ratio (7/1/15 - 12/31/15)
Institutional Shares	$1,000.00	$1,038.50	$3.55	$1,000.00	$1,021.73	$3.52	0.69%
Service Shares	$1,000.00	$1,037.30	$4.88	$1,000.00	$1,020.42	$4.84	0.95%

† 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
December 31, 2015

	Shares	Value
Common Stocks – 97.0%		
Auto Components – 1.2%		
Delphi Automotive PLC	110,403	$9,464,849
Automobiles – 0.8%		
Tesla Motors, Inc.*	28,037	6,729,160
Biotechnology – 7.8%		
Amgen, Inc.	156,550	25,412,761
Celgene Corp.*	164,836	19,740,759
Regeneron Pharmaceuticals, Inc.*	31,539	17,121,577
		62,275,097
Capital Markets – 4.1%		
Charles Schwab Corp.	323,118	10,640,276
E*TRADE Financial Corp.*	732,151	21,700,956
		32,341,232
Commercial Banks – 2.8%		
US Bancorp	520,892	22,226,462
Construction Materials – 2.8%		
Vulcan Materials Co.	237,016	22,509,410
Consumer Finance – 1.8%		
Synchrony Financial*	477,389	14,517,399
Diversified Financial Services – 2.6%		
Intercontinental Exchange, Inc.	82,257	21,079,179
Food & Staples Retailing – 1.8%		
Costco Wholesale Corp.	89,163	14,399,824
Health Care Equipment & Supplies – 2.4%		
Boston Scientific Corp.*	1,023,484	18,873,045
Hotels, Restaurants & Leisure – 7.6%		
Chipotle Mexican Grill, Inc.*	40,531	19,448,800
Norwegian Cruise Line Holdings, Ltd.*	397,003	23,264,376
Starbucks Corp.	291,393	17,492,322
		60,205,498
Industrial Conglomerates – 4.1%		
General Electric Co.	1,035,125	32,244,144
Information Technology Services – 4.0%		
MasterCard, Inc. - Class A	327,413	31,876,930
Internet & Catalog Retail – 7.3%		
Amazon.com, Inc.*	36,511	24,677,420
Ctrip.com International, Ltd. (ADR)*	261,982	12,137,626
Priceline Group, Inc.*	16,738	21,340,113
		58,155,159
Internet Software & Services – 11.5%		
Alphabet, Inc. - Class C	64,479	48,931,823
CoStar Group, Inc.*	98,349	20,327,755
Facebook, Inc. - Class A*	214,474	22,446,849
		91,706,427
Pharmaceuticals – 6.1%		
Bristol-Myers Squibb Co.	334,705	23,024,357
Zoetis, Inc.	526,336	25,222,021
		48,246,378
Professional Services – 3.1%		
Nielsen Holdings PLC	531,940	24,788,404
Real Estate Investment Trusts (REITs) – 2.8%		
Crown Castle International Corp.	256,023	22,133,188
Road & Rail – 2.2%		
Canadian Pacific Railway, Ltd. (U.S. Shares)	136,946	17,474,310
Semiconductor & Semiconductor Equipment – 1.8%		
NXP Semiconductor NV*	174,083	14,666,493
Software – 8.0%		
Adobe Systems, Inc.*	316,907	29,770,243
Salesforce.com, Inc.*	307,693	24,123,131

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

Janus Aspen Forty Portfolio
Schedule of Investments
December 31, 2015

	Shares	Value
Common Stocks – (continued)		
Software – (continued)		
Workday, Inc. - Class A*	120,450	$9,597,456
		63,490,830
Specialty Retail – 8.0%		
Advance Auto Parts, Inc.	117,407	17,670,928
Lowe's Cos., Inc.	499,089	37,950,728
TJX Cos., Inc.	116,507	8,261,511
		63,883,167
Technology Hardware, Storage & Peripherals – 2.4%		
Apple, Inc.	182,489	19,208,792
Total Common Stocks (cost $602,378,484)		772,495,377
Investment Companies – 3.1%		
Money Markets – 3.1%		
Janus Cash Liquidity Fund LLC, 0.3105%[oo,£] (cost $24,691,025)	24,691,025	24,691,025
Total Investments (total cost $627,069,509) – 100.1%		797,186,402
Liabilities, net of Cash, Receivables and Other Assets – (0.1)%		(457,568)
Net Assets – 100%		$796,728,834

Summary of Investments by Country - (Long Positions) (unaudited)

Country	*Value*	*% of Investment Securities*
United States	$752,907,974	94.5 %
Canada	17,474,310	2.2
Netherlands	14,666,493	1.8
China	12,137,626	1.5
Total	$797,186,403	100.0 %

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

Russell 1000® Growth Index	Measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
S&P 500® Index	Measures 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.

ºº Rate shown is the 7-day yield as of December 31, 2015.

£ 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, 2015. Unless otherwise indicated, all information in the table is for the year ended December 31, 2015.

	Share Balance at 12/31/14	*Purchases*	*Sales*	*Share Balance at 12/31/15*	*Dividend Income*	*Value at 12/31/15*
Janus Cash Liquidity Fund LLC	18,546,315	309,351,610	(303,206,900)	24,691,025	$ 36,825	$ 24,691,025

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, 2015. See Notes to Financial Statements for more information.

Valuation Inputs Summary

	Level 1 - Quoted Prices	***Level 2 - Other Significant Observable Inputs***	***Level 3 - Significant Unobservable Inputs***
Assets			
Investments in Securities:			
Common Stocks	$ 772,495,377	$ -	$ -
Investment Companies	-	24,691,025	-
Total Assets	$ 772,495,377	$ 24,691,025	$ -

Janus Aspen Forty Portfolio
Statement of Assets and Liabilities
December 31, 2015

Assets:		
Investments, at cost	$	627,069,509
Unaffiliated investments, at value	$	772,495,377
Affiliated investments, at value		24,691,025
Cash		591
Non-interested Trustees' deferred compensation		16,127
Receivables:		
Dividends		528,372
Portfolio shares sold		143,057
Foreign tax reclaims		68,884
Dividends from affiliates		6,179
Other assets		7,840
Total Assets		797,957,452
Liabilities:		
Payables:		
Advisory fees		476,858
Portfolio shares repurchased		433,035
12b-1 Distribution and shareholder servicing fees		117,013
Postage fees		57,170
Printing fees		53,000
Professional fees		35,334
Non-interested Trustees' deferred compensation fees		16,127
Portfolio administration fees		7,078
Non-interested Trustees' fees and expenses		4,587
Custodian fees		3,384
Transfer agent fees and expenses		547
Accrued expenses and other payables		24,485
Total Liabilities		1,228,618
Net Assets	$	796,728,834
Net Assets Consist of:		
Capital (par value and paid-in surplus)	$	524,549,471
Undistributed net investment income/(loss)		(16,127)
Undistributed net realized gain/(loss) from investments and foreign currency transactions		102,080,853
Unrealized net appreciation/(depreciation) of investments, foreign currency translations and non-interested Trustees' deferred compensation		170,114,637
Total Net Assets	$	796,728,834
Net Assets - Institutional Shares	$	295,725,406
Shares Outstanding, $0.01 Par Value (unlimited shares authorized)		8,130,623
Net Asset Value Per Share	$	36.37
Net Assets - Service Shares	$	501,003,428
Shares Outstanding, $0.01 Par Value (unlimited shares authorized)		14,280,847
Net Asset Value Per Share	$	35.08

See Notes to Financial Statements.

Janus Aspen Forty Portfolio
Statement of Operations
For the year ended December 31, 2015

Investment Income:		
Dividends	$	5,603,044
Dividends from affiliates		36,825
Other income		427
Foreign tax withheld		(66,797)
Total Investment Income		5,573,499
Expenses:		
Advisory fees		5,265,418
12b-1Distribution and shareholder servicing fees:		
Service Shares		1,261,640
Other transfer agent fees and expenses:		
Institutional Shares		2,180
Service Shares		2,148
Portfolio administration fees		69,313
Professional fees		48,955
Registration fees		37,350
Custodian fees		21,870
Non-interested Trustees' fees and expenses		18,687
Shareholder reports expense		4,436
Other expenses		58,514
Total Expenses		6,790,511
Net Investment Income/(Loss)		(1,217,012)
Net Realized Gain/(Loss) on Investments:		
Investments and foreign currency transactions		103,601,643
Total Net Realized Gain/(Loss) on Investments		103,601,643
Change in Unrealized Net Appreciation/Depreciation:		
Investments, foreign currency translations and non-interested Trustees' deferred compensation		(11,093,868)
Total Change in Unrealized Net Appreciation/Depreciation		(11,093,868)
Net Increase/(Decrease) in Net Assets Resulting from Operations	$	91,290,763

See Notes to Financial Statements.

Janus Aspen Forty Portfolio
Statements of Changes in Net Assets

		Year ended December 31, 2015		Year ended December 31, 2014
Operations:				
Net investment income/(loss)	$	(1,217,012)	$	(637,518)
Net realized gain/(loss) on investments		103,601,643		160,492,743
Change in unrealized net appreciation/depreciation		(11,093,868)		(96,604,872)
Net Increase/(Decrease) in Net Assets Resulting from Operations		91,290,763		63,250,353
Dividends and Distributions to Shareholders:				
Institutional Shares		—		(503,982)
Service Shares		—		(154,665)
Total Dividends from Net Investment Income		—		(658,647)
Distributions from Net Realized Gain from Investment Transactions				
Institutional Shares		(57,445,111)		(93,285,383)
Service Shares		(102,554,820)		(152,735,352)
Total Distributions from Net Realized Gain from Investment Transactions		(159,999,931)		(246,020,735)
Net Decrease from Dividends and Distributions to Shareholders		(159,999,931)		(246,679,382)
Capital Share Transactions:				
Institutional Shares		18,828,189		13,703,390
Service Shares		54,810,568		79,125,154
Net Increase/(Decrease) from Capital Share Transactions		73,638,757		92,828,544
Net Increase/(Decrease) in Net Assets		4,929,589		(90,600,485)
Net Assets:				
Beginning of period		791,799,245		882,399,730
End of period	$	796,728,834	$	791,799,245
Undistributed Net Investment Income/(Loss)	$	(16,127)	$	(16,251)

See Notes to Financial Statements.

Janus Aspen Forty Portfolio
Financial Highlights

Institutional Shares

For a share outstanding during each year ended December 31	2015	2014	2013	2012	2011
Net Asset Value, Beginning of Period	$40.27	$53.34	$40.95	$33.22	$35.74
Income/(Loss) from Investment Operations:					
Net investment income/(loss)	0.03(1)	0.03(1)	0.38	0.47	0.23
Net realized and unrealized gain/(loss)	4.77	3.08	12.34	7.54	(2.62)
Total from Investment Operations	4.80	3.11	12.72	8.01	(2.39)
Less Dividends and Distributions:					
Dividends (from net investment income)	—	(0.09)	(0.33)	(0.28)	(0.13)
Distributions (from capital gains)	(8.70)	(16.09)	—	—	—
Total Dividends and Distributions	(8.70)	(16.18)	(0.33)	(0.28)	(0.13)
Net Asset Value, End of Period	$36.37	$40.27	$53.34	$40.95	$33.22
Total Return*	12.22%	8.73%	31.23%	24.16%	(6.69)%
Net Assets, End of Period (in thousands)	$295,725	$299,546	$355,429	$488,374	$459,459
Average Net Assets for the Period (in thousands)	$298,904	$307,359	$491,231	$512,799	$518,818
Ratios to Average Net Assets**:					
Ratio of Gross Expenses	0.69%	0.57%	0.55%	0.55%	0.70%
Ratio of Net Expenses (After Waivers and Expense Offsets)	0.69%	0.57%	0.55%	0.55%	0.70%
Ratio of Net Investment Income/(Loss)	0.08%	0.07%	0.31%	1.03%	0.56%
Portfolio Turnover Rate	55%	46%	61%	10%	46%

Service Shares

For a share outstanding during each year ended December 31	2015	2014	2013	2012	2011
Net Asset Value, Beginning of Period	$39.21	$52.40	$40.28	$32.72	$35.24
Income/(Loss) from Investment Operations:					
Net investment income/(loss)	(0.06)(1)	(0.07)(1)	—(2)	0.31	0.09
Net realized and unrealized gain/(loss)	4.63	2.99	12.38	7.47	(2.52)
Total from Investment Operations	4.57	2.92	12.38	7.78	(2.43)
Less Dividends and Distributions:					
Dividends (from net investment income)	—	(0.02)	(0.26)	(0.22)	(0.09)
Distributions (from capital gains)	(8.70)	(16.09)	—	—	—
Total Dividends and Distributions	(8.70)	(16.11)	(0.26)	(0.22)	(0.09)
Net Asset Value, End of Period	$35.08	$39.21	$52.40	$40.28	$32.72
Total Return*	11.94%	8.47%	30.89%	23.82%	(6.91)%
Net Assets, End of Period (in thousands)	$501,003	$492,253	$526,971	$471,002	$417,408
Average Net Assets for the Period (in thousands)	$501,868	$493,575	$486,845	$468,967	$475,743
Ratios to Average Net Assets**:					
Ratio of Gross Expenses	0.94%	0.82%	0.81%	0.80%	0.95%
Ratio of Net Expenses (After Waivers and Expense Offsets)	0.94%	0.82%	0.81%	0.80%	0.95%
Ratio of Net Investment Income/(Loss)	(0.17)%	(0.17)%	0.04%	0.81%	0.31%
Portfolio Turnover Rate	55%	46%	61%	10%	46%

* Total return not annualized for periods of less than one full year.
** Annualized for periods of less than one full year.
(1) Per share amounts are calculated based on average shares outstanding during the year or period.
(2) Less than $0.005 on a per share basis.

See Notes to Financial Statements.

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 currently offers two classes of shares: Institutional Shares and Service Shares. Each class represents an interest in the same portfolio of investments. 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 (and which may differ from control as determined in accordance with accounting principles generally accepted in the United States of America).

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. 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. Certain short-term securities maturing within 60 days or less may be evaluated and valued on an amortized cost basis provided that the amortized cost determined approximates market value. 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.

Valuation Inputs Summary

FASB ASC 820, Fair Value Measurements and Disclosures ("ASC 820"), defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements regarding 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 and establishes a hierarchy that prioritizes inputs to valuation techniques used to measure fair value. These inputs are summarized into three broad levels:

Level 1 – Unadjusted quoted prices in active markets the Portfolio has the ability to access for identical assets or liabilities.

Level 2 – Observable inputs other than unadjusted quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.

Assets or liabilities categorized as Level 2 in the hierarchy generally include: debt securities fair valued in accordance with the evaluated bid or ask prices supplied by a pricing service; securities traded on OTC markets and listed securities for which no sales are reported that are fair 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; certain short-term debt securities with maturities of 60 days or less that are fair valued at amortized cost; and equity securities of foreign issuers whose fair value is determined by using systematic fair valuation models provided by independent third parties in order to adjust for stale pricing which may occur between the close of certain foreign exchanges and the close of the NYSE. 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.

Level 3 – Unobservable inputs for the asset or liability to the extent that relevant observable inputs are not available, representing the Portfolio's own assumptions about the assumptions that a market participant would use in valuing the asset or liability, and that would be based on the best information available.

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 fair 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, 2015 to fair 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.

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 Portfolio 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, counterparty risk, political and economic risk, regulatory risk and equity risk. Risks may arise from unanticipated movements in the value of foreign currencies relative to the U.S. dollar.

Dividends and 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.

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 could each 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") 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 expanded 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.

A number of countries in the European Union ("EU") have experienced, and may continue to experience, severe economic and financial difficulties. In particular, many EU nations are susceptible to economic risks associated with high levels of debt, notably due to investments in sovereign debt of countries such as Greece, Italy, Spain, Portugal, and Ireland. Many non-governmental issuers, and even certain governments, have defaulted on, or been forced to restructure, their debts. Many other issuers have faced difficulties obtaining credit or refinancing existing obligations. Financial institutions have in many cases required government or central bank support, have needed to raise capital, and/or have been impaired in their ability to extend credit. As a result, financial markets in the EU 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. Greece, Ireland, and Portugal have already received one or more "bailouts" from other Eurozone member states, and it is unclear how much additional funding they will require or if additional Eurozone member states will require bailouts in the future. One or more countries may abandon the euro and/or withdraw from the EU, placing its currency and banking system in jeopardy.

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 Portfolio's "base" fee rate prior to any performance adjustment (expressed as an annual rate) is 0.64%.

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. The performance adjustment either increases or decreases the base fee depending on how well the Portfolio has performed relative to its benchmark index. The Portfolio's benchmark index used in the calculation is the 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, which is generally the previous 36 months.

The Portfolio's prospectuses and statement(s) 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. For the year ended December 31, 2015, the performance adjusted investment advisory fee rate before any waivers and/or reimbursements of expenses is 0.65%.

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 services including, but not limited to, recordkeeping, accounting, order processing, and other shareholder 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 ("Janus Distributors"), 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 shareholder 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 servicing fees, and the payments may exceed 12b-1 distribution and servicing fees actually incurred. If any of the Portfolio's actual 12b-1 distribution and servicing fees 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 Portfolio's Chief Compliance Officer and compliance staff are shared with the Portfolio. Total compensation of $43,224 was paid to the Chief Compliance Officer and certain compliance staff by the Trust during the year ended December 31, 2015. 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, 2015 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, 2015 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 $317,200 were paid by the Trust to a Trustee under the Deferred Plan during the year ended December 31, 2015.

Pursuant to the provisions of the 1940 Act and related rules, 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 Funds"). 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 Funds. 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 product compliant with Rule 2a-7 under the 1940 Act. 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, 2015 can be found in a table located in the Notes to Schedule of Investments and Other Information.

The Portfolio is permitted to purchase or sell securities ("cross-trade") between itself and other funds or accounts managed by Janus Capital Management LLC in accordance with Rule 17a-7 under the Investment Company Act of 1940 ("Rule 17a-7"), when the transaction is consistent with the investment objectives and policies of the Portfolio and in accordance with the Internal Cross Trade Procedures adopted by the Trust's Board of Trustees. These procedures have been designed to ensure that any cross-trade of securities by the Portfolio from or to another fund or account that is or could be considered an affiliate of the Portfolio under certain limited circumstances by virtue of having a common investment adviser, common Officer, or common Trustee complies with Rule 17a-7. Under these procedures, each cross-trade is effected at the current market price to save costs where allowed. During the year ended December 31, 2015, the Portfolio engaged in cross trades amounting to $30,619,365 in sales, resulting in a net realized gain/loss of $5,861,179. The net realized gain/loss is included in "Investments and foreign currency transactions" within the "Net Realized and Unrealized Gain/(Loss) on Investments" section of the Portfolio's Statement of Operations.

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.

			Loss Deferrals			Net Tax
Undistributed Ordinary Income	*Undistributed Long-Term Gains*	*Accumulated Capital Losses*	*Late-Year Ordinary Loss*	*Post-October Capital Loss*	*Other Book to Tax Differences*	*Appreciation/ (Depreciation)*
$ 6,437,226	$ 95,750,642	$ -	$ -	$ -	$ (18,380)	$170,009,875

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, 2015 are noted below.

Unrealized appreciation and unrealized depreciation in the table below exclude appreciation/depreciation on foreign currency translations. The primary differences between book and tax appreciation or depreciation of investments is wash sale loss deferrals

Federal Tax Cost	*Unrealized Appreciation*	*Unrealized (Depreciation)*	*Net Tax Appreciation/ (Depreciation)*
$ 627,176,527	$183,969,994	$(13,960,119)	$ 170,009,875

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, 2015

Distributions			
From Ordinary Income	*From Long-Term Capital Gains*	*Tax Return of Capital*	*Net Investment Loss*
$ 9,606,802	$ 150,393,129	$ -	$ -

For the year ended December 31, 2014

Distributions			
From Ordinary Income	*From Long-Term Capital Gains*	*Tax Return of Capital*	*Net Investment Loss*
$ 658,647	$ 246,020,735	$ -	$ -

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:

Increase/(Decrease) to Capital	*Increase/(Decrease) to Undistributed Net Investment Income/Loss*	*Increase/(Decrease) to Undistributed Net Realized Gain/Loss*
$ -	$ 1,217,136	$ (1,217,136)

5. Capital Share Transactions

	Year ended December 31, 2015		*Year ended December 31, 2014*	
	Shares	*Amount*	*Shares*	*Amount*
Institutional Shares:				
Shares sold	1,146,883	$ 44,193,370	438,521	$19,546,852
Reinvested dividends and distributions	1,601,927	57,445,111	2,552,786	93,789,365
Shares repurchased	(2,057,242)	(82,810,292)	(2,216,104)	(99,632,827)
Net Increase/(Decrease)	691,568	$ 18,828,189	775,203	$13,703,390
Service Shares:				
Shares sold	1,444,396	$ 53,479,766	568,799	$25,026,559
Reinvested dividends and distributions	2,961,444	102,554,820	4,268,286	152,890,017
Shares repurchased	(2,680,089)	(101,224,018)	(2,338,393)	(98,791,422)
Net Increase/(Decrease)	1,725,751	$ 54,810,568	2,498,692	$79,125,154

6. Purchases and Sales of Investment Securities

For the year ended December 31, 2015, 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:

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*
$423,573,271	$ 516,653,749	$ -	$ -

7. Subsequent Event

Management has evaluated whether any events or transactions occurred subsequent to December 31, 2015 and through the date of issuance of the Portfolio's financial statements and determined that there were material events or transactions that would require recognition or disclosure in the Portfolio's financial statements, as discussed below.

Effective May 1, 2016, the Portfolio pays Janus Services a fee at an annual rate of up to 0.05% of the average daily net assets of the Portfolio's Institutional Shares and Service Shares to compensate insurance companies for services provided to contract owners. Any unused portion will be reimbursed back to the respective share class.

Janus Aspen Forty Portfolio
Independent Auditor's Report

To the Board of Trustees of Janus Aspen Series 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, 2015, 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, 2015 by correspondence with the custodian and transfer agent, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Denver, Colorado
February 12, 2016

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 9, 2015, 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, 2016 through January 1 or February 1, 2017, 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 a number of institutional competitive advantages that should enable it to provide superior investment and service performance 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 Broadridge Financial Solutions, Inc. ("Broadridge"), 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 been strong: for the 36 months ended September 30, 2015, approximately 70% of the Funds were in the top two Broadridge quartiles of performance, and for the 12 months ended September 30, 2015, approximately 61% of the Funds were in the top two Broadridge 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 third Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015. 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 Global Bond Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Global Unconstrained Bond Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 12 months ended May 31, 2015. 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 High-Yield Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015. 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 Multi-Sector Income Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Real Return Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.

- For Janus Short-Term Bond Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Government Money Market Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015. 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 Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. 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 Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Global Allocation Fund – Growth, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. 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 Global Allocation Fund – Moderate, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015.

Alternative Fund

- For Janus Diversified Alternatives Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 12 months ended May 31, 2015.

Value Funds

- For Perkins International Value Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 12 months ended May 31, 2015.
- For Perkins Global Value Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015. 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 Large Cap Value Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. 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 Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. 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 Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile for the 12 months ended May 31, 2015. 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 and Perkins had taken or were taking to improve performance, and that the performance trend was improving.

- For Perkins Small Cap Value Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile for the 12 months ended May 31, 2015. 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 and Perkins had taken or were taking to improve performance, and that the performance trend was improving.
- For Perkins Value Plus Income Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile for the 12 months ended May 31, 2015.

Mathematical Funds

- For INTECH Emerging Markets Managed Volatility Fund, the Trustees noted that, due to limited performance for the Fund, performance history was not a material factor.
- For INTECH Global Income Managed Volatility Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015.
- For INTECH International Managed Volatility Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital and INTECH had taken or were taking to improve performance.
- For INTECH U.S. Core Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile for the 12 months ended May 31, 2015.
- For INTECH U.S. Managed Volatility Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015.

Growth and Core Funds

- For Janus Balanced Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Contrarian Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Enterprise Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Forty Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Growth and Income Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and in the third Broadridge quartile for the 12 months ended May 31, 2015. 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 Research Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.

- For Janus Triton Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Twenty Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. 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 Venture Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.

Global and International Funds

- For Janus Asia Equity Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015. 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 Emerging Markets Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Global Life Sciences Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Global Real Estate Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Global Research Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Global Select Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Global Technology Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015. 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 International Equity Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Overseas Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. 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.

Janus Aspen Series

- For Janus Aspen Balanced Portfolio, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Enterprise Portfolio, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Flexible Bond Portfolio, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Forty Portfolio, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Global Allocation Portfolio – Moderate, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Global Research Portfolio, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2015 and the second Broadridge quartile-for the 12 months ended May 31, 2015.
- For Janus Aspen Global Technology Portfolio, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the third Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Global Unconstrained Bond Portfolio, the Trustees noted that, due to limited performance for the Fund, performance history was not a material factor.
- For Janus Aspen INTECH U.S. Low Volatility Portfolio, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Janus Portfolio, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2015 and the first Broadridge quartile for the 12 months ended May 31, 2015.
- For Janus Aspen Overseas Portfolio, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. 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 Broadridge quartile for the 36 months ended May 31, 2015 and the bottom Broadridge quartile for the 12 months ended May 31, 2015. 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.

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 and subadvisory 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 Broadridge, 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.

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 14% below the mean total expenses of their respective Broadridge Expense Group peers and 24% below the mean total expenses for their Broadridge Expense Universes; (3) management fees for the Funds, on average, were 15% below the mean management fees for their Expense Groups and 19% below the mean for their Expense Universes; and (4) Fund expenses at the functional level for each asset and share class category were reasonable. The Trustees also considered the total expenses for each share class of each Fund compared to the mean total expenses for its Broadridge Expense Group peers and to mean total expenses for its Broadridge 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, breakpoints, and expense waivers 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 and other costs 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) by one estimation methodology, the fee margins implied by Janus Capital's subadvised fees when compared to its mutual fund fees are reasonable relative to the estimated fee margins in the industry and relative to estimated fee margins of fund managers using Janus Capital as a subadviser.

The Trustees considered the fees for each Fund for its fiscal year ended in 2014, 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 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 Global Unconstrained 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 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 Multi-Sector 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 has contractually agreed to limit the Fund's expenses.
- 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 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 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, 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.

Alternative Fund

- 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, although the Fund's total expenses exceeded the peer group mean for one share class, overall the Fund's total expenses were reasonable.

- For Perkins Large Cap 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 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 the Fund's total expenses were below the peer group mean for all share classes.
- For Perkins Value Plus Income 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 had contractually agreed to limit the Fund's expenses.

Mathematical Funds

- For INTECH Emerging Markets Managed Volatility 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 INTECH Global Income Managed Volatility 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, 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 had 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 INTECH U.S. Core 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 INTECH U.S. Managed Volatility Fund, the Trustees noted that the Fund's total expenses exceeded the peer group mean for one share class. The Trustees also noted that Janus Capital had contractually agreed to limit the Fund's expenses.

Growth and Core Funds

- For Janus Balanced 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 Contrarian 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 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 the Fund's total expenses were below the peer group mean for all share classes.

- 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, 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.

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, 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 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 the Fund's total expenses were below the peer group mean for all share classes.
- 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.

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, 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 had contractually agreed to limit the Fund's expenses.
- 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 Global Unconstrained Bond Portfolio, 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 had contractually agreed to limit the Fund's expenses.
- For Janus Aspen INTECH U.S. Low Volatility Portfolio, the Trustees noted that the Fund's total expenses were below the peer group mean for its sole share class.
- 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.

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 and resources 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 reasonable.

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 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 provided an analysis of economies of scale, which included discussion of analysis from 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, their independent fee consultant concluded that 85% of these Funds have contractual management fees (gross of waivers) below their Broadridge expense group averages and, overall, 80% of the Funds are below their respective expense group averages for contractual management fees. 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 some 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.

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, its analyses 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 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 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.

Janus Aspen Forty Portfolio
Useful Information About Your Portfolio Report (unaudited)

Management Commentary

The Management Commentary in this report includes valuable insight 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. A company may be allocated 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, 2015. 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.

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 are not available for investment and do not reflect deduction of expenses.

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.

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).

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.

Janus Aspen Forty Portfolio
Useful Information About Your Portfolio Report (unaudited)

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.

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.

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.

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. The total return does not include any charges at the separate account level or contract level. 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. 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(s) and/or investment personnel. 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.

Janus Aspen Forty Portfolio
Designation Requirements (unaudited)

For federal income tax purposes, the Portfolio designated the following for the year ended December 31, 2015:

Capital Gain Distributions	$150,393,129
Dividends Received Deduction Percentage	39%

Janus Aspen Forty Portfolio
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 58 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	Managing Director, Holos Consulting LLC (provides consulting services to foundations and other nonprofit organizations). Formerly, Chief Executive Officer, Imprint Capital (impact investment firm) (2013-2015) and Executive Vice President and Chief Operating Officer of The Rockefeller Brothers Fund (a private family foundation) (1998-2006).	58	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).

Janus Aspen Forty Portfolio
Trustees and Officers (unaudited)

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
Alan A. Brown 151 Detroit Street Denver, CO 80206 DOB: 1962	Trustee	1/13-Present	Executive Vice President, 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).	58	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).
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).	58	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).

Janus Aspen Forty Portfolio
Trustees and Officers (unaudited)

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
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.	58	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).	58	None

Janus Aspen Forty Portfolio
Trustees and Officers (unaudited)

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
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).	58	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 Advisor, Albright Stonebridge Group LLC (global strategy firm) (since 2016). Formerly, Senior Vice President (2011-2015), Albright Stonebridge Group LLC; and Deputy Comptroller and Chief Investment Officer, New York State Common Retirement Fund (public pension fund) (2008-2011).	N/A	Director of Brightwood Capital Advisors, LLC (since 2014).

* 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.

Janus Aspen Forty Portfolio
Trustees and Officers (unaudited)

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 Co-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	Senior Vice President and Chief Legal Counsel of Janus Capital and Senior Vice President of Janus Services LLC (since 2015). Formerly, Vice President and Assistant General Counsel of Janus Capital, Vice President and Assistant Secretary of Janus Distributors LLC, and Vice President of Janus Services LLC (2007-2015).
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 2013); Executive Vice President and Director of Janus International Holding LLC (since 2011); Executive Vice President of Janus Distributors LLC (since 2011); Executive Vice President and Working Director of INTECH Investment Management LLC (since 2011); Executive Vice President and Director of Perkins Investment Management LLC (since 2011); and Executive Vice President and Director of Janus Management Holdings Corporation (since 2011). Formerly, Executive Vice President of Janus Services LLC (2011-2015), Janus Capital Group Inc. and Janus Capital Management LLC (2011-2013); and Chief Financial Officer of Janus Capital Group Inc., Janus Capital Management LLC, Janus Distributors LLC, Janus Management Holdings Corporation, and Janus Services LLC (2011-2013).
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.

Janus Aspen Forty Portfolio
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.

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Investment products offered are: NOT FDIC-INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

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PIMCO

PIMCO Variable Insurance Trust

Share Classes

- Institutional
- Administrative
- Advisor

PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

This brochure contains the following documents:

- Recent prospectus supplements relating to the above fund(s)
- The Annual Report dated December 31, 2015 (following the supplement(s))

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PIMCO Variable Insurance Trust

Supplement Dated November 6, 2015 to the Administrative Class Prospectus, Institutional Class Prospectus, and Advisor and Class M Prospectus, each dated April 30, 2015, each as supplemented (the "Prospectuses")

Disclosure Related to the PIMCO Foreign Bond Portfolio (Unhedged), PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) and PIMCO Global Bond Portfolio (Unhedged)

PIMCO Foreign Bond Portfolio (Unhedged)

Effective December 1, 2015, the broad-based benchmark index of the PIMCO Foreign Bond Portfolio (Unhedged) is the Barclays Global Aggregate ex-USD (USD Unhedged) Index. Accordingly, the following changes are made.

Effective December 1, 2015, the second sentence of the second paragraph of the "Principal Investment Strategies" section of the PIMCO Foreign Bond Portfolio (Unhedged)'s Portfolio Summary in the Prospectuses is deleted in its entirety and replaced with the following:

The average portfolio duration of this Portfolio normally varies within three years (plus or minus) of the portfolio duration of the securities comprising the Barclays Global Aggregate ex-USD (USD Unhedged) Index, as calculated by PIMCO, which as of September 30, 2015 was 7.39 years.

Additionally, effective December 1, 2015, the second paragraph of the "Performance Information" section of the PIMCO Foreign Bond Portfolio (Unhedged)'s Portfolio Summary in the Prospectuses is deleted in its entirety and replaced with the following:

Effective December 1, 2015, the Portfolio's broad-based securities market index is the Barclays Global Aggregate ex-USD (USD Unhedged) Index. The Barclays Global Aggregate ex-USD (USD Unhedged) Index provides a broad-based measure of the global investment-grade fixed income markets, excluding USD. The two major components of this index are the Pan-European Aggregate and the Asian-Pacific Aggregate Indices. The index also includes Euro-Yen corporate bonds and Canadian Government securities. It is not possible to invest directly in an unmanaged index. The Portfolio's new broad-based securities market index was selected as its use is more closely aligned with the Portfolio's principal investment strategies. Prior to December 1, 2015, the Portfolio's primary benchmark was the JPMorgan GBI Global ex-US FX NY Index Unhedged in USD. The JPMorgan GBI Global ex-U.S. FX NY Index Unhedged in USD is an unmanaged market index representative of the total return performance in U.S. dollars on an unhedged basis of major non-U.S. bond markets.

*Additionally, effective December 1, 2015, the following disclosure is added above the row relating to the JPMorgan GBI Global ex-US FX NY Index Unhedged in USD in the Average Annual Total Returns table in the "Performance Information" section of the PIMCO Foreign Bond Portfolio (Unhedged)'s Portfolio Summary in the **Administrative Class Prospectus**:*

	1 Year	5 Years	Since Inception (04/30/2008)
Barclays Global Aggregate ex-USD (USD Unhedged) Index (reflects no deductions for fees, expenses or taxes)	-3.08%	1.38%	1.88%

Additionally, effective December 1, 2015, the following disclosure is added above the row relating to the JPMorgan GBI Global ex-US FX NY Index Unhedged in USD in the Average Annual Total Returns table in the

"Performance Information" section of the PIMCO Foreign Bond Portfolio (Unhedged)'s Portfolio Summary in the ***Institutional Class Prospectus****:*

	1 Year	Since Inception (04/30/2012)
Barclays Global Aggregate ex-USD (USD Unhedged) Index (reflects no deductions for fees, expenses or taxes)	-3.08%	-1.72%

Additionally, effective December 1, 2015, the following disclosure is added above the row relating to the JPMorgan GBI Global ex-US FX NY Index Unhedged in USD in the Average Annual Total Returns table in the "Performance Information" section of the PIMCO Foreign Bond Portfolio (Unhedged)'s Portfolio Summary in the ***Advisor and Class M Prospectus****:*

	1 Year	5 Years	Since Inception (03/31/2009)
Barclays Global Aggregate ex-USD (USD Unhedged) Index (reflects no deductions for fees, expenses or taxes)	-3.08%	1.38%	3.48%

PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

Effective December 1, 2015, the broad-based benchmark index of the PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) is the Barclays Global Aggregate ex-USD (USD Hedged) Index. Accordingly, the following changes are made.

Effective December 1, 2015, the third sentence of the second paragraph of the "Principal Investment Strategies" section of the PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)'s Portfolio Summary in the Prospectuses is deleted in its entirety and replaced with the following:

The average portfolio duration of this Portfolio normally varies within three years (plus or minus) of the portfolio duration of the securities comprising the Barclays Global Aggregate ex-USD (USD Hedged) Index, as calculated by PIMCO, which as of September 30, 2015 was 7.39 years.

Additionally, effective December 1, 2015, the second paragraph of the "Performance Information" section of the PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)'s Portfolio Summary in the Prospectuses is deleted in its entirety and replaced with the following:

Effective December 1, 2015, the Portfolio's broad-based securities market index is the Barclays Global Aggregate ex-USD (USD Hedged) Index. The Barclays Global Aggregate ex-USD (USD Hedged) Index provides a broad-based measure of the global investment-grade fixed income markets, excluding USD. The two major components of this index are the Pan-European Aggregate and the Asian-Pacific Aggregate Indices. The index also includes Euro-Yen corporate bonds and Canadian Government securities. It is not possible to invest directly in an unmanaged index. The Portfolio's new broad-based securities market index was selected as its use is more closely aligned with the Portfolio's principal investment strategies. Prior to December 1, 2015, the Portfolio's primary benchmark was the JPMorgan GBI Global ex-U.S. Index Hedged in USD. The JPMorgan GBI Global ex-U.S. 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.

Additionally, effective December 1, 2015, the following disclosure is added above the row relating to the JPMorgan GBI Global ex-U.S. Index Hedged in USD in the Average Annual Total Returns table in the "Performance Information" section of the PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)'s Portfolio Summary in the Prospectuses:

	1 Year	5 Years	10 Years
Barclays Global Aggregate ex-USD (USD Hedged) Index (reflects no deductions for fees, expenses or taxes)	8.79%	4.70%	4.65%

PIMCO Global Bond Portfolio (Unhedged)

Effective December 1, 2015, the broad-based benchmark index of the PIMCO Global Bond Portfolio (Unhedged) is the Barclays Global Aggregate (USD Unhedged) Index. Accordingly, the following changes are made.

Effective December 1, 2015, the fourth sentence of the second paragraph of the "Principal Investment Strategies" section of the PIMCO Global Bond Portfolio (Unhedged)'s Portfolio Summary in the Prospectuses is deleted in its entirety and replaced with the following:

The average portfolio duration of this Portfolio normally varies within three years (plus or minus) of the portfolio duration of the securities comprising the Barclays Global Aggregate (USD Unhedged) Index, as calculated by PIMCO, which as of September 30, 2015 was 6.42 years.

Additionally, effective December 1, 2015, the second paragraph of the "Performance Information" section of the PIMCO Global Bond Portfolio (Unhedged)'s Portfolio Summary in the Prospectuses is deleted in its entirety and replaced with the following:

Effective December 1, 2015, the Portfolio's broad-based securities market index is the Barclays Global Aggregate (USD Unhedged) Index. The Barclays Global Aggregate (USD Unhedged) Index provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the U.S. Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian Government securities, and USD investment grade 144A securities. It is not possible to invest directly in an unmanaged index. The Portfolio's new broad-based securities market index was selected as its use is more closely aligned with the Portfolio's principal investment strategies. Prior to December 1, 2015, the Portfolio's primary benchmark was the JPMorgan GBI Global FX NY Index Unhedged in USD. The JPMorgan GBI Global FX NY Index Unhedged in USD is an unmanaged market index representative of the total return performance in U.S. dollars on an unhedged basis of major world bond markets.

Additionally, effective December 1, 2015, the following disclosure is added above the row relating to the JPMorgan GBI Global FX NY Index Unhedged in USD in the Average Annual Total Returns table in the "Performance Information" section of the PIMCO Global Bond Portfolio (Unhedged)'s Portfolio Summary in the ***Administrative Class Prospectus****:*

	1 Year	5 Years	10 Years
Barclays Global Aggregate (USD Unhedged) Index (reflects no deductions for fees, expenses or taxes)	0.59%	2.65%	3.60%

Additionally, effective December 1, 2015, the following disclosure is added above the row relating to the JPMorgan GBI Global FX NY Index Unhedged in USD in the Average Annual Total Returns table in the "Performance Information" section of the PIMCO Global Bond Portfolio (Unhedged)'s Portfolio Summary in the ***Institutional Class Prospectus****:*

	1 Year	5 Years	Since Inception (01/31/2006)
Barclays Global Aggregate (USD Unhedged) Index (reflects no deductions for fees, expenses or taxes)	0.59%	2.65%	4.43%

Additionally, effective December 1, 2015, the following disclosure is added above the row relating to the JPMorgan GBI Global FX NY Index Unhedged in USD in the Average Annual Total Returns table in the

"Performance Information" section of the PIMCO Global Bond Portfolio (Unhedged)'s Portfolio Summary in the ***Advisor and Class M Prospectus****:*

	1 Year	**5 Years**	**Since Inception (10/31/2006)**
Barclays Global Aggregate (USD Unhedged) Index (reflects no deductions for fees, expenses or taxes)	0.59%	2.65%	4.32%

Investors Should Retain This Supplement For Future Reference

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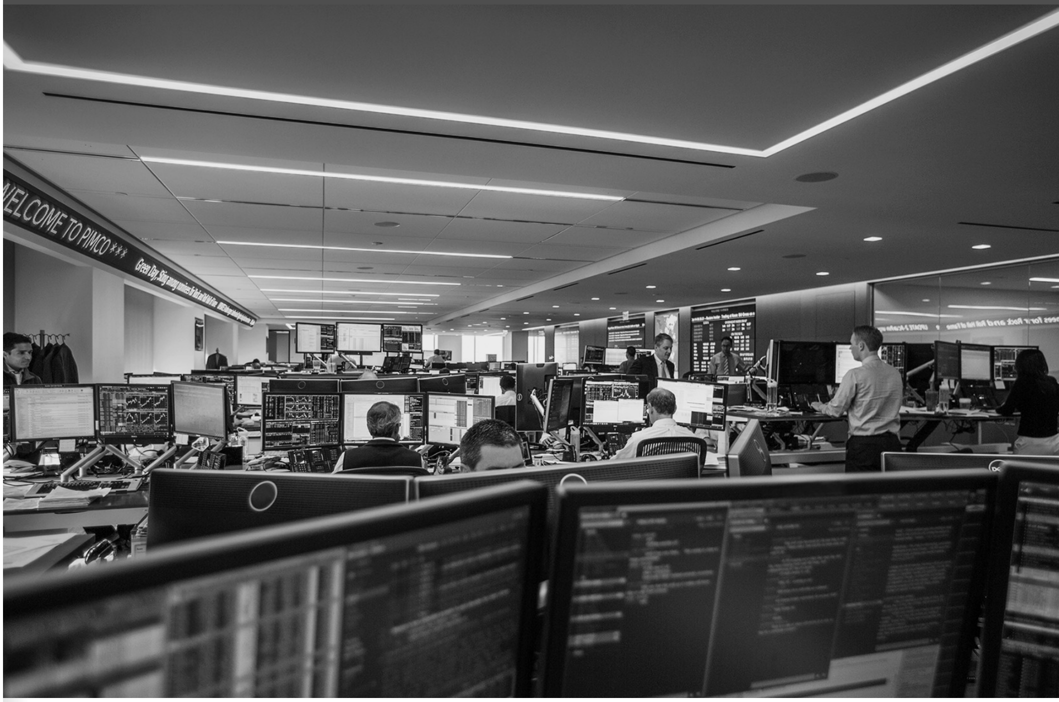
This supplement is not part of the Annual Report and is not authorized for distribution to prospective investors unless preceded or accompanied by a current prospectus.

PIMCO

Annual Report

December 31, 2015



PIMCO Variable Insurance Trust

PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

Share Classes

- Institutional
- Administrative
- Advisor

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This material is authorized for use only when preceded or accompanied by the current PIMCO Variable Insurance Trust (the “Trust”) prospectus for the Portfolio. (The variable product prospectus may be obtained by contacting your Investment Consultant.)

Dear PIMCO Variable Insurance Trust Shareholder,

Please find enclosed the Annual Report for the PIMCO Variable Insurance Trust covering the twelve-month reporting period ended December 31, 2015. The following pages contain specific details about the Portfolio's investment performance and a discussion of the factors that most affected performance over the reporting period.

Heightened market volatility throughout the reporting period was sparked by a mix of investor concerns including geopolitical developments, monetary policy and the potential for slowing global economic growth, which generally contributed to dampened investor sentiment. In particular, increasing concern over the outlook for Chinese growth sent commodity prices and inflation expectations lower, while also negatively impacting prices of emerging market ("EM") debt and equities. In addition, the Chinese equity market began a strong decline in June 2015, which prompted the Chinese government to prop-up equity share prices and devalue the Chinese yuan. Volatility in Chinese equity markets continued into January 2016 on renewed concern over slowing Chinese economic growth. Furthermore, rising tension in the Middle East and the continued debt crisis in Greece also contributed to investor unease throughout the reporting period.

Economic data in the U.S. continued to confirm a healthy economy, particularly labor market indicators such as employment and wages. Still, signs of caution remained, particularly as U.S. consumers appeared to be more selective in their spending and chose to save rather than spend their windfall from lower gas prices. Additionally, consumer sentiment and certain housing indicators softened towards the end of the reporting period, and December 2015 U.S. manufacturing data indicated the fastest contraction in six years. Within the Eurozone, volatility increased despite gradual improvement in the underlying economies. Eurozone economic data also showed generally positive signs of an early recovery but were tempered slightly by sluggish inflation.

The theme of divergent global central bank monetary policy continued throughout the reporting period. The European Central Bank ("ECB") expressed its commitment to increase quantitative easing (or large-scale asset purchases), along with the Bank of Japan and the People's Bank of China who also indicated their intent to accelerate such measures. The Federal Reserve ("Fed"), on the other hand, moved on December 16 to raise the Federal Funds Rate by 0.25% to a new range of 0.25% - 0.50%, marking its first rate hike in nine years. However, the Fed noted that future increases in its target rate would be "gradual" and in-line with their previous projections, which helped to ease investor concerns. Outside of the reporting period on January 27, the Fed opted to leave the Federal Funds Rate unchanged, noting their intent to closely monitor how the global economy and markets influence the U.S. economic outlook.

Highlights of the financial markets during the twelve-month fiscal reporting period include:

- U.S. Treasuries, as represented by the Barclays U.S. Treasury Index, returned 0.84% for the reporting period as yields generally rose slightly across the Treasury yield curve. The benchmark ten-year U.S. Treasury note yielded 2.27% at the end of the reporting period, up from 2.17% on December 31, 2014. The Barclays U.S. Aggregate Index, a widely used index of U.S. investment-grade bonds, returned 0.55% for the reporting period.

- U.S. Treasury Inflation-Protected Securities ("TIPS"), as represented by the Barclays U.S. TIPS Index, declined 1.44% over the reporting period. U.S. TIPS were pressured over the year as breakeven inflation levels, a proxy for inflation expectations, declined in-line with commodity markets. Global inflation-linked bonds ("ILBs") were also down overall during the reporting period, as the slide in energy and other commodities impacted inflation expectations globally. Despite this headwind, European ILBs fared better than other developed countries and posted marginal gains in local currencies as real yields benefited from the ECB's quantitative easing support.

- Prices on broad commodities were down over the reporting period, led lower primarily by energy and industrial metal prices. Crude oil prices faced increasing pressure from a persisting inventory glut and production growth, especially from the Organization of the Petroleum Exporting Countries ("OPEC"). Towards the end of the reporting period, seasonally warm weather put further pressure on oil prices, which ended the year considerably lower. Diversified commodities, as represented by the Bloomberg Commodity Index Total Return, declined 24.66% over the reporting period.

- Agency mortgage-backed securities ("MBS"), as represented by the Barclays U.S. MBS Fixed Rate Index, returned 1.51% over the reporting period. Non-Agency MBS prices were mixed amid weakness in the broader credit markets, although underlying collateral performance has generally been in-line with investor expectations and continues to gradually improve over the long-term.
- U.S. investment grade credit, as represented by the Barclays U.S. Credit Index, declined 0.77% over the reporting period. Investment grade credit valuations cheapened as a record $1.15 trillion of new issuance came to market and commodity prices continued to fall given worries over slowing Chinese growth. Developed market global high yield bonds, as measured by the BofA Merrill Lynch Developed Markets High Yield Constrained Index, declined 3.05% over the reporting period. Weakness in the commodity-oriented sectors including energy and metals & mining, weighed on returns as oil and other commodity prices fell. Overall, global high yield spreads and yields rose throughout the reporting period and ended higher.
- EM external debt, as represented by the JPMorgan Emerging Markets Bond Index (EMBI) Global, returned 1.23% over the reporting period. EM local bonds, as represented by the JPMorgan Government Bond Index-Emerging Markets Global Diversified Index (Unhedged), declined 14.92% over the reporting period. Idiosyncratic forces remained a dominant theme. China, for example, continued to expand its accommodative measures as both growth and inflation showed signs of further moderation. In addition, the Russian ruble continued its recovery from 2014 weakness before stumbling toward the end of the reporting period on oil price weakness.
- Equity markets showed mixed performance globally amid a period marked by economic uncertainty, increased volatility and divergent central bank monetary policy. U.S. equities, as represented by the S&P 500 Index, returned 1.38% (on a total return basis) and developed market equities outside the U.S., as represented by the MSCI EAFE Net Dividend Index (USD Unhedged), declined 0.81% over the reporting period. However, ultra-easy monetary policy in Europe and Japan benefited European and Japanese equity markets, which generally posted positive returns. However, EM equities, as represented by the MSCI Emerging Markets Index (Net Dividends in USD), declined 14.92% over the same period, due to headwinds from a stronger U.S. dollar, falling commodity prices, concerns over slower Chinese economic growth and declining Chinese equities.

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 broad investment needs.

Sincerely,

Brent R. Harris
Chairman of the Board,
PIMCO Variable Insurance Trust

February 18, 2016

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 the Portfolio 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, etc.). In addition, changes in interest rates can be sudden and significant, and there is no guarantee that Fund management will anticipate such movement accurately.

As of the date of this report, interest rates in the U.S. are 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 and has begun, and may continue, to raise interest rates. 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."

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. All of the factors mentioned above, individually or collectively, could lead to increased volatility and/or lower liquidity in the fixed income markets or negatively impact the Portfolio's performance or cause the Portfolio to incur losses. As a result, the Portfolio may experience increased shareholder redemptions which, among other things, could further reduce the net assets of the Portfolio.

The Portfolio may be subject to various risks as described in the Portfolio's prospectus. 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, sovereign debt risk, currency risk, issuer non-diversification risk, leveraging risk, management risk and short sale risk. A complete description of these and other 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, leverage 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 an asset, instrument, or component of the index underlying a derivative instrument may cause an immediate and substantial loss or gain, which translates into heightened volatility for 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 (non-U.S.) 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 Returns chart measure performance assuming that any dividend and capital gain distributions were reinvested. The Cumulative Returns chart reflects only Administrative Class performance. Performance for Institutional Class, Class M and Advisor Class shares, if applicable, may be higher or lower based on each class's expense ratios. The Portfolio's total annual operating expense ratios on the Portfolio Summary page are as of the currently effective prospectus, as supplemented to date. The Portfolio measures its performance against a broad-based securities market index ("benchmark index"). The benchmark index does not take into account fees, expenses, or taxes. The Portfolio's past performance, before and after taxes, is not necessarily an indication of how the Portfolio will perform in the future.

The following table discloses the inception dates of the Portfolio and its respective share classes along with the Portfolio's diversification status as of period end:

Portfolio Name	Portfolio Inception	Institutional Class	Class M	Administrative Class	Advisor Class	Diversification Status
PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)	2/16/99	4/10/00	—	2/16/99	4/30/14	Non-diversified

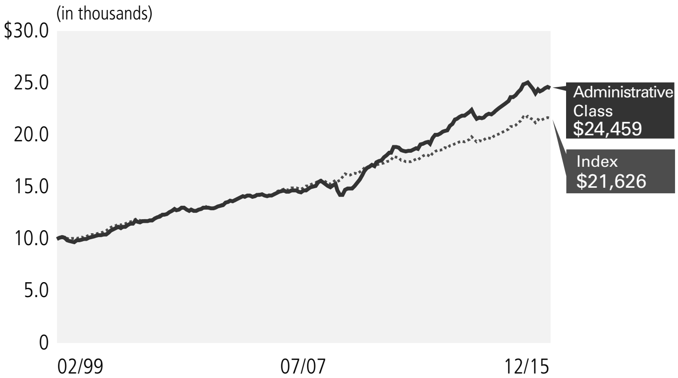
An investment in the Portfolio is not a deposit of a bank and is not guaranteed or insured by the Federal Deposit Insurance Corporation or any other government agency. It is possible to lose money on investments in the Portfolio.

The Trustees are responsible generally for overseeing the management of the Trust. The Trustees authorize the Trust to enter into service agreements with the Adviser, the Distributor, the Administrator and other service providers in order to provide, and in some cases authorize service providers to procure through other parties, necessary or desirable services on behalf of the Trust and the Portfolio. Shareholders are not parties to or third-party beneficiaries of such service agreements. Neither this Portfolio's prospectus nor summary prospectus, the Trust's Statement of Additional Information ("SAI"), any contracts filed as exhibits to the Trust's registration statement, nor any other communications, disclosure documents or regulatory filings (including this report) from or on behalf of the Trust or the Portfolio creates a contract between or among any shareholder of the Portfolio, on the one hand, and the Trust, the Portfolio, a service provider to the Trust or the Portfolio, and/or the Trustees or officers of the Trust, on the other hand. The Trustees (or the Trust and its officers, service providers or other delegates acting under authority of the Trustees) may amend the most recent prospectus or use a new prospectus, summary prospectus or SAI with respect to the Portfolio or the Trust, and/or amend, file and/or issue any other communications, disclosure documents or regulatory filings, and may amend or enter into any contracts to which the Trust or the Portfolio is a party, and interpret the investment objective(s), policies, restrictions and contractual provisions applicable to the Portfolio, without shareholder input or approval, except in circumstances in which shareholder approval is specifically required by law (such as changes to fundamental investment policies) or where a shareholder approval requirement is specifically disclosed in the Trust's then-current prospectus or SAI.

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 pvit.pimco-funds.com, and on the Securities and Exchange Commission's ("SEC") website at 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 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 pvit.pimco-funds.com. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

The Trust is distributed by PIMCO Investments LLC, 1633 Broadway, New York, New York 10019.



$10,000 invested at the end of the month when the Portfolio's Administrative Class commenced operations.

Allocation Breakdown†

United States	25.3%
Short-Term Instruments‡	20.6%
Italy	9.6%
United Kingdom	8.8%
Spain	6.4%
Denmark	5.4%
Other	23.9%

† % of Investments, at value as of 12/31/15. Financial derivative instruments, if any, are excluded.

‡ Includes Central Funds used for Cash Management Purposes

Average Annual Total Return for the period ended December 31, 2015

	1 Year	5 Years	10 Years	Inception*
PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) Institutional Class	0.44%	5.96%	5.72%	5.90%
— PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) Administrative Class	0.29%	5.80%	5.56%	5.43%
PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) Advisor Class	0.19%	—	—	4.43%
..... Barclays Global Aggregate ex-USD (USD Hedged) Index***±	1.36%	4.31%	4.24%	4.69%**

All Portfolio returns are net of fees and expenses.

* For class inception dates please refer to the Important Information.
** Average annual total return since 02/28/1999.
*** Prior to December 1, 2015, the Portfolio's broad-based securities market index was JPMorgan GBI FX NY Index Unhedged.

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 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 0.76% for Institutional Class shares, 0.91% for Administrative Class shares, and 1.01% for Advisor Class shares.

± Barclays Global Aggregate ex-USD (USD Hedged) Index provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the US Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and USD investment grade 144A securities.

It is not possible to invest in an unmanaged index.

Investment Objective and Strategy Overview

» 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.

Portfolio Insights

» An underweight to the euro and the Brazilian real contributed to relative performance, as both currencies depreciated relative to the U.S. dollar over the reporting period.

» An overweight to Australian duration during the first quarter contributed to relative performance, as yields declined over this portion of the reporting period.

» An underweight to Canadian duration detracted from relative performance, as Canadian rates declined during the reporting period.

» An overweight to Brazilian local duration detracted from relative performance, as Brazilian yields increased during the reporting period.

» Issue selection in the Brazilian emerging markets quasi-sovereign space detracted from performance, as emerging markets external spreads widened during the reporting period.

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 (if applicable), 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 from July 1, 2015 to December 31, 2015 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 = $8.60), then multiply the result by the number in the appropriate column for your share class, in the column 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.

Expense ratios may vary period to period because of various factors, such as an increase in expenses that are not covered by the management fees such as fees and expenses of the independent trustees and their counsel, extraordinary expenses and interest expense.

	Actual			Hypothetical (5% return before expenses)			
	Beginning Account Value (07/01/15)	Ending Account Value (12/31/15)	Expenses Paid During Period*	Beginning Account Value (07/01/15)	Ending Account Value (12/31/15)	Expenses Paid During Period*	Net Annualized Expense Ratio**
Institutional Class	$ 1,000.00	$ 1,021.00	$ 3.88	$ 1,000.00	$ 1,021.77	$ 3.88	0.75%
Administrative Class	1,000.00	1,020.20	4.66	1,000.00	1,021.01	4.66	0.90
Advisor Class	1,000.00	1,019.70	5.17	1,000.00	1,020.49	5.18	1.00

* 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 187/365 (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.

** Net Annualized Expense Ratio is reflective of any applicable contractual fee waivers and/or expense reimbursements or voluntary fee waivers. Details regarding fee waivers can be found in Note 8 in the Notes to Financial Statements.

Financial Highlights PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

Selected Per Share Data for the Year or Period Ended:	Net Asset Value Beginning of Year or Period	Net Investment Income [(a)]	Net Realized/ Unrealized Gain (Loss)	Total from Investment Operations	Dividends from Net Investment Income [(b)]	Distributions from Net Realized Capital Gains [(b)]	Total Distributions
Institutional Class							
12/31/2015	$ 10.90	$ 0.13	$ (0.09)	$ 0.04	$ (0.35)	$ (0.05)	$ (0.40)
12/31/2014	10.05	0.21	0.92	1.13	(0.21)	(0.07)	(0.28)
12/31/2013	10.80	0.23	(0.16)	0.07	(0.22)	(0.60)	(0.82)
12/31/2012	10.33	0.27	0.85	1.12	(0.26)	(0.39)	(0.65)
12/31/2011	9.98	0.25	0.43	0.68	(0.23)	(0.10)	(0.33)
Administrative Class							
12/31/2015	10.90	0.10	(0.07)	0.03	(0.34)	(0.05)	(0.39)
12/31/2014	10.05	0.18	0.93	1.11	(0.19)	(0.07)	(0.26)
12/31/2013	10.80	0.22	(0.17)	0.05	(0.20)	(0.60)	(0.80)
12/31/2012	10.33	0.26	0.84	1.10	(0.24)	(0.39)	(0.63)
12/31/2011	9.98	0.23	0.43	0.66	(0.21)	(0.10)	(0.31)
Advisor Class							
12/31/2015	10.90	0.10	(0.08)	0.02	(0.33)	(0.05)	(0.38)
04/30/2014 - 12/31/2014	10.34	0.13	0.62	0.75	(0.12)	(0.07)	(0.19)

* Annualized
(a) Per share amounts based on average number of shares outstanding during the year or period.
(b) Determined in accordance with federal income tax regulations, see Note 2(d) in the Notes to Financial Statements for more information.

Net Asset Value End of Year or Period	Total Return	Net Assets End of Year or Period (000s)	Ratio of Expenses to Average Net Assets	Ratio of Expenses to Average Net Assets Excluding Interest Expense	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
$ 10.54	0.44%	$ 3,001	0.75%	0.75%	1.15%	302%
10.90	11.32	879	0.76	0.75	1.99	176
10.05	0.65	22	0.77	0.75	2.18	127
10.80	11.00	21	0.79	0.75	2.54	356
10.33	6.91	19	0.76	0.75	2.45	218
10.54	0.29	73,278	0.90	0.90	0.90	302
10.90	11.16	89,343	0.91	0.90	1.73	176
10.05	0.50	66,176	0.92	0.90	2.03	127
10.80	10.85	78,497	0.94	0.90	2.40	356
10.33	6.76	78,493	0.91	0.90	2.30	218
10.54	0.19	221,379	1.00	1.00	0.90	302
10.90	7.31	69,716	1.01*	1.00*	1.79*	176

Statement of Assets and Liabilities PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

(Amounts in thousands, except per share amounts)	December 31, 2015
Assets:	
Investments, at value	
Investments in securities*	$ 239,103
Investments in Affiliates	59,473
Financial Derivative Instruments	
Exchange-traded or centrally cleared	276
Over the counter	4,429
Cash	714
Deposits with counterparty	4,184
Foreign currency, at value	4,107
Receivable for investments sold	40,445
Receivable for TBA investments sold	29,779
Receivable for Portfolio shares sold	464
Interest receivable	1,850
Dividends receivable from Affiliates	37
Total Assets	384,861
Liabilities:	
Borrowings & Other Financing Transactions	
Payable for short sales	$ 16,124
Financial Derivative Instruments	
Exchange-traded or centrally cleared	450
Over the counter	4,221
Payable for investments purchased	43,052
Payable for investments in Affiliates purchased	37
Payable for TBA investments purchased	20,761
Deposits from counterparty	2,270
Payable for Portfolio shares redeemed	25
Accrued investment advisory fees	68
Accrued supervisory and administrative fees	135
Accrued distribution fees	50
Accrued servicing fees	10
Total Liabilities	87,203
Net Assets	$ 297,658
Net Assets Consist of:	
Paid in capital	$ 300,348
Undistributed net investment income	4,027
Accumulated undistributed net realized gain	849
Net unrealized (depreciation)	(7,566)
	$ 297,658
Net Assets:	
Institutional Class	$ 3,001
Administrative Class	73,278
Advisor Class	221,379
Shares Issued and Outstanding:	
Institutional Class	285
Administrative Class	6,953
Advisor Class	21,005
Net Asset Value and Redemption Price Per Share Outstanding:	
Institutional Class	$ 10.54
Administrative Class	10.54
Advisor Class	10.54
Cost of investments in securities	$ 247,029
Cost of investments in Affiliates	$ 59,708
Cost of foreign currency held	$ 4,125
Proceeds received on short sales	$ 16,123
Cost or premiums of financial derivative instruments, net	$ (408)
* Includes repurchase agreements of:	$ 1,404

Statement of Operations PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

(Amounts in thousands)	Year Ended December 31, 2015
Investment Income:	
Interest	$ 3,899
Dividends	1
Dividends from Investments in Affiliates	466
Total Income	4,366
Expenses:	
Investment advisory fees	584
Supervisory and administrative fees	1,169
Servicing fees - Administrative Class	117
Distribution and/or servicing fees - Advisor Class	385
Trustee fees	4
Interest expense	4
Total Expenses	2,263
Net Investment Income	2,103
Net Realized Gain (Loss):	
Investments in securities	(6,985)
Investments in Affiliates	(203)
Exchange-traded or centrally cleared financial derivative instruments	874
Over the counter financial derivative instruments	12,134
Foreign currency	2,106
Net Realized Gain	7,926
Net Change in Unrealized (Depreciation):	
Investments in securities	(6,488)
Investments in Affiliates	(24)
Exchange-traded or centrally cleared financial derivative instruments	(1,513)
Over the counter financial derivative instruments	(2,039)
Foreign currency assets and liabilities	(250)
Net Change in Unrealized (Depreciation)	(10,314)
Net (Decrease) in Net Assets Resulting from Operations	$ (285)

Statements of Changes in Net Assets PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

(Amounts in thousands)	Year Ended December 31, 2015	Year Ended December 31, 2014
Increase in Net Assets from:		
Operations:		
Net investment income	$ 2,103	$ 1,659
Net realized gain	7,926	5,766
Net change in unrealized appreciation (depreciation)	(10,314)	2,784
Net Increase (Decrease) in Net Assets Resulting from Operations	(285)	10,209
Distributions to Shareholders:		
From net investment income [(a)]		
Institutional Class	(87)	(5)
Administrative Class	(2,313)	(1,426)
Advisor Class	(6,116)	(294)
From net realized capital gains [(a)]		
Institutional Class	(15)	(5)
Administrative Class	(367)	(540)
Advisor Class	(1,083)	(371)
Total Distributions	(9,981)	(2,641)
Portfolio Share Transactions:		
Net increase resulting from Portfolio share transactions**	147,986	86,172
Total Increase in Net Assets	137,720	93,740
Net Assets:		
Beginning of year	159,938	66,198
End of year*	$ 297,658	$ 159,938
* Including undistributed net investment income of:	$ 4,027	$ 3,900

** See Note 12 in the Notes to Financial Statements.

(a) Determined in accordance with federal income tax regulations, see Note 2(d) in the Notes to Financial Statements for more information.

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
INVESTMENTS IN SECURITIES 80.3%			
AUSTRALIA 0.2%			
NON-AGENCY MORTGAGE-BACKED SECURITIES 0.0%			
Torrens Trust			
2.485% due 10/19/2038	AUD	36	$ 26
SOVEREIGN ISSUES 0.2%			
New South Wales Treasury Corp. Inflation Linked Bond			
2.750% due 11/20/2025		124	106
Queensland Treasury Corp.			
4.250% due 07/21/2023		600	470
			576
Total Australia (Cost $735)			**602**
BRAZIL 0.4%			
CORPORATE BONDS & NOTES 0.4%			
Petrobras Global Finance BV			
2.886% due 03/17/2017	$	200	184
3.250% due 03/17/2017		300	278
3.406% due 03/17/2020		500	356
8.375% due 12/10/2018		300	277
Total Brazil (Cost $1,212)			**1,095**
CANADA 3.8%			
CORPORATE BONDS & NOTES 0.2%			
Toronto-Dominion Bank			
1.052% due 07/02/2019	$	500	496
NON-AGENCY MORTGAGE-BACKED SECURITIES 0.3%			
Canadian Mortgage Pools			
0.933% due 06/01/2020	CAD	281	201
1.133% due 07/01/2020		766	550
1.133% due 08/01/2020		294	211
			962
SOVEREIGN ISSUES 3.3%			
Canada Government International Bond			
1.500% due 12/01/2044 (b)		440	389
Province of Alberta			
1.250% due 06/01/2020		1,100	792
2.350% due 06/01/2025		1,100	793
Province of British Columbia			
4.300% due 06/18/2042		100	88
Province of Ontario			
2.600% due 06/02/2025		9,700	7,166
3.450% due 06/02/2045		100	76
3.500% due 06/02/2024		600	478
6.200% due 06/02/2031		100	101
			9,883
Total Canada (Cost $11,829)			**11,341**
CAYMAN ISLANDS 0.5%			
ASSET-BACKED SECURITIES 0.5%			
Atrium CDO Corp.			
1.421% due 11/16/2022	$	246	245
Gallatin CLO Ltd.			
1.591% due 07/15/2023		196	195
OHA Credit Partners Ltd.			
1.582% due 05/15/2023		595	592
Symphony CLO LP			
1.419% due 01/09/2023	$	489	$ 487
Total Cayman Islands (Cost $1,526)			**1,519**
CHINA 0.1%			
CORPORATE BONDS & NOTES 0.1%			
CNOOC Curtis Funding Pty. Ltd.			
4.500% due 10/03/2023	$	200	207
Total China (Cost $203)			**207**
DENMARK 5.4%			
CORPORATE BONDS & NOTES 5.4%			
Nykredit Realkredit A/S			
1.000% due 07/01/2016	DKK	21,900	3,208
1.000% due 10/01/2016		43,900	6,445
2.000% due 01/01/2016		2,400	350
2.000% due 04/01/2016		2,600	380
3.000% due 10/01/2047		12,851	1,846
Realkredit Danmark A/S			
2.000% due 01/01/2016		11,600	1,689
2.500% due 10/01/2037		10,500	1,523
3.000% due 10/01/2047		4,185	603
Total Denmark (Cost $16,533)			**16,044**
FRANCE 4.2%			
CORPORATE BONDS & NOTES 0.7%			
Banque PSA Finance S.A.			
4.250% due 02/25/2016	EUR	700	765
BPCE S.A.			
4.500% due 03/15/2025	$	500	481
Credit Agricole S.A.			
1.047% due 06/12/2017		400	399
8.125% due 09/19/2033		200	221
Dexia Credit Local S.A.			
1.875% due 01/29/2020		250	246
			2,112
NON-AGENCY MORTGAGE-BACKED SECURITIES 0.3%			
Infiniti SoPRANo			
0.111% due 11/05/2019	EUR	820	852
SOVEREIGN ISSUES 3.2%			
Caisse d'Amortissement de la Dette Sociale			
3.375% due 03/20/2024	$	400	425
France Government International Bond			
0.250% due 07/25/2024 (b)	EUR	1,017	1,163
1.000% due 11/25/2018		900	1,012
1.000% due 11/25/2025		1,100	1,197
1.750% due 11/25/2024		900	1,057
2.500% due 05/25/2030		600	739
3.250% due 05/25/2045		2,000	2,764
4.000% due 10/25/2038		200	304
4.500% due 04/25/2041		600	991
			9,652
Total France (Cost $13,530)			**12,616**
GERMANY 2.1%			
CORPORATE BONDS & NOTES 1.7%			
Commerzbank AG			
8.125% due 09/19/2023	$	1,300	1,497
FMS Wertmanagement AoeR			
0.750% due 12/15/2017	GBP	200	$ 293
Landwirtschaftliche Rentenbank			
4.250% due 01/24/2023	AUD	500	385
4.750% due 03/12/2019	NZD	1,200	854
5.500% due 03/29/2022	AUD	1,600	1,318
Symrise AG			
4.125% due 10/25/2017	EUR	500	575
			4,922
SOVEREIGN ISSUES 0.4%			
Republic of Germany			
0.100% due 04/15/2023 (b)		104	118
4.000% due 01/04/2037		100	161
4.250% due 07/04/2039		500	855
			1,134
Total Germany (Cost $6,533)			**6,056**
GREECE 0.6%			
CORPORATE BONDS & NOTES 0.3%			
Hellenic Railways Organization S.A.			
5.014% due 12/27/2017	EUR	300	302
National Bank of Greece S.A.			
3.875% due 10/07/2016		700	744
			1,046
SOVEREIGN ISSUES 0.3%			
Republic of Greece Government International Bond			
3.800% due 08/08/2017	JPY	80,000	599
5.000% due 08/22/2016		25,000	201
			800
Total Greece (Cost $1,834)			**1,846**
HONG KONG 0.1%			
CORPORATE BONDS & NOTES 0.1%			
CNOOC Finance Ltd.			
3.875% due 05/02/2022	$	200	203
Total Hong Kong (Cost $197)			**203**
IRELAND 1.9%			
ASSET-BACKED SECURITIES 0.3%			
Celf Loan Partners PLC			
0.997% due 05/03/2023	GBP	643	916
CORPORATE BONDS & NOTES 1.4%			
Depfa ACS Bank			
3.875% due 11/14/2016	EUR	3,500	3,924
5.125% due 03/16/2037	$	200	245
			4,169
NON-AGENCY MORTGAGE-BACKED SECURITIES 0.2%			
DECO Series			
1.200% due 04/27/2027	EUR	495	534
German Residential Funding Ltd.			
1.046% due 08/27/2024		185	203
			737
Total Ireland (Cost $6,157)			**5,822**

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
ITALY 9.7%			
ASSET-BACKED SECURITIES 0.0%			
Alba SPV SRL			
1.449% due 04/20/2040	EUR	33	$ 36
CORPORATE BONDS & NOTES 0.5%			
Banca Carige SpA			
3.875% due 10/24/2018		600	707
Banca Monte dei Paschi di Siena SpA			
5.000% due 02/09/2056		100	118
Banco Popolare SC			
2.375% due 01/22/2018		500	547
			1,372
NON-AGENCY MORTGAGE-BACKED SECURITIES 0.5%			
Berica Residential MBS SRL			
0.229% due 03/31/2048		104	111
Casa D'este Finance SRL			
0.222% due 09/15/2040		152	161
Claris SRL			
0.354% due 10/31/2060		372	398
Creso SRL			
0.569% due 12/30/2060		625	675
Giovecca Mortgages SRL			
0.547% due 04/23/2048		93	100
			1,445
SOVEREIGN ISSUES 8.7%			
Italy Buoni Poliennali Del Tesoro			
2.000% due 12/01/2025		800	901
2.500% due 12/01/2024		1,700	2,007
3.750% due 09/01/2024		3,600	4,644
4.000% due 02/01/2037		2,700	3,662
4.500% due 05/01/2023		500	670
4.500% due 03/01/2024		7,600	10,264
5.000% due 03/01/2025		1,300	1,837
5.500% due 09/01/2022		600	839
Italy Government International Bond			
6.000% due 08/04/2028	GBP	600	1,067
			25,891
Total Italy (Cost $29,566)			**28,744**
JAPAN 0.6%			
CORPORATE BONDS & NOTES 0.6%			
Bank of Tokyo-Mitsubishi UFJ Ltd.			
1.700% due 03/05/2018	$	200	198
Mizuho Bank Ltd.			
1.507% due 10/20/2018		1,500	1,515
Total Japan (Cost $1,707)			**1,713**
JERSEY, CHANNEL ISLANDS 0.2%			
ASSET-BACKED SECURITIES 0.2%			
Highlander Euro CDO BV			
0.488% due 09/06/2022	EUR	534	578
Total Jersey, Channel Islands (Cost $590)			**578**
LUXEMBOURG 0.9%			
CORPORATE BONDS & NOTES 0.9%			
Erste Europaische Pfandbrief und Kommunalkreditbank AG S.A.			
4.250% due 06/04/2018	EUR	1,650	1,948
Wind Acquisition Finance S.A.			
7.000% due 04/23/2021	EUR	600	$ 647
Total Luxembourg (Cost $2,593)			**2,595**
MEXICO 1.9%			
SOVEREIGN ISSUES 1.9%			
Mexico Government International Bond			
4.750% due 06/14/2018	MXN	12,100	706
6.500% due 06/09/2022		79,800	4,776
8.500% due 12/13/2018		2,640	169
Total Mexico (Cost $6,087)			**5,651**
NETHERLANDS 1.7%			
ASSET-BACKED SECURITIES 0.3%			
Cadogan Square CLO BV			
0.279% due 01/17/2023	EUR	93	100
Chapel BV			
0.308% due 07/17/2066		218	222
Highlander Euro CDO BV			
0.161% due 05/01/2023		205	217
Jubilee CDO BV			
0.336% due 09/20/2022		200	217
Panther CDO BV			
0.312% due 10/15/2084		152	158
			914
CORPORATE BONDS & NOTES 1.4%			
Bank Nederlandse Gemeenten NV			
4.550% due 02/15/2019	CAD	1,800	1,427
Fiat Chrysler Automobiles NV			
4.500% due 04/15/2020	$	400	407
Rabobank Group			
8.375% due 07/26/2016 (c)		2,000	2,064
8.400% due 06/29/2017 (c)		300	323
			4,221
Total Netherlands (Cost $5,295)			**5,135**
NORWAY 0.5%			
CORPORATE BONDS & NOTES 0.3%			
Eksportfinans ASA			
2.375% due 05/25/2016	$	600	601
5.500% due 05/25/2016		400	405
			1,006
SOVEREIGN ISSUES 0.2%			
Kommunalbanken A/S			
0.983% due 03/27/2017		400	401
Norway Government International Bond			
3.750% due 05/25/2021	NOK	1,800	233
			634
Total Norway (Cost $1,677)			**1,640**
PORTUGAL 0.1%			
CORPORATE BONDS & NOTES 0.1%			
Banco Espirito Santo S.A.			
4.000% due 01/21/2019	EUR	300	45
4.750% due 01/15/2018		200	30
Novo Banco S.A.			
5.000% due 05/14/2019		100	95
5.000% due 05/21/2019	EUR	200	$ 194
Total Portugal (Cost $933)			**364**
SLOVENIA 2.6%			
SOVEREIGN ISSUES 2.6%			
Slovenia Government International Bond			
4.125% due 02/18/2019	$	2,300	2,423
4.700% due 11/01/2016	EUR	800	904
4.750% due 05/10/2018	$	1,400	1,489
5.250% due 02/18/2024		1,800	1,990
5.850% due 05/10/2023		700	799
Total Slovenia (Cost $7,651)			**7,605**
SPAIN 6.4%			
CORPORATE BONDS & NOTES 0.2%			
Banco Santander S.A.			
6.250% due 09/11/2021 (c)	EUR	500	510
BPE Financiaciones S.A.			
2.875% due 05/19/2016		100	109
			619
SOVEREIGN ISSUES 6.2%			
Autonomous Community of Catalonia			
4.300% due 11/15/2016		400	440
4.750% due 06/04/2018		300	345
4.950% due 02/11/2020		100	118
Autonomous Community of Madrid			
4.125% due 05/21/2024		600	766
4.300% due 09/15/2026		400	521
Autonomous Community of Valencia			
4.900% due 03/17/2020		600	750
Spain Government International Bond			
2.150% due 10/31/2025		6,500	7,305
2.750% due 10/31/2024		3,100	3,678
3.300% due 07/30/2016		900	997
4.650% due 07/30/2025		1,200	1,641
5.150% due 10/31/2028		200	290
5.150% due 10/31/2044		1,050	1,621
			18,472
Total Spain (Cost $19,340)			**19,091**
SUPRANATIONAL 0.4%			
CORPORATE BONDS & NOTES 0.4%			
European Investment Bank			
0.500% due 06/21/2023	AUD	500	285
0.500% due 08/10/2023		400	226
6.500% due 08/07/2019		800	658
Total Supranational (Cost $1,265)			**1,169**
SWEDEN 0.3%			
CORPORATE BONDS & NOTES 0.2%			
Skandinaviska Enskilda Banken AB			
3.000% due 06/20/2018	SEK	1,500	190
Swedbank AB			
2.200% due 03/04/2020	$	300	297
Swedbank Hypotek AB			
3.750% due 12/20/2017	SEK	1,100	140
			627

		PRINCIPAL AMOUNT (000S)		MARKET VALUE (000S)
SOVEREIGN ISSUES 0.1%				
Sweden Government International Bond				
4.250% due 03/12/2019	SEK	1,200	$	162
Total Sweden (Cost $906)				**789**
SWITZERLAND 1.0%				
CORPORATE BONDS & NOTES 0.8%				
UBS AG				
4.750% due 05/22/2023	$	600		610
7.250% due 02/22/2022		1,100		1,151
7.625% due 08/17/2022		500		571
				2,332
SOVEREIGN ISSUES 0.2%				
Switzerland Government Bond				
3.500% due 04/08/2033	CHF	300		458
Total Switzerland (Cost $2,822)				**2,790**
UNITED KINGDOM 8.8%				
ASSET-BACKED SECURITIES 0.0%				
Motor PLC				
0.902% due 08/25/2021	$	109		109
CORPORATE BONDS & NOTES 2.4%				
Barclays Bank PLC				
7.625% due 11/21/2022		1,100		1,255
7.750% due 04/10/2023		500		534
Barclays PLC				
3.650% due 03/16/2025		600		578
HBOS PLC				
1.303% due 09/30/2016		1,200		1,197
6.750% due 05/21/2018		1,100		1,203
Lloyds Banking Group PLC				
7.875% due 06/27/2029 (c)	GBP	600		939
Royal Bank of Scotland PLC				
9.500% due 03/16/2022	$	900		976
Tesco PLC				
6.125% due 02/24/2022	GBP	300		463
				7,145
NON-AGENCY MORTGAGE-BACKED SECURITIES 1.5%				
Business Mortgage Finance PLC				
0.953% due 02/15/2039		813		1,163
2.573% due 02/15/2041		441		639
Eurohome UK Mortgages PLC				
0.733% due 06/15/2044		141		194
Eurosail PLC				
0.743% due 06/10/2044		43		61
0.885% due 06/13/2045		218		318
Mansard Mortgages PLC				
1.233% due 12/15/2049		254		361
Money Partners Securities PLC				
0.963% due 03/15/2040		27		38
Newgate Funding PLC				
0.733% due 12/01/2050		300		394
1.583% due 12/15/2050		354		475
RMAC Securities PLC				
0.735% due 06/12/2044		614		827
				4,470

		PRINCIPAL AMOUNT (000S)		MARKET VALUE (000S)
SOVEREIGN ISSUES 4.9%				
United Kingdom Gilt				
2.250% due 09/07/2023	GBP	500	$	763
3.250% due 01/22/2044		5,400		8,874
3.500% due 01/22/2045		1,500		2,583
4.250% due 12/07/2040		1,200		2,288
				14,508
Total United Kingdom (Cost $27,369)				**26,232**
UNITED STATES 25.2%				
ASSET-BACKED SECURITIES 6.7%				
Amortizing Residential Collateral Trust				
0.921% due 10/25/2031	$	1		1
1.002% due 07/25/2032		1		1
Amresco Residential Securities Corp. Mortgage Loan Trust				
1.362% due 06/25/2029		1		1
Argent Securities, Inc. Asset-Backed Pass-Through Certificates				
0.802% due 02/25/2036		800		547
Citigroup Mortgage Loan Trust, Inc.				
0.582% due 12/25/2036		813		539
0.682% due 03/25/2036		800		616
Countrywide Asset-Backed Certificates				
0.552% due 12/25/2036 ^		628		567
0.562% due 06/25/2035		644		498
0.562% due 01/25/2037		2,879		2,711
0.562% due 06/25/2037		829		633
0.562% due 06/25/2047 ^		643		499
0.572% due 04/25/2047		919		792
0.712% due 07/25/2036		700		625
5.397% due 08/25/2035 ^		1,429		1,399
Credit Suisse First Boston Mortgage Securities Corp.				
1.042% due 01/25/2032		1		1
First Alliance Mortgage Loan Trust				
0.862% due 12/20/2027		1		1
GSAMP Trust				
0.852% due 11/25/2035 ^		1,392		798
HSI Asset Securitization Corp. Trust				
0.682% due 04/25/2037		1,026		596
IndyMac Home Equity Mortgage Loan Asset-Backed Trust				
0.662% due 04/25/2037		775		479
0.872% due 08/25/2035		78		77
JPMorgan Mortgage Acquisition Trust				
0.552% due 08/25/2036		691		604
Long Beach Mortgage Loan Trust				
0.982% due 10/25/2034		12		12
Morgan Stanley ABS Capital, Inc. Trust				
0.552% due 10/25/2036		218		168
Morgan Stanley Home Equity Loan Trust				
0.652% due 04/25/2037		1,055		602
Morgan Stanley Mortgage Loan Trust				
5.919% due 09/25/2046 ^		202		113
Nomura Home Equity Loan, Inc. Home Equity Loan Trust				
0.712% due 03/25/2036		700		525
NovaStar Mortgage Funding Trust				
0.552% due 03/25/2037		990		649
Renaissance Home Equity Loan Trust				
2.972% due 12/25/2032		531		503
5.294% due 01/25/2037		670		370
5.675% due 06/25/2037 ^		1,074		531
5.731% due 11/25/2036		1,080		586

		PRINCIPAL AMOUNT (000S)		MARKET VALUE (000S)
Residential Asset Mortgage Products Trust				
0.441% due 12/25/2035	$	629	$	486
0.451% due 12/25/2035		1,398		1,019
Residential Asset Securities Corp. Trust				
0.922% due 07/25/2032 ^		2		2
Saxon Asset Securities Trust				
2.172% due 12/25/2037		523		421
2.222% due 05/25/2031		647		565
SLM Student Loan Trust				
0.820% due 10/25/2017		12		12
1.820% due 04/25/2023		387		388
Soundview Home Loan Trust				
0.572% due 06/25/2037		113		69
Structured Asset Investment Loan Trust				
0.552% due 07/25/2036		688		487
Wells Fargo Home Equity Asset-Backed Securities Trust				
0.652% due 01/25/2037		800		556
				20,049
BANK LOAN OBLIGATIONS 0.2%				
Charter Communications Operating LLC				
3.500% due 01/24/2023		600		600
CORPORATE BONDS & NOTES 4.2%				
Ally Financial, Inc.				
2.750% due 01/30/2017		800		800
2.995% due 07/18/2016		100		100
3.600% due 05/21/2018		400		401
5.500% due 02/15/2017		300		310
Charter Communications Operating LLC				
4.250% due 08/03/2017	EUR	200		228
Bank of America Corp.				
6.100% due 03/17/2025 (c)	$	400		406
6.400% due 08/28/2017		1,200		1,286
BellSouth Corp.				
4.821% due 04/26/2021		600		607
CCO Safari LLC				
4.464% due 07/23/2022		200		200
6.384% due 10/23/2035		600		607
Chesapeake Energy Corp.				
3.571% due 04/15/2019		100		28
Citigroup, Inc.				
5.950% due 05/15/2025 (c)		500		482
6.125% due 11/15/2020 (c)		700		715
Goldman Sachs Group, Inc.				
1.476% due 04/23/2020		400		401
International Lease Finance Corp.				
6.750% due 09/01/2016		200		206
Lehman Brothers Holdings, Inc.				
6.875% due 05/02/2018 ^		200		15
Metropolitan Life Global Funding				
2.000% due 04/14/2020		300		294
Navient Corp.				
5.500% due 01/15/2019		1,100		1,031
SABMiller Holdings, Inc.				
4.950% due 01/15/2042		800		814
SLM Student Loan Trust				
1.136% due 03/15/2038	GBP	700		891
Springleaf Finance Corp.				
6.000% due 06/01/2020	$	400		382
Sprint Communications, Inc.				
6.000% due 12/01/2016		700		698
8.375% due 08/15/2017		400		396
Universal Health Services, Inc.				
7.125% due 06/30/2016		1,000		1,026

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Zimmer Biomet Holdings, Inc.		
3.150% due 04/01/2022	$ 300	$ 295
		12,619
MUNICIPAL BONDS & NOTES 0.0%		
Pasadena Public Financing Authority, California Revenue Bonds, (BABs), Series 2010		
7.148% due 03/01/2043	100	132
NON-AGENCY MORTGAGE-BACKED SECURITIES 2.8%		
American Home Mortgage Investment Trust		
2.154% due 09/25/2045	59	58
Banc of America Alternative Loan Trust		
6.500% due 04/25/2036 ^	819	704
Banc of America Mortgage Trust		
2.635% due 02/25/2036 ^	111	100
Bear Stearns Adjustable Rate Mortgage Trust		
2.601% due 08/25/2033	3	4
2.680% due 03/25/2035	49	49
2.924% due 03/25/2035	5	5
Bear Stearns ALT-A Trust		
0.582% due 02/25/2034	68	62
2.726% due 09/25/2035	49	42
2.741% due 11/25/2035 ^	42	32
2.743% due 03/25/2036 ^	190	146
2.956% due 08/25/2036 ^	60	45
Bear Stearns Structured Products, Inc. Trust		
2.566% due 12/26/2046	44	32
Citigroup Commercial Mortgage Trust		
1.081% due 06/15/2033	400	396
Citigroup Mortgage Loan Trust, Inc.		
2.420% due 09/25/2035	16	16
2.430% due 09/25/2035	9	9
Citigroup Mortgage Loan Trust, Inc. Mortgage Pass-Through Certificates		
2.399% due 09/25/2035 ^	572	496
Countrywide Alternative Loan Trust		
0.612% due 03/20/2046	103	78
0.702% due 02/25/2037	85	67
1.257% due 12/25/2035	112	94
1.674% due 11/25/2035	20	16
5.250% due 06/25/2035 ^	14	13
Countrywide Home Loan Mortgage Pass-Through Trust		
0.652% due 05/25/2035	40	35
0.742% due 03/25/2035	84	66
1.082% due 02/25/2035	10	9
2.646% due 11/25/2034	12	11
2.766% due 08/25/2034 ^	32	28
5.500% due 01/25/2035	553	564
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 ^	218	115
DBUBS Mortgage Trust		
0.291% due 11/10/2046 (a)	400	6
1.127% due 11/10/2046 (a)	510	11
Deutsche Alt-A Securities Mortgage Loan Trust		
1.172% due 10/25/2047	1,362	1,040
GSR Mortgage Loan Trust		
0.752% due 12/25/2034	95	86
2.690% due 04/25/2035	407	384
2.869% due 01/25/2036 ^	98	92
HarborView Mortgage Loan Trust		
2.574% due 05/19/2033	5	5
IndyMac Mortgage Loan Trust		
0.632% due 05/25/2046	722	597
0.662% due 07/25/2035	34	30

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
JPMorgan Mortgage Trust		
2.048% due 07/27/2037	$ 143	$ 134
2.609% due 02/25/2036 ^	57	50
Mellon Residential Funding Corp. Mortgage Pass-Through Trust		
0.771% due 12/15/2030	9	8
Merrill Lynch Mortgage Investors Trust		
1.904% due 10/25/2035	14	14
Morgan Stanley Bank of America Merrill Lynch Trust		
1.446% due 12/15/2048 (a)	1,245	61
Morgan Stanley Capital Trust		
0.465% due 07/12/2044	123	123
Morgan Stanley Mortgage Loan Trust		
2.225% due 06/25/2036	65	63
Residential Accredit Loans, Inc. Trust		
0.572% due 02/25/2047	43	24
0.602% due 06/25/2046	357	153
0.632% due 04/25/2046	615	293
Structured Adjustable Rate Mortgage Loan Trust		
2.580% due 04/25/2034	9	9
Structured Asset Mortgage Investments Trust		
0.632% due 05/25/2046	17	13
0.642% due 05/25/2036	123	92
0.642% due 09/25/2047	180	144
0.652% due 05/25/2045	30	26
0.982% due 07/19/2034	4	4
1.062% due 09/19/2032	3	3
1.102% due 03/19/2034	7	7
1.757% due 08/25/2047 ^	52	43
TBW Mortgage-Backed Trust		
5.970% due 09/25/2036	189	28
Thornburg Mortgage Securities Trust		
2.084% due 06/25/2047 ^	60	54
5.750% due 06/25/2047	16	15
Wachovia Mortgage Loan Trust LLC		
2.752% due 10/20/2035 ^	213	194
WaMu Mortgage Pass-Through Certificates Trust		
0.732% due 01/25/2045	154	146
1.237% due 06/25/2046	59	55
1.257% due 02/25/2046	135	125
1.899% due 02/27/2034	7	6
2.183% due 03/25/2033	15	15
2.258% due 12/25/2036 ^	316	273
2.443% due 03/25/2035	91	91
2.446% due 04/25/2035	82	81
Washington Mutual Mortgage Pass-Through Certificates Trust		
1.197% due 07/25/2046 ^	33	21
Wells Fargo Mortgage-Backed Securities Trust		
2.658% due 03/25/2035	121	122
2.736% due 04/25/2036	11	11
2.738% due 07/25/2036 ^	79	77
2.755% due 06/25/2035	34	34
2.801% due 03/25/2036 ^	301	294
		8,450
	SHARES	
PREFERRED SECURITIES 0.0%		
Navient Corp. CPI Linked Security		
2.014% due 01/16/2018	900	21
	PRINCIPAL AMOUNT (000S)	
U.S. GOVERNMENT AGENCIES 3.5%		
Fannie Mae		
0.542% due 03/25/2034	$ 8	8

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
0.572% due 08/25/2034	$ 5	$ 5
0.772% due 09/25/2042	23	22
0.852% due 11/25/2040	99	99
0.872% due 11/25/2040	166	166
1.002% due 06/25/2041	327	330
1.443% due 10/01/2044	22	22
2.255% due 12/01/2034	7	8
2.326% due 05/25/2035	19	20
2.614% due 11/01/2034	49	51
3.500% due 11/01/2021	93	99
5.480% due 07/01/2018	200	208
6.000% due 07/25/2044	14	16
Fannie Mae, TBA		
3.000% due 01/01/2046	3,000	2,999
3.500% due 02/01/2046	4,000	4,117
Freddie Mac		
0.831% due 12/15/2032	10	11
0.931% due 12/15/2037	31	31
1.443% due 10/25/2044	62	63
2.250% due 03/01/2035	6	6
2.350% due 04/01/2035	92	98
2.488% due 02/01/2029	4	5
Ginnie Mae		
1.750% due 04/20/2028 - 06/20/2030	2	3
2.000% due 04/20/2030 - 05/20/2030	2	2
NCUA Guaranteed Notes		
0.746% due 11/05/2020	1,184	1,190
0.829% due 12/08/2020	305	307
Tennessee Valley Authority		
6.250% due 12/15/2017	400	439
		10,325
U.S. TREASURY OBLIGATIONS 7.8%		
U.S. Treasury Bonds		
1.750% due 05/15/2023 (h)	100	97
2.500% due 05/15/2024 (h)	100	102
5.250% due 02/15/2029 (h)	100	131
U.S. Treasury Inflation Protected Securities (b)		
0.125% due 01/15/2022 (h)	420	407
0.125% due 07/15/2022 (f)(h)	1,965	1,905
0.125% due 01/15/2023 (f)	2,370	2,271
0.125% due 07/15/2024 (h)	701	666
0.250% due 01/15/2025	9,538	9,098
0.375% due 07/15/2025 (h)	8,825	8,536
2.375% due 01/15/2025 (h)	126	143
		23,356
Total United States (Cost $76,835)		**75,552**
SHORT-TERM INSTRUMENTS 0.7%		
CERTIFICATES OF DEPOSIT 0.2%		
Credit Suisse AG		
0.698% due 01/28/2016	$ 400	400
Intesa Sanpaolo SpA		
1.701% due 04/11/2016	300	300
		700
REPURCHASE AGREEMENTS (d) 0.5%		
		1,404
Total Short-Term Instruments (Cost $2,104)		**2,104**
Total Investments in Securities (Cost $247,029)		**239,103**

	SHARES	MARKET VALUE (000S)
INVESTMENTS IN AFFILIATES 20.0%		
SHORT-TERM INSTRUMENTS 20.0%		
CENTRAL FUNDS USED FOR CASH MANAGEMENT PURPOSES 20.0%		
PIMCO Short-Term Floating NAV Portfolio III	6,023,208	$ 59,473
Total Short-Term Instruments (Cost $59,708)		**59,473**
Total Investments in Affiliates (Cost $59,708)		**59,473**
Total Investments 100.3% (Cost $306,737)		$ **298,576**
Financial Derivative Instruments (e)(g) 0.0% (Cost or Premiums, net $(408))		**34**
Other Assets and Liabilities, net (0.3%)		**(952)**
Net Assets 100.0%		$ **297,658**

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) **Principal amount of security is adjusted for inflation.**
(c) **Perpetual maturity; date shown, if applicable, represents next contractual call date.**

BORROWINGS AND OTHER FINANCING TRANSACTIONS

(d) REPURCHASE AGREEMENTS:

Counterparty	Lending Rate	Settlement Date	Maturity Date	Principal Amount	Collateralized By	Collateral (Received)	Repurchase Agreements, at Value	Repurchase Agreement Proceeds to be Received (1)
SSB	0.010%	12/31/2015	01/04/2016	$ 1,404	Fannie Mae 2.140% due 11/07/2022	$ (1,432)	$ 1,404	$ 1,404
Total Repurchase Agreements						**$ (1,432)**	**$ 1,404**	**$ 1,404**

(1) Includes accrued interest.

SHORT SALES:

SHORT SALES ON U.S. GOVERNMENT AGENCIES*:

Description	Coupon	Maturity Date	Principal Amount	Proceeds	Payable for Short Sales
Fannie Mae, TBA	4.000%	01/01/2046	$ 3,000	$ (3,180)	$ (3,174)
Fannie Mae, TBA	4.500	01/01/2046	7,000	(7,557)	(7,559)
Fannie Mae, TBA	4.500	02/01/2046	5,000	(5,386)	(5,391)
Total Short Sales				**$ (16,123)**	**$ (16,124)**

* Short Sales shown are To-Be-Announced ("TBA") securities which are not subject to collateral pledging under the terms of any master agreements.

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, 2015:

Counterparty	Repurchase Agreement Proceeds to be Received	Payable for Reverse Repurchase Agreements	Payable for Sale-Buyback Transactions	Total Borrowings and Other Financing Transactions	Collateral (Received)	Net Exposure [(2)]
Global/Master Repurchase Agreement						
SSB	$ 1,404	$ 0	$ 0	$ 1,404	$ (1,432)	$ (28)
Total Borrowings and Other Financing Transactions	**$ 1,404**	**$ 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.

(e) FINANCIAL DERIVATIVE INSTRUMENTS: EXCHANGE-TRADED OR CENTRALLY CLEARED

PURCHASED OPTIONS:

OPTIONS ON EXCHANGE-TRADED FUTURES CONTRACTS

Description	Strike Price	Expiration Date	# of Contracts	Cost	Market Value
Put - CBOT U.S. Treasury 10-Year Note March Futures	$ 109.000	02/19/2016	47	$ 0	$ 1
Total Purchased Options				**$ 0**	**$ 1**

FUTURES CONTRACTS:

Description	Type	Expiration Month	# of Contracts	Unrealized Appreciation/ (Depreciation)	Variation Margin	
					Asset	Liability
Australia Government 3-Year Note March Futures	Long	03/2016	20	$ 4	$ 0	$ (2)
Australia Government 10-Year Bond March Futures	Long	03/2016	13	4	0	(12)
Euro-Bobl March Futures	Long	03/2016	122	19	5	0
Euro-BONO March Future	Long	03/2016	26	(10)	18	0
Euro-BTP Italy Government Bond March Futures	Short	03/2016	64	26	0	(43)
Euro-Bund 10-Year Bond March Futures	Short	03/2016	73	(19)	0	(3)
Euro-Buxl 30-Year Bond March Futures	Short	03/2016	1	3	0	(1)
Euro-OAT France Government 10-Year Bond March Futures	Long	03/2016	106	44	24	0
Euro-Schatz March Futures	Long	03/2016	84	8	2	0
Japan Government 10-Year Bond March Futures	Long	03/2016	14	35	0	(1)
U.S. Treasury 5-Year Note March Futures	Long	03/2016	14	(3)	2	0
U.S. Treasury 10-Year Note March Futures	Long	03/2016	349	(73)	104	0
U.S. Treasury Ultra Long-Term Bond March Futures	Short	03/2016	2	(1)	0	(2)
United Kingdom Long Gilt March Futures	Short	03/2016	44	11	48	(22)
Total Futures Contracts				**$ 48**	**$ 203**	**$ (86)**

SWAP AGREEMENTS:

CREDIT DEFAULT SWAPS ON CREDIT INDICES - SELL PROTECTION [(1)]

Index/Tranches	Fixed Receive Rate	Maturity Date	Notional Amount [(2)]	Market Value [(3)]	Unrealized Appreciation/ (Depreciation)	Variation Margin	
						Asset	Liability
CDX.HY-24 5-Year Index	5.000%	06/20/2020	$ 1,683	$ 66	$ (52)	$ 2	$ 0
CDX.HY-25 5-Year Index	5.000	12/20/2020	5,100	71	(26)	8	0
CDX.IG-25 5-Year Index	1.000	12/20/2020	18,700	110	(37)	3	0
iTraxx Europe Main 24 5-Year Index	1.000	12/20/2020	EUR 24,100	302	(61)	10	0
iTraxx Senior 24 5-Year Index	1.000	12/20/2020	4,100	52	4	0	(2)
				$ 601	$ (172)	$ 23	$ (2)

(1) 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.

(2) 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.

(3) 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
Pay	3-Month CHF-LIBOR	0.050%	03/16/2026	CHF	1,400	$ (34)	$ (33)	$ 0	$ (3)
Pay	3-Month SEK-LIBOR	1.013	01/23/2025	SEK	600	(2)	(2)	0	0
Pay	3-Month SEK-LIBOR	1.023	01/23/2025		500	(2)	(2)	0	0
Pay	3-Month SEK-LIBOR	1.033	01/23/2025		500	(2)	(2)	0	0
Pay	3-Month SEK-LIBOR	1.036	01/23/2025		600	(2)	(2)	0	0
Receive	3-Month USD-LIBOR	2.250	12/16/2022	$	17,100	(333)	(111)	0	(43)
Receive	3-Month USD-LIBOR	1.250	12/16/2016		2,400	(11)	(2)	0	0
Receive	3-Month USD-LIBOR*	1.300	05/06/2017		89,400	(197)	(173)	0	(21)
Receive	3-Month USD-LIBOR	1.500	12/16/2017		43,300	(317)	(126)	0	(10)
Receive	3-Month USD-LIBOR	2.038	08/31/2022		1,700	(11)	(11)	0	(4)
Receive	3-Month USD-LIBOR	2.000	08/31/2022		3,800	(17)	(9)	0	(9)
Receive	3-Month USD-LIBOR	2.250	12/16/2022		27,900	(595)	(716)	0	(89)
Receive	3-Month USD-LIBOR	2.300	01/13/2023		3,300	(69)	(56)	0	(8)
Receive	3-Month USD-LIBOR	2.500	12/16/2025		12,700	(390)	(531)	0	(53)
Receive	3-Month USD-LIBOR*	2.250	06/15/2026		17,700	119	50	0	(63)
Pay	3-Month ZAR-JIBAR	8.500	03/16/2026	ZAR	10,600	(47)	(45)	0	(10)
Receive	6-Month AUD-BBR-BBSW*	3.250	06/17/2026	AUD	600	(4)	1	5	0
Pay	6-Month EUR-EURIBOR*	0.493	03/16/2021	EUR	17,500	112	112	3	0
Pay	6-Month EUR-EURIBOR	0.500	03/16/2021		7,400	50	(61)	1	0
Pay	6-Month EUR-EURIBOR	1.000	11/30/2025		2,500	6	(35)	0	(2)
Pay	6-Month EUR-EURIBOR*	1.000	03/16/2026		5,000	(22)	(20)	0	(4)
Receive	6-Month EUR-EURIBOR	1.564	11/30/2045		500	6	26	1	0
Receive	6-Month GBP-LIBOR	1.500	03/16/2018	GBP	2,800	(26)	(18)	1	0
Receive	6-Month GBP-LIBOR	1.750	09/16/2018		5,600	(55)	(59)	4	0
Pay	6-Month GBP-LIBOR	1.750	03/16/2021		4,700	33	(5)	0	(11)
Pay	6-Month GBP-LIBOR*	2.000	03/16/2026		3,600	(18)	(80)	0	(19)
Receive	6-Month GBP-LIBOR	2.250	03/16/2046		1,000	(29)	(33)	11	0
Pay	6-Month JPY-LIBOR	0.150	03/22/2018	JPY	4,450,000	31	16	0	(1)
Receive	6-Month JPY-LIBOR	0.500	09/17/2021		500,000	(77)	(8)	0	0
Pay	6-Month JPY-LIBOR	1.000	12/18/2025		670,000	322	43	1	0
Pay	6-Month JPY-LIBOR	1.500	06/19/2033		2,340,000	2,042	1,754	0	(3)
Pay	6-Month JPY-LIBOR	1.250	06/17/2035		150,000	65	40	0	0
Pay	6-Month JPY-LIBOR	1.500	12/20/2044		590,000	381	117	0	(9)
Pay	28-Day MXN-TIIE	4.300	09/01/2016	MXN	61,600	13	4	1	0
Pay	28-Day MXN-TIIE	4.340	09/28/2017		34,300	2	(3)	2	0
Pay	28-Day MXN-TIIE	4.195	10/05/2017		26,300	(2)	(1)	1	0
Pay	28-Day MXN-TIIE	4.130	10/17/2017		80,500	(13)	1	4	0
Pay	28-Day MXN-TIIE	4.260	10/31/2017		57,800	(4)	(4)	3	0
Pay	28-Day MXN-TIIE	5.010	10/10/2019		23,600	(4)	5	3	0
Pay	28-Day MXN-TIIE	5.615	06/02/2020		49,900	33	15	4	0
Pay	28-Day MXN-TIIE	5.620	11/09/2021		1,100	0	0	0	0
Pay	28-Day MXN-TIIE	5.560	11/11/2021		1,600	(1)	(1)	0	0
Pay	28-Day MXN-TIIE	5.860	11/22/2022		29,400	(13)	(13)	4	0
						$ 918	$ 22	$ 49	$ (362)
Total Swap Agreements						**$ 1,519**	**$ (150)**	**$ 72**	**$ (364)**

* This security has a forward starting effective date. See Note 2a for further information.

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, 2015:

(f) Securities with an aggregate market value of $2,036 and cash of $4,184 have been pledged as collateral for exchange-traded and centrally cleared financial derivative instruments as of December 31, 2015. 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	**$ 1**	**$ 203**	**$ 72**	**$ 276**	**$ 0**	**$ (86)**	**$ (364)**	**$ (450)**

(g) FINANCIAL DERIVATIVE INSTRUMENTS: OVER THE COUNTER

FORWARD FOREIGN CURRENCY CONTRACTS:

				Unrealized Appreciation/ (Depreciation)	
Counterparty	Settlement Month	Currency to be Delivered	Currency to be Received	Asset	Liability
AZD	01/2016	$ 571	MYR 2,358	$ 0	$ (25)
BOA	01/2016	BRL 1,007	$ 260	6	0
	01/2016	DKK 16,705	2,374	0	(59)
	01/2016	EUR 3,810	4,062	0	(78)
	01/2016	GBP 668	1,007	22	0
	01/2016	SEK 4,060	468	0	(13)
	01/2016	$ 258	BRL 1,007	0	(3)
	01/2016	12,067	CAD 16,758	44	0
	01/2016	76,488	EUR 69,611	0	(839)
	01/2016	2,417	INR 160,991	9	0
	02/2016	CAD 16,758	$ 12,068	0	(44)
	02/2016	DKK 27,190	3,983	20	0
	02/2016	EUR 69,611	76,543	841	0
	02/2016	THB 20,366	567	2	0
	04/2016	DKK 1,302	193	3	0
	07/2016	14,749	2,227	66	0
	09/2016	CNH 794	120	2	0
BPS	01/2016	BRL 11,342	2,905	38	0
	01/2016	DKK 7,675	1,194	77	0
	01/2016	$ 2,903	BRL 11,342	0	(36)
	01/2016	342	KRW 403,697	1	0
	02/2016	BRL 11,342	$ 2,874	35	0
	02/2016	TWD 19,718	608	10	0
	09/2016	CNH 7,530	1,139	23	0
BRC	01/2016	IDR 3,094,680	222	0	(1)
	01/2016	RUB 15,300	227	18	0
	01/2016	$ 2,074	INR 137,508	0	(1)
	02/2016	INR 29,203	$ 432	0	(6)
	02/2016	TWD 11,786	355	0	(2)
	03/2016	$ 191	MXN 3,300	0	(1)
	09/2016	CNH 1,729	$ 260	3	0
CBK	01/2016	CHF 492	479	0	(12)
	01/2016	EUR 3,505	3,782	14	(41)
	01/2016	KRW 1,147	1	0	0
	01/2016	MYR 1,825	422	0	(1)
	01/2016	$ 163	CNH 1,039	0	(5)
	01/2016	10,916	EUR 10,290	266	0
	01/2016	137	KRW 158,851	0	(2)
	02/2016	EUR 608	$ 665	4	0
	02/2016	HKD 251	32	0	0
	09/2016	CNH 865	130	2	0
DUB	01/2016	BRL 13,664	3,470	17	0
	01/2016	CNY 149	23	0	0
	01/2016	DKK 2,457	382	24	0
	01/2016	KRW 249,224	217	5	0
	01/2016	$ 3,495	BRL 13,664	0	(41)
	02/2016	BRL 3,010	$ 761	7	0
	02/2016	$ 221	BRL 869	0	(4)
FBF	01/2016	BRL 4,109	$ 1,052	14	0
	01/2016	KRW 2,289	2	0	0
	01/2016	$ 1,061	BRL 4,109	0	(22)
GLM	01/2016	EUR 4,244	$ 4,517	0	(95)
	01/2016	JPY 407,139	3,333	0	(54)
	01/2016	$ 732	EUR 674	1	0
	01/2016	151	GBP 100	0	(4)
	01/2016	86	INR 5,768	1	0
	01/2016	50	KRW 56,623	0	(2)
HUS	01/2016	BRL 136	$ 35	1	0
	01/2016	EUR 68,784	73,301	0	(1,450)
	01/2016	$ 35	BRL 136	0	(1)
	09/2016	CNH 864	$ 130	2	0
JPM	01/2016	BRL 3,241	1,100	281	0
	01/2016	CAD 8,516	6,391	236	0
	01/2016	DKK 12,030	1,757	11	(6)

Counterparty	Settlement Month	Currency to be Delivered		Currency to be Received		Unrealized Appreciation/ (Depreciation) Asset	Unrealized Appreciation/ (Depreciation) Liability
	01/2016	INR	104,581	$	1,574	$ 0	$ (2)
	01/2016	KRW	1,998,684		1,710	10	0
	01/2016	NZD	3,442		2,281	0	(73)
	01/2016	$	6,930	AUD	9,533	16	0
	01/2016		830	BRL	3,241	0	(11)
	01/2016		2,987	EUR	2,751	13	(11)
	01/2016		24,120	GBP	16,253	0	(159)
	01/2016		1,499	INR	100,312	13	0
	01/2016		704	KRW	812,315	2	(15)
	02/2016	AUD	9,533	$	6,921	0	(16)
	02/2016	EUR	1,918		2,105	19	0
	02/2016	GBP	16,254		24,121	158	0
	02/2016	IDR	7,133,205		499	0	(8)
	02/2016	NZD	2,275		1,554	0	0
	02/2016	SGD	870		614	2	0
	04/2016	DKK	1,298		193	3	0
	09/2016	CNH	14,076		2,129	42	0
	09/2016	$	530	CNH	3,458	0	(17)
	10/2016	DKK	44,085	$	6,707	223	0
MSB	01/2016		2,530		387	19	0
	01/2016	GBP	16,101		24,274	538	0
	01/2016	$	1,184	JPY	143,339	9	0
	01/2016		111	KRW	128,864	0	(1)
	01/2016		110	MYR	462	0	(3)
	01/2016		216	RUB	15,300	0	(7)
	02/2016	JPY	88,639	$	733	0	(5)
	04/2016	RUB	15,300		211	7	0
NAB	01/2016	AUD	9,533		6,858	0	(88)
NGF	03/2016	MXN	103,687		5,948	0	(39)
SCX	01/2016	CAD	8,242		6,166	209	0
	01/2016	INR	68,326		1,029	0	(1)
	01/2016	MYR	11,749		2,679	0	(44)
	01/2016	TRY	2,279		772	0	(6)
	02/2016	IDR	2,973,610		206	0	(5)
	02/2016	SGD	923		655	6	0
SOG	01/2016	IDR	3,585,150		257	0	(1)
	01/2016	INR	16,208		244	0	0
	01/2016	KRW	573,786		497	9	0
	01/2016	$	605	MYR	2,591	0	(5)
	02/2016	TWD	10,162	$	307	0	(1)
UAG	01/2016	BRL	1,496		387	9	0
	01/2016	EUR	3,357		3,614	0	(34)
	01/2016	NOK	2,075		239	4	0
	01/2016	$	383	BRL	1,496	0	(5)
	01/2016		410	EUR	374	0	(4)
	01/2016		625	GBP	415	0	(13)
	01/2016		75	INR	5,031	1	0
	01/2016		2,150	JPY	263,800	45	0
	01/2016		370	KRW	424,737	0	(9)
	01/2016		505	MYR	2,098	0	(19)
	01/2016		784	NZD	1,167	14	0
	02/2016		383	BRL	1,496	0	(9)
	07/2016	DKK	7,374	$	1,110	30	0
	09/2016	CNH	2,254		341	7	0
	09/2016	$	3,627	CNH	23,647	0	(120)
Total Forward Foreign Currency Contracts						**$ 3,514**	**$ (3,579)**

PURCHASED OPTIONS:

FOREIGN CURRENCY OPTIONS

Counterparty	Description	Strike Price		Expiration Date	Notional Amount	Cost	Market Value
DUB	Call - OTC USD versus BRL	BRL	4.000	03/28/2016	$ 400	$ 18	$ 21
FBF	Call - OTC USD versus BRL		4.000	03/28/2016	1,900	83	101
GLM	Call - OTC USD versus JPY	JPY	125.100	01/27/2016	1,400	10	1
SCX	Call - OTC USD versus CNY	CNY	6.520	10/31/2016	66	20	46
						$ 131	$ 169

OPTIONS ON SECURITIES

Counterparty	Description	Strike Price	Expiration Date	Notional Amount	Cost	Market Value
JPM	Put - OTC Fannie Mae 3.000% due 02/01/2046	$ 70.000	02/04/2016	$ 3,000	$ 0	$ 0
	Put - OTC Fannie Mae 3.500% due 02/01/2046	73.000	02/04/2016	4,000	1	0
	Call - OTC Fannie Mae 4.000% due 02/01/2046	124.000	02/04/2016	3,000	0	0
					$ 1	$ 0
Total Purchased Options					**$ 132**	**$ 169**

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-25 5-Year Index	Sell	0.950%	01/20/2016	$ 1,500	$ (3)	$ (1)
BRC	Put - OTC CDX.IG-25 5-Year Index	Sell	0.950	01/20/2016	2,200	(4)	(2)
CBK	Put - OTC CDX.IG-25 5-Year Index	Sell	0.950	01/20/2016	800	(2)	(1)
GST	Call - OTC CDX.IG-25 5-Year Index	Buy	0.700	01/20/2016	3,900	(2)	0
	Put - OTC CDX.IG-25 5-Year Index	Sell	0.900	01/20/2016	3,900	(7)	(6)
						$ (18)	$ (10)

FOREIGN CURRENCY OPTIONS

Counterparty	Description	Strike Price	Expiration Date	Notional Amount	Premiums (Received)	Market Value
AZD	Call - OTC USD versus CNY	CNY 7.000	11/01/2016	$ 500	$ (6)	$ (8)
CBK	Call - OTC USD versus RUB	RUB 71.500	03/09/2016	300	(6)	(14)
DUB	Put - OTC USD versus BRL	BRL 3.800	03/28/2016	400	(8)	(6)
	Call - OTC USD versus BRL	4.300	03/28/2016	400	(8)	(10)
FBF	Put - OTC USD versus BRL	3.800	03/28/2016	1,900	(41)	(29)
	Call - OTC USD versus BRL	4.300	03/28/2016	1,900	(39)	(49)
GLM	Put - OTC USD versus JPY	JPY 117.350	01/27/2016	2,800	(20)	(6)
	Put - OTC USD versus KRW	KRW 1,092.500	01/20/2016	200	(2)	0
HUS	Call - OTC USD versus CNY	CNY 6.600	02/05/2016	500	(6)	(3)
JPM	Call - OTC USD versus CNY	6.600	02/05/2016	460	(5)	(3)
	Put - OTC USD versus KRW	KRW 1,082.500	01/19/2016	600	(5)	0
	Put - OTC USD versus KRW	1,092.500	01/20/2016	700	(5)	0
MSB	Call - OTC USD versus RUB	RUB 70.000	02/02/2016	400	(7)	(18)
SOG	Call - OTC USD versus CNY	CNY 7.000	11/01/2016	1,100	(13)	(18)
					$ (171)	$ (164)

INTEREST RATE SWAPTIONS

Counterparty	Description	Floating Rate Index	Pay/Receive Floating Rate	Exercise Rate	Expiration Date	Notional Amount	Premiums (Received)	Market Value
BRC	Call - OTC 5-Year Interest Rate Swap*	6-Month EUR-EURIBOR	Receive	0.400%	04/29/2016	EUR 3,000	$ (11)	$ 0
	Put - OTC 5-Year Interest Rate Swap*	6-Month EUR-EURIBOR	Pay	1.400	04/29/2016	3,000	(26)	(64)
	Call - OTC 10-Year Interest Rate Swap	6-Month GBP-LIBOR	Receive	1.700	03/10/2016	GBP 2,700	(21)	(9)
	Put - OTC 10-Year Interest Rate Swap	6-Month GBP-LIBOR	Pay	2.250	03/10/2016	2,700	(15)	(17)
	Call - OTC 30-Year Interest Rate Swap	6-Month GBP-LIBOR	Receive	1.800	01/12/2016	1,800	(31)	0
	Put - OTC 30-Year Interest Rate Swap	6-Month GBP-LIBOR	Pay	2.400	01/12/2016	1,800	(29)	0
JPM	Call - OTC 10-Year Interest Rate Swap	6-Month GBP-LIBOR	Receive	1.750	02/01/2016	2,900	(21)	(3)
	Put - OTC 10-Year Interest Rate Swap	6-Month GBP-LIBOR	Pay	2.300	02/01/2016	2,900	(20)	(3)
							$ (174)	$ (96)
Total Written Options							**$ (363)**	**$ (270)**

* This security has a forward starting effective date. See Note 2a for further information.

TRANSACTIONS IN WRITTEN CALL AND PUT OPTIONS FOR THE PERIOD ENDED DECEMBER 31, 2015:

	# of Contracts	Notional Amount in $	Notional Amount in AUD	Notional Amount in EUR	Notional Amount in GBP	Notional Amount in NZD	Premiums
Balance at Beginning of Period	0	$ 20,900	AUD 0	EUR 7,900	GBP 1,800	NZD 0	$ (443)
Sales	26	67,860	3,400	78,550	29,600	6,400	(986)
Closing Buys	0	(19,400)	0	(26,500)	(4,100)	(6,400)	421
Expirations	(13)	(40,600)	(3,400)	(47,730)	(10,000)	0	484
Exercised	(13)	(4,300)	0	(6,220)	(2,500)	0	161
Balance at End of Period	0	$ 24,460	AUD 0	EUR 6,000	GBP 14,800	NZD 0	$ (363)

SWAP AGREEMENTS:

CREDIT DEFAULT SWAPS ON CORPORATE ISSUES - BUY PROTECTION (1)

								Swap Agreements, at Value	
Counterparty	Reference Entity	Fixed (Pay) Rate	Maturity Date	Implied Credit Spread at December 31, 2015 (3)	Notional Amount (4)	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Asset	Liability
BOA	Commerzbank AG	(1.000%)	12/20/2023	2.232%	$ 1,300	$ 133	$ (23)	$ 110	$ 0
	Universal Health Services, Inc.	(1.250%)	06/20/2016	0.137	1,000	0	(6)	0	(6)
	Wind Acquisition Finance S.A.	(5.000%)	06/20/2021	4.129	EUR 600	(82)	53	0	(29)
BRC	Navient Corp.	(5.000%)	03/20/2019	5.367	$ 1,100	(82)	91	9	0
	Springleaf Finance Corp.	(5.000%)	06/20/2020	3.286	400	(38)	10	0	(28)
	UBS AG	(1.000%)	09/20/2022	1.543	750	22	3	25	0
CBK	UBS AG	(1.000%)	09/20/2022	1.543	800	43	(17)	26	0
MYC	UBS AG	(1.000%)	03/20/2017	0.922	850	(1)	0	0	(1)
						$ (5)	$ 111	$ 170	$ (64)

CREDIT DEFAULT SWAPS ON CORPORATE AND SOVEREIGN ISSUES - SELL PROTECTION (2)

								Swap Agreements, at Value	
Counterparty	Reference Entity	Fixed Receive Rate	Maturity Date	Implied Credit Spread at December 31, 2015 (3)	Notional Amount (4)	Premiums (Received)	Unrealized Appreciation/ (Depreciation)	Asset	Liability
BOA	Brazil Government International Bond	1.000%	03/20/2019	4.263%	$ 300	$ (15)	$ (14)	$ 0	$ (29)
	Brazil Government International Bond	1.000%	09/20/2019	4.461	100	(3)	(8)	0	(11)
	France Government International Bond	0.250%	03/20/2020	0.195	1,000	(7)	9	2	0
	Volkswagen International Finance NV	1.000%	12/20/2016	1.169	EUR 600	(3)	2	0	(1)
BRC	France Government International Bond	0.250%	03/20/2020	0.195	$ 300	(2)	3	1	0
	Russia Government International Bond	1.000%	09/20/2016	1.591	500	(7)	5	0	(2)
CBK	Brazil Government International Bond	1.000%	03/20/2019	4.263	100	(4)	(6)	0	(10)
	France Government International Bond	0.250%	03/20/2020	0.195	200	(2)	2	0	0
	France Government International Bond	0.250%	06/20/2020	0.212	200	(1)	1	0	0
	Tesco PLC	1.000%	12/20/2020	2.886	EUR 300	(25)	(3)	0	(28)
DUB	Brazil Government International Bond	1.000%	03/20/2019	4.263	$ 300	(13)	(16)	0	(29)
	Italy Government International Bond	1.000%	06/20/2019	0.691	100	(1)	2	1	0
FBF	Tesco PLC	1.000%	12/20/2020	2.886	EUR 100	(8)	(1)	0	(9)
GST	France Government International Bond	0.250%	03/20/2020	0.195	$ 1,600	(14)	18	4	0
	France Government International Bond	0.250%	06/20/2020	0.212	200	(1)	1	0	0
HUS	Brazil Government International Bond	1.000%	06/20/2019	4.369	100	(2)	(9)	0	(11)
	Brazil Government International Bond	1.000%	09/20/2019	4.461	100	(3)	(8)	0	(11)
	France Government International Bond	0.250%	03/20/2020	0.195	300	(2)	3	1	0
	Russia Government International Bond	1.000%	09/20/2016	1.591	500	(6)	4	0	(2)
JPM	Brazil Government International Bond	1.000%	03/20/2019	4.263	200	(8)	(11)	0	(19)
	France Government International Bond	0.250%	03/20/2020	0.195	600	(4)	5	1	0
	France Government International Bond	0.250%	06/20/2020	0.212	300	(2)	3	1	0
	Tesco PLC	1.000%	12/20/2020	2.886	EUR 800	(69)	(6)	0	(75)
MYC	Brazil Government International Bond	1.000%	03/20/2019	4.263	$ 100	(4)	(6)	0	(10)
	Brazil Government International Bond	1.000%	09/20/2019	4.461	100	(3)	(8)	0	(11)
	France Government International Bond	0.250%	03/20/2020	0.195	700	(4)	6	2	0
	Tesco PLC	1.000%	12/20/2020	2.886	EUR 200	(16)	(3)	0	(19)
						$ (229)	$ (35)	$ 13	$ (277)

CREDIT DEFAULT SWAPS ON CREDIT INDICES - BUY PROTECTION [(1)]

Counterparty	Index/Tranches	Fixed (Pay) Rate	Maturity Date	Notional Amount [(4)]	Premiums Paid	Unrealized Appreciation	Swap Agreements, at Value [(5)] Asset	Liability
BOA	iTraxx Europe Subordinated 23 5-Year Index	(1.000%)	12/20/2020	EUR 300	$ 7	$ 2	$ 9	$ 0
BPS	iTraxx Europe Subordinated 23 5-Year Index	(1.000)	12/20/2020	100	2	1	3	0
BRC	iTraxx Europe Subordinated 23 5-Year Index	(1.000)	12/20/2020	500	11	3	14	0
					$ 20	$ 6	$ 26	$ 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 Appreciation/ (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	03/16/2021	EUR 6,700	$ 7,350	$ (22)	$ 40	$ 18	$ 0
	Floating rate equal to 3-Month EUR-EURIBOR less 0.200% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	03/16/2026	590	640	2	8	10	0
	Floating rate equal to 3-Month EUR-EURIBOR less 0.200% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	06/15/2026	2,700	2,875	(13)	109	96	0
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	12/16/2020	7,100	7,696	9	97	106	0
	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	03/16/2021	6,470	7,098	(5)	22	17	0
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	03/16/2021	2,400	2,633	(8)	14	6	0
	Floating rate equal to 3-Month EUR-EURIBOR less 0.200% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	03/16/2026	6,190	6,710	76	26	102	0
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	03/16/2021	2,000	2,194	(2)	7	5	0
	Floating rate equal to 3-Month EUR-EURIBOR less 0.200% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	06/15/2026	1,600	1,698	(1)	64	63	0

Counterparty	Receive	Pay	Maturity Date [6]	Notional Amount of Currency Received	Notional Amount of Currency Delivered	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value Asset	Swap Agreements, at Value Liability
GLM	Floating rate equal to 3-Month EUR-EURIBOR less 0.200% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	03/16/2026	EUR 300	$ 325	$ 5	$ 0	$ 5	$ 0
MYC	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency received	Floating rate equal to 3-Month JPY-LIBOR less 0.9075% based on the notional amount of currency delivered	03/16/2021	$ 1,065	JPY 130,000	(10)	(3)	0	(13)
						$ 31	$ 384	$ 428	$ (13)

(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
BOA	Pay	3-Month KRW-KWCDC	1.860%	12/01/2020	KRW 1,607,700	$ 0	$ 9	$ 9	$ 0
CBK	Pay	3-Month KRW-KWCDC	1.863	12/01/2020	996,500	0	6	6	0
DUB	Pay	3-Month KRW-KWCDC	1.860	12/01/2020	4,823,100	0	26	26	0
GLM	Receive	1-Year BRL-CDI	16.150	01/04/2021	BRL 8,200	4	10	14	0
JPM	Pay	1-Year BRL-CDI	11.320	01/04/2016	3,300	0	(6)	0	(6)
MYC	Receive	1-Year BRL-CDI	16.150	01/04/2021	1,900	2	1	3	0
NGF	Pay	3-Month KRW-KWCDC	1.863	12/01/2020	KRW 1,607,700	0	9	9	0
						$ 6	$ 55	$ 67	$ (6)

VOLATILITY SWAPS

Counterparty	Pay/Receive Volatility	Reference Entity	Volatility Strike	Maturity Date	Notional Amount	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value Asset	Swap Agreements, at Value Liability
DUB	Pay	EUR versus CHF 1-Year ATM Implied Volatility	8.350%	08/16/2016	CHF 6	$ 0	$ 10	$ 10	$ 0
	Pay	EUR versus CHF 1-Year ATM Implied Volatility	8.450	08/16/2016	3	0	5	5	0
	Pay	EUR versus CHF 1-Year ATM Implied Volatility	8.650	08/16/2016	3	0	6	6	0
	Pay	EUR versus CHF 1-Year ATM Implied Volatility	8.700	08/16/2016	3	0	6	6	0
	Pay	EUR versus CHF 1-Year ATM Implied Volatility	8.800	08/16/2016	3	0	6	6	0
	Pay	EUR versus CHF 1-Year ATM Implied Volatility	9.000	08/16/2016	3	0	7	7	0
	Pay	EUR versus CHF 1-Year ATM Implied Volatility	8.400	12/06/2016	2	0	2	2	0
	Receive	USD versus CHF 1-Year ATM Implied Volatility	10.250	08/16/2016	3	0	0	0	0
	Receive	USD versus CHF 1-Year ATM Implied Volatility	10.450	08/16/2016	3	0	0	0	0
	Receive	USD versus CHF 1-Year ATM Implied Volatility	10.550	08/16/2016	6	0	(1)	0	(1)
	Receive	USD versus CHF 1-Year ATM Implied Volatility	10.900	08/16/2016	3	0	(3)	0	(3)
	Receive	USD versus CHF 1-Year ATM Implied Volatility	11.200	08/16/2016	6	0	(7)	0	(7)
	Receive	USD versus CHF 1-Year ATM Implied Volatility	10.800	12/06/2016	2	0	(1)	0	(1)
						$ 0	$ 30	$ 42	$ (12)
Total Swap Agreements						**$ (177)**	**$ 551**	**$ 746**	**$ (372)**

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, 2015:

(h) Securities with an aggregate market value of $1,967 have been pledged as collateral for financial derivative instruments as governed by International Swaps and Derivatives Association, Inc. master agreements as of December 31, 2015.

	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	$ 0	$ 0	$ 0	$ 0	$ (25)	$ (8)	$ 0	$ (33)	$ (33)	$ 0	$ (33)
BOA	1,015	0	254	1,269	(1,036)	(1)	(76)	(1,113)	156	0	156
BPS	184	0	126	310	(36)	0	0	(36)	274	(320)	(46)
BRC	21	0	49	70	(11)	(92)	(30)	(133)	(63)	0	(63)
CBK	286	0	140	426	(61)	(15)	(38)	(114)	312	(470)	(158)
DUB	53	21	137	211	(45)	(16)	(41)	(102)	109	(106)	3
FBF	14	101	0	115	(22)	(78)	(9)	(109)	6	0	6
GLM	2	1	19	22	(155)	(6)	0	(161)	(139)	0	(139)
GST	0	0	4	4	0	(6)	0	(6)	(2)	0	(2)
HUS	3	0	1	4	(1,451)	(3)	(24)	(1,478)	(1,474)	1,933	459
JPM	1,029	0	2	1,031	(318)	(9)	(100)	(427)	604	(710)	(106)
MSB	573	0	0	573	(16)	(18)	0	(34)	539	(310)	229
MYC	0	0	5	5	0	0	(54)	(54)	(49)	0	(49)
NAB	0	0	0	0	(88)	0	0	(88)	(88)	0	(88)
NGF	0	0	9	9	(39)	0	0	(39)	(30)	0	(30)
SCX	215	46	0	261	(56)	0	0	(56)	205	(270)	(65)
SOG	9	0	0	9	(7)	(18)	0	(25)	(16)	0	(16)
UAG	110	0	0	110	(213)	0	0	(213)	(103)	0	(103)
Total Over the Counter	**$3,514**	**$169**	**$746**	**$4,429**	**$(3,579)**	**$(270)**	**$(372)**	**$(4,221)**			

[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, 2015:

	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						
Purchased Options	$ 0	$ 0	$ 0	$ 0	$ 1	$ 1
Futures	0	0	0	0	203	203
Swap Agreements	0	23	0	0	49	72
	$ 0	$ 23	$ 0	$ 0	$ 253	$ 276
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 3,514	$ 0	$ 3,514
Purchased Options	0	0	0	169	0	169
Swap Agreements	0	209	0	470	67	746
	$ 0	$ 209	$ 0	$ 4,153	$ 67	$ 4,429
	$ 0	$ 232	$ 0	$ 4,153	$ 320	$ 4,705
Financial Derivative Instruments - Liabilities						
Exchange-traded or centrally cleared						
Futures	$ 0	$ 0	$ 0	$ 0	$ 86	$ 86
Swap Agreements	0	2	0	0	362	364
	$ 0	$ 2	$ 0	$ 0	$ 448	$ 450
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 3,579	$ 0	$ 3,579
Written Options	0	10	0	164	96	270
Swap Agreements	0	341	0	25	6	372
	$ 0	$ 351	$ 0	$ 3,768	$ 102	$ 4,221
	$ 0	$ 353	$ 0	$ 3,768	$ 550	$ 4,671

See Accompanying Notes

The effect of Financial Derivative Instruments on the Statement of Operations for the period ended December 31, 2015:

	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	$ 3	$ 3
Futures	0	0	0	0	(145)	(145)
Swap Agreements	0	32	0	0	984	1,016
	$ 0	$ 32	$ 0	$ 0	$ 842	$ 874
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 14,325	$ 0	$ 14,325
Purchased Options	0	(21)	0	37	(81)	(65)
Written Options	0	115	0	401	197	713
Swap Agreements	0	(52)	0	(2,122)	(665)	(2,839)
	$ 0	$ 42	$ 0	$ 12,641	$ (549)	$ 12,134
	$ 0	$ 74	$ 0	$ 12,641	$ 293	$ 13,008
Net Change in Unrealized Appreciation (Depreciation) on Financial Derivative Instruments						
Exchange-traded or centrally cleared						
Futures	$ (110)	$ 0	$ 0	$ 0	$ (98)	$ (208)
Swap Agreements	0	(172)	0	0	(1,133)	(1,305)
	$ (110)	$ (172)	$ 0	$ 0	$ (1,231)	$ (1,513)
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ (3,130)	$ 0	$ (3,130)
Purchased Options	0	0	0	(30)	42	12
Written Options	0	(3)	0	5	71	73
Swap Agreements	0	84	0	865	57	1,006
	$ 0	$ 81	$ 0	$ (2,290)	$ 170	$ (2,039)
	$ (110)	$ (91)	$ 0	$ (2,290)	$ (1,061)	$ (3,552)

FAIR VALUE MEASUREMENTS

The following is a summary of the fair valuations according to the inputs used as of December 31, 2015 in valuing the Portfolio's assets and liabilities:

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 12/31/2015
Investments in Securities, at Value				
Australia				
Non-Agency Mortgage-Backed Securities	$ 0	$ 26	$ 0	$ 26
Sovereign Issues	0	576	0	576
Brazil				
Corporate Bonds & Notes	0	1,095	0	1,095
Canada				
Corporate Bonds & Notes	0	496	0	496
Non-Agency Mortgage-Backed Securities	0	962	0	962
Sovereign Issues	0	9,883	0	9,883
Cayman Islands				
Asset-Backed Securities	0	1,519	0	1,519
China				
Corporate Bonds & Notes	0	207	0	207
Denmark				
Corporate Bonds & Notes	0	16,044	0	16,044
France				
Corporate Bonds & Notes	0	2,112	0	2,112
Non-Agency Mortgage-Backed Securities	0	852	0	852
Sovereign Issues	0	9,652	0	9,652
Germany				
Corporate Bonds & Notes	0	4,922	0	4,922
Sovereign Issues	0	1,134	0	1,134
Greece				
Corporate Bonds & Notes	0	1,046	0	1,046
Sovereign Issues	0	800	0	800
Hong Kong				
Corporate Bonds & Notes	0	203	0	203
Ireland				
Asset-Backed Securities	0	916	0	916
Corporate Bonds & Notes	0	4,169	0	4,169
Non-Agency Mortgage-Backed Securities	0	737	0	737
Italy				
Asset-Backed Securities	0	36	0	36
Corporate Bonds & Notes	0	1,372	0	1,372
Non-Agency Mortgage-Backed Securities	0	1,445	0	1,445
Sovereign Issues	0	25,891	0	25,891
Japan				
Corporate Bonds & Notes	0	1,713	0	1,713
Jersey, Channel Islands				
Asset-Backed Securities	0	578	0	578
Luxembourg				
Corporate Bonds & Notes	0	2,595	0	2,595
Mexico				
Sovereign Issues	0	5,651	0	5,651
Netherlands				
Asset-Backed Securities	0	914	0	914
Corporate Bonds & Notes	0	4,221	0	4,221
Norway				
Corporate Bonds & Notes	0	1,006	0	1,006
Sovereign Issues	0	634	0	634
Portugal				
Corporate Bonds & Notes	0	364	0	364
Slovenia				
Sovereign Issues	0	7,605	0	7,605
Spain				
Corporate Bonds & Notes	$ 0	$ 619	$ 0	$ 619
Sovereign Issues	0	18,472	0	18,472
Supranational				
Corporate Bonds & Notes	0	1,169	0	1,169
Sweden				
Corporate Bonds & Notes	0	627	0	627
Sovereign Issues	0	162	0	162
Switzerland				
Corporate Bonds & Notes	0	2,332	0	2,332
Sovereign Issues	0	458	0	458
United Kingdom				
Asset-Backed Securities	0	109	0	109
Corporate Bonds & Notes	0	7,145	0	7,145
Non-Agency Mortgage-Backed Securities	0	4,470	0	4,470
Sovereign Issues	0	14,508	0	14,508
United States				
Asset-Backed Securities	0	20,049	0	20,049
Bank Loan Obligations	0	600	0	600
Corporate Bonds & Notes	0	12,619	0	12,619
Municipal Bonds & Notes	0	132	0	132
Non-Agency Mortgage-Backed Securities	0	8,418	32	8,450
Preferred Securities	21	0	0	21
U.S. Government Agencies	0	10,325	0	10,325
U.S. Treasury Obligations	0	23,356	0	23,356
Short-Term Instruments				
Certificates of Deposit	0	700	0	700
Repurchase Agreements	0	1,404	0	1,404
	$ 21	$ 239,050	$ 32	$ 239,103
Investments in Affiliates, at Value				
Short-Term Instruments				
Central Funds Used for Cash Management Purposes	59,473	0	0	59,473
Total Investments	$ 59,494	$ 239,050	$ 32	$ 298,576
Short Sales, at Value - Liabilities				
U.S. Government Agencies	$ 0	$ (16,124)	$ 0	$ (16,124)
Financial Derivative Instruments - Assets				
Exchange-traded or centrally cleared	203	73	0	276
Over the counter	0	4,429	0	4,429
	$ 203	$ 4,502	$ 0	$ 4,705
Financial Derivative Instruments - Liabilities				
Exchange-traded or centrally cleared	(86)	(364)	0	(450)
Over the counter	0	(4,221)	0	(4,221)
	$ (86)	$ (4,585)	$ 0	$ (4,671)
Totals	$ 59,611	$ 222,843	$ 32	$ 282,486

There were no significant transfers between Levels 1, 2, or 3 during the period ended December 31, 2015.

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. 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, with the exception of securities with a forward starting effective date, where interest income is recorded on the accrual basis from effective 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 appreciation (depreciation) 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 registered investment companies are recorded as dividend income. Long-term capital gain distributions received from registered investment companies 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 gain (loss) and net change in unrealized appreciation (depreciation) 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, if any). 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 (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 (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 net assets. 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. Under certain circumstances, the per share net asset value ("NAV") of a class of the Portfolio's shares may be different from the per share NAV of another class of shares as a result of the different daily expense accruals applicable to each class of shares.

(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 transactions that may cause character 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 Statements of Changes in Net Assets and have been recorded to paid in capital. In addition, other amounts have been reclassified between undistributed (overdistributed) net investment income (loss), accumulated undistributed (overdistributed) net realized gains (losses) and/or paid in capital to more appropriately conform financial accounting to tax characterizations of dividend distributions.

(e) New Accounting Pronouncements In June 2014, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU"), ASU 2014-11, that expanded 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 became effective prospectively for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. The Portfolio has adopted the ASU. The financial statements have been modified to provide enhanced disclosures surrounding secured borrowing transactions, if any. See the Notes to Schedule of Investments for additional details.

In August 2014, the FASB issued ASU 2014-15 requiring management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern. The ASU is effective prospectively for annual periods ending after December 15, 2016, and interim periods thereafter. At this time, management is evaluating the implications of these changes on the financial statements.

In May 2015, the FASB issued ASU 2015-07 which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. The ASU also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share practical expedient. The ASU is effective for annual periods beginning after December 15, 2015 and interim periods within those annual periods. 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 price of the Portfolio's shares is based on the Portfolio's NAV. The NAV of the Portfolio, or each of its share classes, as applicable, is determined by dividing the total value of portfolio investments and other assets attributable to the Portfolio or class, less any liabilities, by the total number of shares outstanding of the Portfolio or class.

On each day that the New York Stock Exchange ("NYSE") is open, Portfolio shares are ordinarily valued as of the close of regular trading ("NYSE Close"). Information that becomes known to the Portfolio or its agents after the time as of which 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. The Portfolio reserves the right to change the time its NAV is calculated if the Portfolio closes earlier, or as permitted by the SEC.

For purposes of calculating NAV, portfolio securities and other assets for which market quotes are readily available are valued at market value. 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 established market makers or prices (including evaluated prices) supplied by the Portfolio's approved pricing services, quotation reporting systems and other third-party sources (together, "Pricing Services"). The Portfolio will normally use pricing data for domestic equity securities received shortly after the NYSE Close and does not normally take into account trading, clearances or settlements that take place after the NYSE Close. A foreign (non-U.S.) equity security traded on a foreign exchange or on more than one exchange is typically valued using pricing information from the exchange considered by the

Adviser to be the primary exchange. A foreign (non-U.S.) equity security will be valued as of the close of trading on the foreign exchange, or the NYSE Close, if the NYSE Close occurs before the end of trading on the foreign exchange. Domestic and foreign (non-U.S.) fixed income securities, non-exchange traded derivatives, and equity options are normally valued on the basis of quotes obtained from brokers and dealers or Pricing Services using data reflecting the earlier closing of the principal markets for those securities. Prices obtained from Pricing Services may be based on, among other things, information provided by market makers or estimates of market values obtained from yield data relating to investments or securities with similar characteristics. Certain fixed income securities purchased on a delayed-delivery basis are marked to market daily until settlement at the forward settlement date. Exchange-traded options, except equity options, futures and options on futures are valued at the settlement price determined by the relevant exchange. Swap agreements are valued on the basis of bid quotes obtained from brokers and dealers or market-based prices supplied by Pricing Services or other pricing sources. With respect to any portion of the Portfolio's assets that are invested in one or more open-end management investment companies (other than exchange-traded funds ("ETFs")), a Portfolio's NAV will be calculated based upon the NAVs of such investments.

If a foreign (non-U.S.) equity security's value has materially changed after the close of the security's primary exchange or principal market but before the NYSE Close, the security may be valued at fair value based on procedures established and approved by the Board of Trustees of the Trust (the "Board"). Foreign (non-U.S.) equity securities that do not trade when the NYSE is open are also valued at fair value. With respect to foreign (non-U.S.) equity securities, the Portfolio may determine the fair value of investments based on information provided by Pricing Services and other third-party vendors, which may recommend fair value or adjustments with reference to other securities, indices or assets. In considering whether fair valuation is required and in determining fair values, the Portfolio may, among other things, consider significant events (which may be considered to include changes in the value of U.S. securities or securities indices) that occur after the close of the relevant market and before the NYSE Close. The Portfolio may utilize modeling tools provided by third-party vendors to determine fair values of non-U.S. securities. Foreign (non-U.S.) exchanges may permit trading in foreign (non-U.S.) equity securities on days when the Trust is not open for business, which may result in the Portfolio's portfolio investments being affected when shareholders are unable to buy or sell shares.

Senior secured floating rate loans for which an active secondary market exists to a reliable degree will be valued at the mean of the last available bid/ask prices in the market for such loans, as provided by a Pricing Service. Senior secured floating rate loans for which an active secondary market does not exist to a reliable degree will be valued at fair value, which is intended to approximate market value. In valuing a senior secured floating rate loan at fair value, the factors considered may include, but are not limited to, the following: (a) the creditworthiness of the borrower and any intermediate participants, (b) the terms of the loan, (c) recent prices in the market for similar loans, if any, and (d) recent prices in the market for instruments of similar quality, rate, period until next interest rate reset and maturity.

Investments valued in currencies other than the U.S. dollar are converted to the U.S. dollar using exchange rates obtained from Pricing Services. As a result, the value of such investments and, in turn, 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 investments 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 Trust is not open for business. As a result, to the extent that the Portfolio holds foreign (non-U.S.) investments, the value of those investments may change at times when shareholders are unable to buy or sell shares and the value of such investments will be reflected in the Portfolio's next calculated NAV.

Investments for which market quotes or market based valuations are not readily available are valued at fair value as determined in good faith by the Board or persons acting at their direction. The Board has adopted methods for valuing securities and other assets in circumstances where market quotes are not readily available, and has delegated to the Adviser the responsibility for applying the fair valuation methods. In the event that market quotes or market based valuations are not readily available, and the security or asset cannot be valued pursuant to a Board approved valuation method, the value of the security or asset will be determined in good faith by the Valuation Oversight Committee of the Board ("Valuation Oversight Committee"), generally based on recommendations provided by the Adviser. 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, indicative market quotations ("Broker Quotes"), Pricing Services' prices), including where events occur after the close of the relevant market, but prior to the NYSE Close, that materially affect the values of a Portfolio's securities or assets. In addition, market quotes are considered not readily available when, due to extraordinary circumstances, the exchanges or markets on which the 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 assets and for determining whether the value of the applicable securities or assets should be reevaluated in light of such significant events.

When a Portfolio uses fair valuation to determine the value of a portfolio security or other asset for purposes of calculating its NAV, such investments will not be priced on the basis of quotes from the primary market in which they are traded, but rather may be priced by another method that the Board or persons acting at their direction believe reflects fair value. Fair valuation 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 ensure that fair values determined by the Board or persons acting at their direction would accurately reflect the price that a 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 a Portfolio may differ from the value that would be realized if the securities were sold. The Portfolio's use of fair valuation may also help to deter "stale price arbitrage" as discussed under the "Frequent or Excessive Purchases, Exchanges and Redemptions" section in the Portfolio's prospectus.

(b) Fair Value Hierarchy U.S. GAAP describes fair 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, or 3). The inputs or methodology used for valuing securities are not necessarily an indication of the risks 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 realized gain (loss), unrealized appreciation (depreciation), purchases and sales, accrued discounts (premiums), and transfers in and 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 value The valuation methods (or "techniques") and significant inputs used in determining the fair values of portfolio securities or other assets and liabilities 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 on the basis of quotes obtained from brokers and dealers or Pricing Services that use broker-dealer quotations, reported trades or valuation estimates from their internal pricing models. The Pricing Services' 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 Services that use broker-dealer quotations, reported trades 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, ETFs, exchange-traded notes and financial derivative instruments, such as futures contracts, rights and warrants, 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.

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 Services 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 (other than ETFs) 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 debt instruments (such as commercial paper) having a remaining maturity of 60 days or less may be valued at amortized cost, so long as the amortized cost of such short-term debt instrument is approximately the same as the fair value of the instrument as determined without the use of amortized cost valuation. Prior to July 31, 2015, short-term investments having a maturity of 60 days or less and repurchase agreements were generally valued at amortized cost which approximates fair value. Short-term debt instruments having a remaining maturity of 60 days or less 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. Other than swap agreements, which are valued using a broker-dealer bid quotation or on market-based prices provided by Pricing Services or other pricing sources, these contracts are normally valued on the basis of quotes obtained from a quotation reporting system, established market makers or Pricing Services (normally determined as of the NYSE Close). Depending on the product and the terms of the transaction, financial derivative instruments can be valued by Pricing Services 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 (if available). 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 the Adviser that uses significant unobservable inputs, investments 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 validity of the fair value is reviewed by the Adviser on a periodic basis and may be amended in accordance with the Trust's valuation procedures.

4. SECURITIES AND OTHER INVESTMENTS

(a) 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 other series of registered investment companies advised by the Adviser, 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 Fees or Supervisory and Administrative Fees to the Adviser. The Central Funds are considered to be affiliated with the Portfolio. The tables below show the Portfolio's transactions in and earnings from investments in these affiliated Funds for the period ended December 31, 2015 (amounts in thousands†):

Investments in PIMCO Short-Term Floating NAV Portfolio*

Market Value 12/31/2014	Purchases at Cost	Proceeds from Sales	Net Realized Gain (Loss)	Change in Unrealized Appreciation (Depreciation)	Market Value 12/31/2015	Dividend Income (1)	Realized Net Capital Gain Distributions (1)
$ 17	$ 0	$ (17)	$ 0	$ 0	$ 0	$ 0	$ 0

† A zero balance may reflect actual amounts rounding to less than one thousand.
* Effective July 1, 2015, the Portfolio was liquidated.
(1) A portion of this may be recharacterized to return of capital and reflected as such on tax forms mailed to shareholders on or about January 31st following each calendar year.

Investments in PIMCO Short-Term Floating NAV Portfolio III

Market Value 12/31/2014	Purchases at Cost	Proceeds from Sales	Net Realized Gain (Loss)	Change in Unrealized Appreciation (Depreciation)	Market Value 12/31/2015	Dividend Income (1)	Realized Net Capital Gain Distributions (1)
$ 40,634	$ 181,666	$ (162,600)	$ (203)	$ (24)	$ 59,473	$ 466	$ 0

† A zero balance may reflect actual amounts rounding to less than one thousand.
(1) A portion of this may be recharacterized to return of capital and reflected as such on tax forms mailed to shareholders on or about January 31st following each calendar year.

(b) 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 borrowers of the loans. 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, 2015, 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. In addition to the normal risks associated with fixed income securities discussed elsewhere in this report and the Portfolio's prospectus and statement of additional information (e.g., prepayment risk, credit risk, liquidity risk, market risk, structural risk, legal risk and interest rate risk (which may be exacerbated if the interest rate payable on a structured financing changes based on multiples of changes in interest rates or inversely to changes in interest rates)), CBOs, CLOs and other 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 quality of the collateral may decline in value or default, (iii) the Portfolio may invest in CBOs, CLOs, or other 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.

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. An 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.

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.

The Portfolio may engage in strategies where it seeks to extend the expiration or maturity of a position, such as a To Be Announced ("TBA") security on an underlying asset, by closing out the position before expiration and opening a new position with respect to the same underlying asset with a later expiration date. TBA securities purchased or sold are reflected on the Statement of Assets and Liabilities as an asset or liability, respectively.

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 of these instruments is 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 the receipt of collateral, which may result in interest expense to the Portfolio.

(b) 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 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, 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 net realized gain (loss) and net change in unrealized appreciation (depreciation) 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 net realized gain (loss) and net change in unrealized appreciation (depreciation) 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 are 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 and 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. To mitigate such risk, cash or securities may be exchanged as collateral pursuant to the terms of the underlying 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 based on such movements in the price of the contracts, an appropriate payable or receivable for the change in value may be posted or collected by the Portfolio ("Futures Variation Margin"). Gains or losses are recognized but not considered realized until the contracts expire or close. Futures contracts involve, to varying degrees, risk of loss in excess of the Futures Variation Margin included within exchange traded or centrally cleared financial derivative instruments on the Statement of Assets and Liabilities.

(c) Options Contracts The Portfolio may write or purchase options to enhance returns or to hedge an existing position or future investment. 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.

Options on Exchange-Traded Futures Contracts The Portfolio may write or purchase options on exchange-traded futures contracts ("Futures Option") to hedge an existing position or future investment, for speculative purposes or to manage exposure to market movements. A Futures Option is an option contract in which the underlying instrument is a single futures contract.

Credit Default Swaptions The Portfolio may write or purchase credit default swaptions 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 swaptions 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 with specified amounts of currency and a rate of exchange that may be exercised by a certain 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.

Options on Securities The Portfolio may write or purchase options on securities. An option uses a specified security as the underlying instrument for the option contract. The Portfolio may write or purchase options to enhance returns or to hedge an existing position or future investment.

(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 may be privately negotiated in the over the counter market ("OTC swaps") or may be cleared through a third party, known as a central counterparty or derivatives clearing organization ("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.

Centrally Cleared Swaps are marked to market daily based upon valuations as determined from the underlying contract or in accordance with the requirements of the central counterparty or derivatives clearing organization. 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 ("Swap Variation Margin"), if any, are included within centrally cleared financial derivative instruments 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.

For purposes of applying the Portfolio's investment policies and restrictions, swap agreements are generally valued by the Portfolio at market value. In the case of a credit default swap (see below), however, in applying certain of the Portfolio's investment policies and restrictions, the Portfolio will value the credit default swap at its notional value or its full exposure value (i.e., the sum of the notional amount for the contract plus the market value), but may value the credit default swap at market value for purposes of applying certain of the Portfolio's other investment policies and restrictions. For example, the Portfolio may value credit default swaps at full exposure value for purposes of the Portfolio's credit quality guidelines (if any) because such value reflects the Portfolio's actual economic exposure during the term of the credit default swap agreement. In this context, both the notional amount and the market value may be positive or negative depending on whether the Portfolio is selling or buying protection through the credit default swap. The manner in which certain securities or other instruments are valued by the Portfolio for purposes of applying investment policies and restrictions may differ from the manner in which those investments are valued by other types of investors.

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 A Portfolio may use credit default swaps on corporate, loan, sovereign, U.S. municipal or U.S. Treasury issues to provide a measure of protection against defaults of the issuers (*i.e.*, to reduce risk where a 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 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 that the referenced entity, obligation or index, as specified in the swap agreement, undergoes a certain credit event. 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. 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).

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, loan, sovereign, U.S. municipal or U.S. Treasury issues as of period end, if any, 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.

Volatility Swap Agreements The Portfolio also may enter into forward volatility agreements, also known as volatility swaps. In a volatility swap, the counterparties agree to make payments in connection with changes in the volatility (*i.e.*, the magnitude of change over a specified period of time) of an underlying referenced instrument, such as a currency, rate, index, security or other financial instrument. Volatility swaps permit the parties to attempt to hedge volatility risk and/or take positions on the projected future volatility of an underlying referenced instrument. For example, the Portfolio may enter into a volatility swap in order to take the position that the referenced instrument's volatility will increase over a particular period of time. If the referenced instrument's volatility does increase over the specified time, the Portfolio will receive payment from its counterparty based upon the amount by which the referenced instrument's realized volatility level exceeds a volatility level agreed upon by the parties. If the referenced instrument's volatility does not increase over the specified time, the Portfolio will make a payment to the counterparty based upon the amount by which the referenced instrument's realized volatility level falls below the volatility level agreed upon by the parties. At the maturity date, a net cash flow is exchanged, where the payoff amount is equivalent to the difference between the realized price volatility of the referenced instrument and the strike multiplied by the notional amount. As a receiver of the realized price volatility, the Portfolio would receive the payoff amount when the realized price volatility of the referenced instrument is greater than the strike and would owe the payoff amount when the volatility is less than the strike. As a payer of the realized price volatility, the Portfolio would owe the payoff amount when the realized price volatility of the referenced instrument is greater than the strike and would receive the payoff amount when the volatility is less than the strike. Payments on a volatility swap will be greater if they are based upon the mathematical square of volatility (*i.e.*, the measured volatility multiplied by itself, which is referred to as "variance"). This type of volatility swap is frequently referred to as a variance swap.

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 derivative instruments 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 the Portfolio's 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.

Duration is a measure of the sensitivity of a fixed income security's market price to interest rate (*i.e.*, yield) movements that incorporates a security's yield, coupon, final maturity and call features, among other characteristics. Convexity is an additional measure of interest rate sensitivity that measures the rate of change of duration in response to changes in interest rates. 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. 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. The Portfolio may be subject to heightened interest rate risk because the Fed has ended its quantitative easing program and has begun, and may continue, to raise interest rates. 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 the Portfolio to lose value. If the Portfolio lost enough value, the Portfolio could face increased redemptions by shareholders, which could further impair its performance.

To the extent that the Portfolio may invest in securities and instruments that are economically tied to Russia, the Portfolio is subject to various risks such as, but not limited 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 further 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, as compared to U.S. markets, has significant price volatility, less liquidity, difficulties in obtaining accurate prices, a smaller market capitalization and a smaller number of traded securities. Settlement, clearing and registration of securities transactions are subject to risks, which may result in significant delays or problems in registering the transfer of securities, including issues with foreign nominee accounts held with custodian banks. It is possible that the ownership rights of the Portfolio could be lost through fraud or negligence. In addition, it may be difficult for the Portfolio to enforce any rights it may have 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 derivative instruments 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, where applicable. For financial derivative instruments traded on exchanges or clearinghouses, the primary credit risk is the creditworthiness of the Portfolio's clearing broker or the exchange or clearinghouse itself. The Portfolio could lose money if the issuer or guarantor of a fixed income security, or the counterparty to a financial derivative instruments 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 and financial derivative instruments are subject to varying degrees of credit risk, which may be 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. PIMCO, as the Adviser, minimizes counterparty risks to the Portfolio through a number of ways. Prior to entering into transactions with a new counterparty, the PIMCO Counterparty Risk Committee conducts an extensive credit review of such counterparty and must approve the use of such counterparty. Furthermore, pursuant to the terms of the underlying contract, to the extent that unpaid amounts owed to the Portfolio exceed a predetermined threshold, such counterparty shall advance collateral to the Portfolio in the form of cash or securities 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.

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 ("Master Agreements") with select counterparties. 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. Each type of Master Agreement governs certain types of transactions. Different types of transactions may be traded out of different legal entities or affiliates of a particular organization, 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 Master Agreement with a counterparty. For financial reporting purposes the Statement of Assets and Liabilities generally presents derivative assets and liabilities on a gross basis, which reflects the full risks and exposures prior to netting.

Master Agreements can also help limit counterparty risk by specifying collateral posting arrangements at pre-arranged exposure levels. Under most 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 depending on the terms outlined in the applicable Master Agreement. Securities and cash pledged as collateral are reflected as assets on the Statement of Assets and Liabilities as either a component of Investments at value (securities) or Deposits with counterparty. Cash collateral received is not typically held in a segregated account and as such is reflected as a liability on the Statement of Assets and Liabilities as Deposits from counterparty. The market value of any securities received as collateral is not reflected as a component of NAV. 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 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 addenda govern cleared derivatives transactions such as futures, options on futures, and cleared over the counter ("OTC") derivatives. Such transactions require posting of initial margin as determined by each relevant clearing agency which is segregated in an account at a futures commission merchant ("FCM") registered with the Commodity Futures Trading Commission ("CFTC"). In the United States, counterparty risk is significantly reduced as creditors of an FCM cannot have a claim to Portfolio assets in the segregated account. Additionally, portability of exposure in the event of an FCM default scenario 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 (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 bilateral OTC derivative transactions entered into by the Portfolio with 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 PIMCO provides or procures supervisory and administrative services for shareholders and also bears the costs of various third-party services required by the Portfolios, including audit, custodial, portfolio accounting, legal, transfer agency and printing costs. The Trust is responsible for the following expenses: (i) taxes and governmental fees; (ii) brokerage fees and commissions and other portfolio transaction expenses; (iii) the costs of borrowing money, including interest expense; (iv) fees and expenses of the Trustees who are not "interested persons" of PIMCO or the Trust, and any counsel retained exclusively for their benefit; (v) extraordinary expense, including costs of litigation and indemnification expenses; (vi) organizational expenses; and (vii) 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.

Each Trustee, other than those affiliated with PIMCO or its affiliates, receives an annual retainer of $35,000, plus $3,600 for each Board meeting attended in person, $750 for each committee meeting attended and $750 for each Board meeting attended telephonically, plus reimbursement of related expenses. In addition, the audit committee chair receives an additional annual retainer of $5,000, the valuation oversight committee lead receives an additional annual retainer of $3,250 (to the extent there are co-leads of the valuation oversight committee, the annual retainer will be split evenly between the co-leads) and the governance committee chair receives 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, which 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. The procedures have been designed to ensure that any purchase or sale of securities by the Portfolio from or to another fund or 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 under the Act. Further, as defined under the procedures, each transaction is effected at the current market price. During the period ended December 31, 2015, the Portfolio engaged in purchases and sales of securities pursuant to Rule 17a-7 under the Act (amounts in thousands):

Purchases	Sales
$ 19,533	$ 842

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 the Portfolio has held a particular security is not generally a consideration in investment decisions. A change in the securities held by the 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 may involve correspondingly greater transaction costs 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 transaction costs and tax effects associated with portfolio turnover may adversely affect the 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, 2015, were as follows (amounts in thousands):

U.S. Government/Agency		All Other	
Purchases	Sales	Purchases	Sales
$ 430,557	$ 405,138	$ 220,296	$ 100,580

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 12/31/2015		Year Ended 12/31/2014	
	Shares	Amount	Shares	Amount
Receipts for shares sold				
Institutional Class	215	$ 2,352	83	$ 884
Administrative Class	4,371	48,158	5,383	56,686
Advisor Class	13,971	152,491	6,335	67,757
Issued as reinvestment of distributions				
Institutional Class	10	102	1	10
Administrative Class	251	2,680	185	1,966
Advisor Class	677	7,198	61	665
Cost of shares redeemed				
Institutional Class	(21)	(230)	(5)	(55)
Administrative Class	(5,865)	(64,356)	(3,956)	(41,731)
Advisor Class	(38)	(409)	(1)	(10)
Net increase (decrease) resulting from Portfolio share transactions	13,571	$ 147,986	8,086	$ 86,172

As of December 31, 2015, one shareholder owned 10% or more of the Portfolio's total outstanding shares comprising 75% of the Portfolio.

13. REGULATORY AND LITIGATION MATTERS

The Portfolio is not named as a defendant in any material litigation or arbitration proceedings and is not aware of any material litigation or claim pending or threatened against it.

PIMCO has received a Wells Notice from the staff of the U.S. Securities and Exchange Commission ("SEC") that relates to the PIMCO Total Return Active Exchange-Traded Fund ("BOND"), a series of PIMCO ETF Trust. The notice indicates the staff's preliminary determination to recommend that the SEC commence a civil action against PIMCO stemming from a non-public investigation relating to BOND. A Wells Notice is neither a formal allegation of wrongdoing nor a finding that any law was violated.

This matter principally pertains to the valuation of smaller sized positions in non-agency mortgage-backed securities purchased by BOND between its inception on February 29, 2012 and June 30, 2012, BOND's performance disclosures for that period, and PIMCO's compliance policies and procedures related to these matters.

The Wells process provides PIMCO with the opportunity to demonstrate to the SEC staff why it believes its conduct was appropriate, in keeping with industry standards, and that no action should be taken. PIMCO believes that this matter is unlikely to have a material adverse effect on any Portfolio or on PIMCO's ability to provide investment management services to any Portfolio.

The foregoing speaks only as of the date of this report.

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.

The Portfolio may be subject to local withholding taxes, including those imposed on realized capital gains. Any applicable foreign capital gains tax is accrued daily based upon net unrealized gains, and may be payable following the sale of any applicable investments.

In accordance with U.S. GAAP, the Adviser has reviewed the Portfolio's tax positions for all open tax years. As of December 31, 2015, 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 2012-2014, 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, 2015, 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)
PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)	$ 6,472	$ —	$ (8,587)	$ (575)	$ —	$ —	$ —

(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, lehman securities, convertible preferred stock 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 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, 2015 through December 31, 2015 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, 2015 through December 31, 2015, which the Portfolio elected to defer to the following taxable year pursuant to income tax regulations.

As of December 31, 2015, 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)
PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)	$ 308,156	$ 1,408	$ (10,988)	$ (9,580)

(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, lehman securities and convertible preferred stock.

For the years ended December 31, 2015 and December 31, 2014, 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)
PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)	12/31/2015	$ 9,807	$ 174	$ —
	12/31/2014	$ 2,371	$ 270	$ —

(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 financial accounting to tax accounting.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of PIMCO Variable Insurance Trust and 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 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, 2015, 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 presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Portfolio’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2015 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Kansas City, Missouri
February 18, 2016

Glossary: (abbreviations that may be used in the preceding statements)

Counterparty Abbreviations:

AZD	Australia and New Zealand Banking Group	**GLM**	Goldman Sachs Bank USA	**NAB**	National Australia Bank Ltd.
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.	**SCX**	Standard Chartered Bank
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	**MYC**	Morgan Stanley Capital Services, Inc.	**UAG**	UBS AG Stamford
FBF	Credit Suisse International				

Currency Abbreviations:

AUD	Australian Dollar	**HKD**	Hong Kong Dollar	**RUB**	Russian Ruble
BRL	Brazilian Real	**IDR**	Indonesian Rupiah	**SEK**	Swedish Krona
CAD	Canadian Dollar	**INR**	Indian Rupee	**SGD**	Singapore Dollar
CHF	Swiss Franc	**JPY**	Japanese Yen	**THB**	Thai Baht
CNH	Chinese Renminbi (Offshore)	**KRW**	South Korean Won	**TRY**	Turkish New Lira
CNY	Chinese Renminbi (Mainland)	**MXN**	Mexican Peso	**TWD**	Taiwanese Dollar
DKK	Danish Krone	**MYR**	Malaysian Ringgit	**USD (or $)**	United States Dollar
EUR	Euro	**NOK**	Norwegian Krone	**ZAR**	South African Rand
GBP	British Pound	**NZD**	New Zealand Dollar		

Exchange Abbreviations:

CBOT	Chicago Board of Trade	**OTC**	Over the Counter

Index/Spread Abbreviations:

CDX.HY	Credit Derivatives Index - High Yield	**CDX.IG**	Credit Derivatives Index - Investment Grade	**KWCDC**	KRW Certificate of Deposit

Other Abbreviations:

ABS	Asset-Backed Security	**CDI**	Brazil Interbank Deposit Rate	**LIBOR**	London Interbank Offered Rate
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	**JIBAR**	Johannesburg Interbank Agreed 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 2015:

PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)	0.16%

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:

PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)	0.01%

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.

Management of the Trust

The charts below identify the Trustees and executive officers of the Trust. 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 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 Past 5 Years	Number of Funds in Fund Complex Overseen by Trustee	Other Public Company and Investment Company Directorships Held by Trustee During the Past 5 Years
Interested Trustees*				
Brent R. Harris (1959) *Chairman of the Board and Trustee*	08/1997 to present	Managing Director, PIMCO. Formerly, member of Executive Committee, PIMCO.	168	Chairman and Trustee, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series, PIMCO Equity Series VIT; Director, StocksPLUS® Management, 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); 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.	146	Trustee, PIMCO Funds; Trustee, PIMCO ETF Trust.
Independent Trustees				
George E. Borst (1948) *Trustee*	04/2015 to present	Executive Advisor, McKinsey & Company; Formerly, Executive Advisor, Toyota Financial Services; CEO, Toyota Financial Services.	146	Trustee, PIMCO Funds; Trustee, PIMCO ETF Trust.
E. Philip Cannon (1940) *Trustee*	05/2000 to present	Private Investor. Formerly, President, Houston Zoo.	168	Trustee, PIMCO Funds; Trustee, PIMCO ETF; Trustee, PIMCO Equity Series; and Trustee, PIMCO Equity Series VIT. Formerly, Trustee, Allianz Funds (formerly, PIMCO Funds: Multi-Manager Series.
Jennifer Holden Dunbar (1963) *Trustee*	04/2015 to present	Managing Director, Dunbar Partners, LLC (business consulting and investments).	168	Trustee, PIMCO Funds; Trustee, PIMCO ETF Trust; Trustee, PIMCO Equity Series; and Trustee, PIMCO Equity Series VIT. Director, PS Business Parks; Director, Big 5 Sporting Goods Corporation.
Gary F. Kennedy (1955) *Trustee*	04/2015 to present	Formerly, Senior Vice President, General Counsel and Chief Compliance Officer, American Airlines and AMR Corporation (now American Airlines Group).	146	Trustee, PIMCO Funds; Trustee, PIMCO ETF Trust.
Peter B. McCarthy (1950) *Trustee*	04/2015 to present	Formerly, Assistant Secretary and Chief Financial Officer, United States Department of Treasury; Deputy Managing Director, Institute of International Finance.	168	Trustee, PIMCO Funds; Trustee, PIMCO ETF; Trustee, PIMCO Equity Series; and Trustee, PIMCO Equity Series VIT.
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).	168	Trustee, PIMCO Funds; Trustee, PIMCO ETF Trust; Trustee, PIMCO Equity Series; and Trustee, PIMCO Equity Series VIT.

* Mr. Harris and Mr. Hodge are "interested persons" of the Trust (as that term is defined in the 1940 Act) because of their affiliations 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 Vice President 05/2008 to 11/2013	Managing Director, PIMCO. President, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series, PIMCO Equity Series VIT, PIMCO Managed Accounts Trust and PIMCO Closed-End Funds.
David C. Flattum (1964) *Chief Legal Officer*	11/2006 to present	Managing Director and General Counsel, PIMCO. Chief Legal Officer, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. 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 and Chief Compliance Officer, PIMCO. Chief Compliance Officer, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT.
Brent R. Harris (1959) *Senior Vice President*	01/2015 to present President 03/2009 to 01/2015	Managing Director and current member of Executive Committee, PIMCO. Senior Vice President, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT.
Douglas M. Hodge (1957) *Senior Vice President*	05/2010 to present	Managing Director, Chief Executive Officer, PIMCO (since 2/14); 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. Senior Vice President, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT.
Kevin M. Broadwater (1964) *Vice President - Senior Counsel*	05/2012 to present	Executive Vice President and Deputy General Counsel, PIMCO. Vice President - Senior Counsel, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT.
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. Chief Legal Officer, PIMCO Investments LLC. Vice President - Senior Counsel, Secretary, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. Vice President, Secretary and Chief Legal Officer, PIMCO Managed Accounts Trust and PIMCO Closed-End Funds.
Ryan G. Leshaw (1980) *Assistant Secretary*	05/2012 to present	Senior Vice President and Senior Counsel, PIMCO. Assistant Secretary, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series, PIMCO Equity Series VIT, PIMCO Managed Accounts Trust and PIMCO Closed-End Funds. Formerly, Associate, Willkie Farr & Gallagher LLP.
Stacie D. Anctil (1969) *Vice President*	05/2015 to present Assistant Treasurer 11/2003 to 05/2015	Senior Vice President, PIMCO. Vice President, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series, PIMCO Equity Series VIT, PIMCO Managed Accounts Trust and PIMCO Closed-End Funds.
William G. Galipeau (1974) *Vice President*	11/2013 to present	Executive Vice President, PIMCO. Vice President, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. Treasurer, PIMCO Managed Accounts Trust and PIMCO Closed-End Funds. Formerly, Vice President, Fidelity Investments.
Eric D. Johnson (1970)** *Vice President*	05/2011 to present	Executive Vice President, PIMCO. Vice President, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series, PIMCO Equity Series VIT, PIMCO Managed Accounts Trust and PIMCO Closed-End Funds.
Henrik P. Larsen (1970) *Vice President*	02/1999 to present	Senior Vice President, PIMCO. Vice President, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT.
Greggory S. Wolf (1970) *Vice President*	05/2011 to present	Senior Vice President, PIMCO. Vice President, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT.
Trent W. Walker (1974) *Treasurer*	11/2013 to present Assistant Treasurer 05/2007 to 11/2013	Executive Vice President, PIMCO. Treasurer, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. Assistant Treasurer, PIMCO Managed Accounts Trust and PIMCO Closed-End Funds.
Erik C. Brown (1967) *Assistant Treasurer*	02/2001 to present	Executive Vice President, PIMCO. Assistant Treasurer, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series, PIMCO Equity Series VIT, PIMCO Managed Accounts Trust and PIMCO Closed-End Funds.
Jason J. Nagler (1982)** *Assistant Treasurer*	05/2015 to present	Vice President, PIMCO. Assistant Treasurer, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series, PIMCO Equity Series VIT, PIMCO Managed Accounts Trust and PIMCO Closed-End Funds. Formerly, Head of Mutual Fund Reporting, GMO and Assistant Treasurer, GMO Trust and GMO Series Trust Funds.

* The term "PIMCO Closed-End Funds" as used herein includes: PIMCO California Municipal Income Fund, PIMCO California Municipal Income Fund II, PIMCO California Municipal Income Fund III, PIMCO Municipal Income Fund, PIMCO Municipal Income Fund II, PIMCO Municipal Income Fund III, PIMCO New York Municipal Income Fund, PIMCO New York Municipal Income Fund II, PIMCO New York Municipal Income Fund III, PCM Fund Inc., PIMCO Corporate & Income Opportunity Fund, PIMCO Corporate & Income Strategy Fund, PIMCO Dynamic Credit Income Fund, PIMCO Dynamic Income Fund, PIMCO Global StocksPLUS & Income Fund, PIMCO High Income Fund, PIMCO Income Opportunity Fund, PIMCO Income Strategy Fund, PIMCO Income Strategy Fund II and PIMCO Strategic Income Fund, Inc.
** The address of these officers is Pacific Investment Management Company LLC, 1633 Broadway, New York, New York 10019.

The Trust[2] 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' non-public 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 advisers or sub-advisers ("Advisers"), 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 applicable websites.

Respecting Your Privacy

As a matter of policy, the Trust does not disclose any non-public personal 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 or its affiliates 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 or account 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 fund advised by PIMCO in which a shareholder has invested. In addition, the Trust may disclose information about a shareholder or 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 Advisers, 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 applicable websites, 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.

Information Collected from Websites

Websites maintained by the Trust or its service providers may use a variety of technologies to collect information that help the Trust and its service providers understand how the website is used. Information collected from your web browser (including small files stored on your device that are commonly referred to as "cookies") allow the websites to recognize your web browser and help to personalize and improve your user experience and enhance navigation of the website. In addition, the Trust or its Service Affiliates may use third parties to place advertisements for the Trust on other websites, including banner advertisements. Such third parties may collect anonymous information through the use of cookies or action tags (such as web beacons). The information these third parties collect is generally limited to technical and web navigation information, such as your IP address, web pages visited and browser type, and does not include personally identifiable information such as name, address, phone number or email address.

You can change your cookie preferences by changing the setting on your web browser to delete or reject cookies. If you delete or reject cookies, some website pages may not function properly.

Changes to the Privacy Policy

From time to time, the Trust may update or revise this privacy policy. If there are changes to the terms of this privacy policy, documents containing the revised policy on the relevant website will be updated.

[1] Effective as of September 5, 2014.
[2] 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").

Approval of Renewal of the Amended and Restated Investment Advisory Contract, Supervision and Administration Agreement and Amended and Restated Asset Allocation Sub-Advisory Agreement

At a meeting held on August 10-11, 2015, the Board of Trustees (the "Board") of PIMCO Variable Insurance Trust (the "Trust"), including all of the Trustees who are not "interested persons" of the Trust under the Investment Company Act of 1940, as amended (the "Independent Trustees"), considered and unanimously approved the Amended and Restated Investment Advisory Contract (the "Investment Advisory Contract") between the Trust, on behalf of each of the Trust's series (the "Portfolios"), and Pacific Investment Management Company LLC ("PIMCO") for an additional one-year term through August 31, 2016. The Board also considered and unanimously approved for an additional one-year term through August 31, 2016, the Supervision and Administration Agreement (together with the Investment Advisory Contract, the "Agreements") between the Trust, on behalf of the Portfolios, and PIMCO. In addition, the Board considered and unanimously approved the renewal of the Amended and Restated Asset Allocation Sub-Advisory Agreement (the "Asset Allocation Agreement") between PIMCO, on behalf of PIMCO All Asset Portfolio and PIMCO All Asset All Authority Portfolio, each a series of the Trust, and Research Affiliates, LLC ("Research Affiliates") for an additional one-year term through August 31, 2016.

The information, material factors and conclusions that formed the basis for the Board's approvals are summarized below.

1. INFORMATION RECEIVED

(a) Materials Reviewed: During the course of the past year, the Trustees received a wide variety of materials relating to the services provided by PIMCO and Research Affiliates to the Trust. At each of its quarterly meetings, the Board reviewed the Portfolios' investment performance and a significant amount of information relating to Portfolio operations, including shareholder services, valuation and custody, the Portfolios' compliance program 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 the renewal of the Agreements and the 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 information for PIMCO and, where relevant, Research Affiliates, information regarding the profitability to PIMCO of its relationship with the Portfolios, 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). In addition, the Board reviewed materials 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 and the Asset Allocation Agreement.

(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, where applicable, Research Affiliates in response to requests from counsel to the Trust and the Independent Trustees. The Board 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 heard oral presentations on matters related to the Agreements and the Asset Allocation Agreement and met both as a full Board and in a separate session of the Independent Trustees, without management present, at the August 10-11, 2015 meeting. The Independent Trustees also conducted a telephonic meeting with counsel to the Trust and the Independent Trustees on July 30, 2015 and executive sessions on August 10, 2015 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 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 the 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 also 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 managed by PIMCO, and its efforts to keep the Trustees informed about matters relevant to the Portfolios and their shareholders. The Board also considered PIMCO's continuous investment in new disciplines and talented personnel, which has enhanced PIMCO's service to the Funds and has allowed PIMCO to introduce innovative new funds over time. In addition, the Board considered the nature and quality of services provided by PIMCO to the wholly-owned subsidiaries of applicable Portfolios.

The Trustees considered information they had received about 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 also considered that, over the last several years, PIMCO has continued to strengthen the process it uses to assess the financial stability of counterparties 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 only those counterparties that meet its stringent and monitored criteria. The Trustees considered that PIMCO's collateral management team utilizes a counterparty risk system to analyze portfolio level exposure and collateral being exchanged with counterparties.

In addition, the Trustees considered new services and service enhancements that PIMCO has implemented since the Board renewed the Agreements in 2014, including, but not limited to: conducting a targeted review of quality and efficiency in the valuation process; expanding the analytical review of shareholder reports by State Street Bank and Trust Company, the Portfolios' custodian; developing a process for monthly forecasts of taxable and book income to enhance portfolio management of investment income; continuing the expansion of a proprietary performance reconciliation tool, which includes next-day comparison of daily internal performance to custodian bank performance to identify potential errors and guardrail net asset value calculations; developing and implementing the Global Process Monitor application, which includes real-time tracking and escalation protocols for critical activities; and implementing monthly cash flow reporting processes to support client and media demands for information about investor flows and assets under management data. The Trustees also considered the recent outflows from the Portfolios. The Trustees further considered whether the decline in the Portfolios' assets and the reduction in PIMCO's total assets under management materially impacted the service quality or resources available to the Portfolios. The Trustees concluded that there has been no adverse impact to service quality or resources available to the Portfolios.

Similarly, the Board considered the asset allocation services provided by Research Affiliates to the PIMCO All Asset Portfolio and PIMCO All Asset All Authority Portfolio. The Board noted that the PIMCO All Asset All Authority Portfolio recently commenced operations. The Board also 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 respective shareholders (as applicable).

(b) Other Services: The Board also considered the nature, extent, quality and cost of supervisory and administrative services provided by PIMCO to the Portfolios under the Supervision and Administration Agreement. 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 Supervision and Administration Agreement, under which the Trust pays for the supervisory and administrative services provided pursuant to 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 Supervision and Administration Agreement continue to increase. The Board considered PIMCO's provision of these services and its 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 available 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' performance, as available, over short- and long-term periods ended May 31, 2015 and other performance data, as available, over short- and long-term periods ended June 30, 2015 (the "PIMCO Report") and from Lipper concerning the Portfolios' performance, as available, over short- and long-term periods ended May 31, 2015 (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 10-11, 2015 meeting. The Trustees noted that a majority of the Portfolios outperformed their respective Lipper medians over the three-year and longer periods ended May 31, 2015.

The Board also noted that, as of May 31, 2015, the Administrative Class of 44%, 79% and 92% of the Portfolios outperformed its Lipper category median on a net-of-fees basis 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 investments and that differences in performance among classes could principally be attributed to differences in the supervisory and administrative fees and 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 and that the Lipper categories do not: separate funds based upon maturity or duration; account for the applicable Portfolios' hedging strategies; distinguish between enhanced index and actively managed equity strategies; 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); or 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 not be particularly relevant to the consideration of Portfolio performance.

The Board noted that 63% 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, 2015 (based on the performance of the Administrative Class). The Board also noted that 8 of 14 Portfolios, representing 69% of the total assets of the Trust, had outperformed their respective benchmark indexes on a net-of-fees basis over the five-year period ending May 31, 2015. The Board also noted that, while the Lipper universe comparisons provide a valuable performance comparison reference, there are certain Portfolios that do not fit neatly 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. The Board also considered that the Trust's assets were over $20 billion as of December 31, 2014.

The Board considered PIMCO's discussion of the intensive nature of managing bond funds, noting that it requires the management of a number of factors, including: varying maturities; prepayments; collateral management; counterparty management; pay-downs; credit events; workouts; derivatives; net new issuance in the bond market; and decreased market maker inventory levels. The Board noted that in addition to managing these factors, PIMCO must also balance risk controls and strategic positions in each portfolio it manages, including the Portfolios. Despite these challenges, the Board noted that PIMCO has generated "alpha" (i.e., non-market correlated excess performance) for its clients over time, 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 to scale at the outset with reference to the total expense ratios of the respective Lipper median (if available), while providing a premium for innovative investment offerings. PIMCO reported to the Board that, in proposing fees for any Portfolio or class of shares, it considers a number of factors, including the type and complexity of the services provided, the cost of providing services, the risk assumed by PIMCO in the development of products and the provision of services, the impact on potential returns from different levels of fees, the competitive marketplace for financial products, and the attractiveness of potential Portfolio returns to current and potential investors. 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 Trust's assets under management over the long-term 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. The Board also reviewed information relating to the sub-advisory fees paid to Research Affiliates with respect to applicable Portfolios, taking into account that PIMCO compensates Research Affiliates from the advisory fees paid by such Portfolios to PIMCO. With respect to advisory fees, the Board reviewed data from Lipper that compared the average and median advisory fees of other funds in a "Peer 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 Peer Group and Lipper universe. In addition, the Board noted the fee waivers in place with respect to the fees that might result from investments by applicable Portfolios in their respective wholly-owned subsidiaries.

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 Board noted that advisory fees for most Portfolios were similar to the fee rates charged to separate account strategies with the same investment strategies as the Portfolios. 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. The Trustees also took into account that there are various reasons for any such difference in fees, including, but not limited to, the fact that PIMCO may be subject to varying levels of entrepreneurial risk and regulatory requirements, differing legal liabilities on a contract-by-contract basis and different 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 as compared to when PIMCO serves as investment adviser and sponsor.

The Board considered the Portfolios' supervisory and administrative fees, comparing them to similar funds in the report supplied by Lipper. The Board also considered that as the Portfolios' business has become increasingly complex, PIMCO has provided an increasingly broad array of fund supervisory and administrative functions. In addition, 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 further considered that many other funds pay for these services separately, and thus it is difficult to directly compare the Trust's unified supervisory and administrative fees with the fees paid by other funds for administrative services alone. The Board also considered that the unified supervisory and administrative fee leads to Portfolio fees that are fixed, rather than variable. The Board 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. The Board also considered that the Portfolios' unified fee structure meant that fees were not impacted by recent outflows in certain Portfolios, unlike funds without a unified fee structure, which may see increased expense ratios when fixed costs are passed through to a smaller asset base. The Board further noted that, with few exceptions, PIMCO has generally 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 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 Portfolio 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 peers (if any), and cannot easily be grouped with comparable funds. Upon comparing the Portfolios' total expenses to other funds in the "Peer 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 funds in which the Funds of Funds may invest and, therefore, such services were not duplicative of the advisory services provided to the underlying funds. The Board also considered the various fee waiver agreements in place for the Funds of Funds.

Based on the information presented by PIMCO, Research Affiliates and Lipper, members of the Board 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 lower than in the previous year due to the impact of the Portfolios' overall outflows. To the extent applicable, the Board also reviewed information regarding the portion of a Portfolio's advisory fee retained by PIMCO, following the payment of sub-advisory fees to Research Affiliates, with respect to the Portfolio. Additionally, the Board noted that profit margins with respect to the Portfolios 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 the PIMCO's profit margin with respect to the Trust shows that the Trust is profitable, although less so than PIMCO Funds due to payments made by PIMCO to participating insurance companies. The Board also noted that it had 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, information 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 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 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 fee.

The Trustees 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 also considered that the unified fee protects shareholders from a rise in operating costs that may result from, among other things, PIMCO's investments in various business enhancements and infrastructure, including those referenced 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 each of the Portfolios, to the benefit of their respective 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 Trust. The Board also considered that affiliates of PIMCO provide distribution and shareholder services to the Portfolios and their respective 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 their review, including their consideration of each of the factors summarized above, the Independent Trustees and the Board as a whole 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 Independent Trustees and the Board as a whole 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

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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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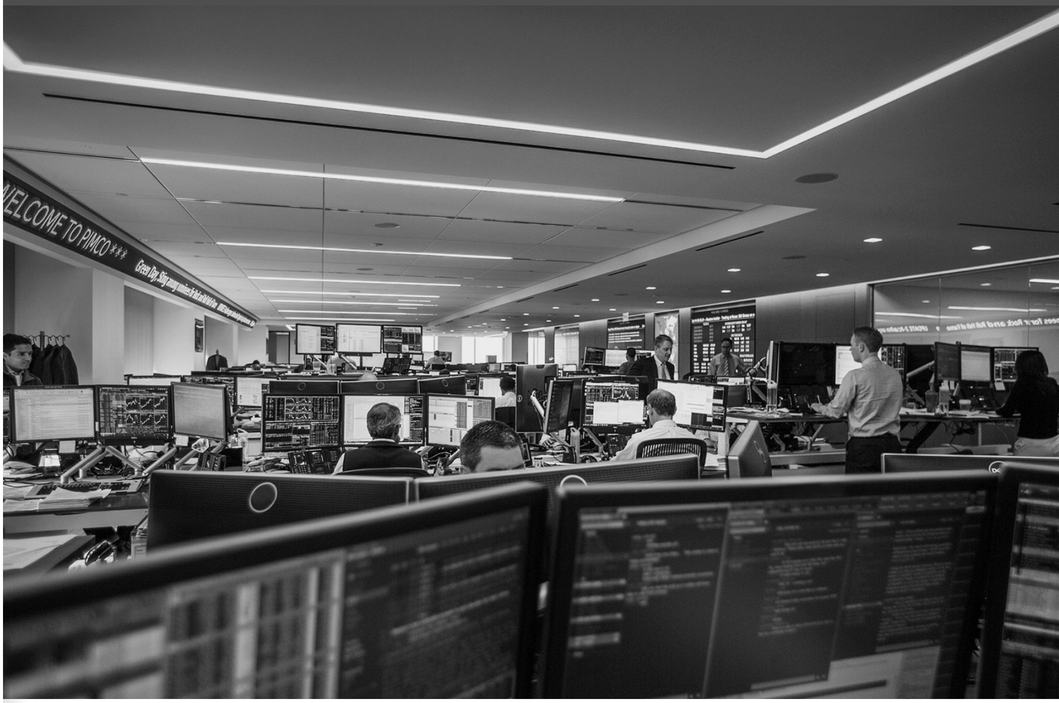
PIMCO

Annual Report

December 31, 2015

PIMCO Variable Insurance Trust



PIMCO Low Duration Portfolio

Share Classes

- Institutional
- Administrative
- Advisor

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This material is authorized for use only when preceded or accompanied by the current PIMCO Variable Insurance Trust (the "Trust") prospectus for the Portfolio. (The variable product prospectus may be obtained by contacting your Investment Consultant.)

Dear PIMCO Variable Insurance Trust Shareholder,

Please find enclosed the Annual Report for the PIMCO Variable Insurance Trust covering the twelve-month reporting period ended December 31, 2015. The following pages contain specific details about the Portfolio's investment performance and a discussion of the factors that most affected performance over the reporting period.

Heightened market volatility throughout the reporting period was sparked by a mix of investor concerns including geopolitical developments, monetary policy and the potential for slowing global economic growth, which generally contributed to dampened investor sentiment. In particular, increasing concern over the outlook for Chinese growth sent commodity prices and inflation expectations lower, while also negatively impacting prices of emerging market ("EM") debt and equities. In addition, the Chinese equity market began a strong decline in June 2015, which prompted the Chinese government to prop-up equity share prices and devalue the Chinese yuan. Volatility in Chinese equity markets continued into January 2016 on renewed concern over slowing Chinese economic growth. Furthermore, rising tension in the Middle East and the continued debt crisis in Greece also contributed to investor unease throughout the reporting period.

Economic data in the U.S. continued to confirm a healthy economy, particularly labor market indicators such as employment and wages. Still, signs of caution remained, particularly as U.S. consumers appeared to be more selective in their spending and chose to save rather than spend their windfall from lower gas prices. Additionally, consumer sentiment and certain housing indicators softened towards the end of the reporting period, and December 2015 U.S. manufacturing data indicated the fastest contraction in six years. Within the Eurozone, volatility increased despite gradual improvement in the underlying economies. Eurozone economic data also showed generally positive signs of an early recovery but were tempered slightly by sluggish inflation.

The theme of divergent global central bank monetary policy continued throughout the reporting period. The European Central Bank ("ECB") expressed its commitment to increase quantitative easing (or large-scale asset purchases), along with the Bank of Japan and the People's Bank of China who also indicated their intent to accelerate such measures. The Federal Reserve ("Fed"), on the other hand, moved on December 16 to raise the Federal Funds Rate by 0.25% to a new range of 0.25% - 0.50%, marking its first rate hike in nine years. However, the Fed noted that future increases in its target rate would be "gradual" and in-line with their previous projections, which helped to ease investor concerns. Outside of the reporting period on January 27, the Fed opted to leave the Federal Funds Rate unchanged, noting their intent to closely monitor how the global economy and markets influence the U.S. economic outlook.

Highlights of the financial markets during the twelve-month fiscal reporting period include:

- U.S. Treasuries, as represented by the Barclays U.S. Treasury Index, returned 0.84% for the reporting period as yields generally rose slightly across the Treasury yield curve. The benchmark ten-year U.S. Treasury note yielded 2.27% at the end of the reporting period, up from 2.17% on December 31, 2014. The Barclays U.S. Aggregate Index, a widely used index of U.S. investment-grade bonds, returned 0.55% for the reporting period.

- U.S. Treasury Inflation-Protected Securities ("TIPS"), as represented by the Barclays U.S. TIPS Index, declined 1.44% over the reporting period. U.S. TIPS were pressured over the year as breakeven inflation levels, a proxy for inflation expectations, declined in-line with commodity markets. Global inflation-linked bonds ("ILBs") were also down overall during the reporting period, as the slide in energy and other commodities impacted inflation expectations globally. Despite this headwind, European ILBs fared better than other developed countries and posted marginal gains in local currencies as real yields benefited from the ECB's quantitative easing support.

- Prices on broad commodities were down over the reporting period, led lower primarily by energy and industrial metal prices. Crude oil prices faced increasing pressure from a persisting inventory glut and production growth, especially from the Organization of the Petroleum Exporting Countries ("OPEC"). Towards the end of the reporting period, seasonally warm weather put further pressure on oil prices, which ended the year considerably lower. Diversified commodities, as represented by the Bloomberg Commodity Index Total Return, declined 24.66% over the reporting period.

- Agency mortgage-backed securities ("MBS"), as represented by the Barclays U.S. MBS Fixed Rate Index, returned 1.51% over the reporting period. Non-Agency MBS prices were mixed amid weakness in the broader credit markets, although underlying collateral performance has generally been in-line with investor expectations and continues to gradually improve over the long-term.
- U.S. investment grade credit, as represented by the Barclays U.S. Credit Index, declined 0.77% over the reporting period. Investment grade credit valuations cheapened as a record $1.15 trillion of new issuance came to market and commodity prices continued to fall given worries over slowing Chinese growth. Developed market global high yield bonds, as measured by the BofA Merrill Lynch Developed Markets High Yield Constrained Index, declined 3.05% over the reporting period. Weakness in the commodity-oriented sectors including energy and metals & mining, weighed on returns as oil and other commodity prices fell. Overall, global high yield spreads and yields rose throughout the reporting period and ended higher.
- EM external debt, as represented by the JPMorgan Emerging Markets Bond Index (EMBI) Global, returned 1.23% over the reporting period. EM local bonds, as represented by the JPMorgan Government Bond Index - Emerging Markets Global Diversified Index (Unhedged), declined 14.92% over the reporting period. Idiosyncratic forces remained a dominant theme. China, for example, continued to expand its accommodative measures as both growth and inflation showed signs of further moderation. In addition, the Russian ruble continued its recovery from 2014 weakness before stumbling toward the end of the reporting period on oil price weakness.
- Equity markets showed mixed performance globally amid a period marked by economic uncertainty, increased volatility and divergent central bank monetary policy. U.S. equities, as represented by the S&P 500 Index, returned 1.38% (on a total return basis) and developed market equities outside the U.S., as represented by the MSCI EAFE Net Dividend Index (USD Unhedged), declined 0.81% over the reporting period. However, ultra-easy monetary policy in Europe and Japan benefited European and Japanese equity markets, which generally posted positive returns. However, EM equities, as represented by the MSCI Emerging Markets Index (Net Dividends in USD), declined 14.92% over the same period, due to headwinds from a stronger U.S. dollar, falling commodity prices, concerns over slower Chinese economic growth and declining Chinese equities.

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 broad investment needs.

Sincerely,

Brent R. Harris

Brent R. Harris
Chairman of the Board,
PIMCO Variable Insurance Trust

February 18, 2016

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 the Portfolio 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, etc.). In addition, changes in interest rates can be sudden and significant, and there is no guarantee that Fund management will anticipate such movement accurately.

As of the date of this report, interest rates in the U.S. are 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 and has begun, and may continue, to raise interest rates. 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."

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. All of the factors mentioned above, individually or collectively, could lead to increased volatility and/or lower liquidity in the fixed income markets or negatively impact the Portfolio's performance or cause the Portfolio to incur losses. As a result, the Portfolio may experience increased shareholder redemptions, which, among other things, could further reduce the net assets of the Portfolio.

The Portfolio may be subject to various risks as described in the Portfolio's prospectus. 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, sovereign debt risk, currency risk, leveraging risk, management risk and short sale risk. A complete description of these and other 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, leverage 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 an asset, instrument or component of the index underlying a derivative instrument may cause an immediate and substantial loss or gain, which translates into heightened volatility for 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 (non-U.S.) 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 Returns chart measure performance assuming that any dividend and capital gain distributions were reinvested. The Cumulative Returns chart reflects only Administrative Class performance. Performance for Institutional Class, Class M and Advisor Class shares, if applicable, may be higher or lower based on each class's expense ratios. The Portfolio's total annual operating expense ratios on the Portfolio Summary page are as of the currently effective prospectus, as supplemented to date. The Portfolio measures its performance against a broad-based securities market index ("benchmark index"). The benchmark index does not take into account fees, expenses, or taxes. The Portfolio's past performance, before and after taxes, is not necessarily an indication of how the Portfolio will perform in the future.

The following table discloses the inception dates of the Portfolio and its respective share classes along with the Portfolio's diversification status as of period end:

Portfolio Name	**Portfolio Inception**	**Institutional Class**	**Class M**	**Administrative Class**	**Advisor Class**	**Diversification Status**
PIMCO Low Duration Portfolio	02/16/99	04/10/00	—	02/16/99	03/31/06	Diversified

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.

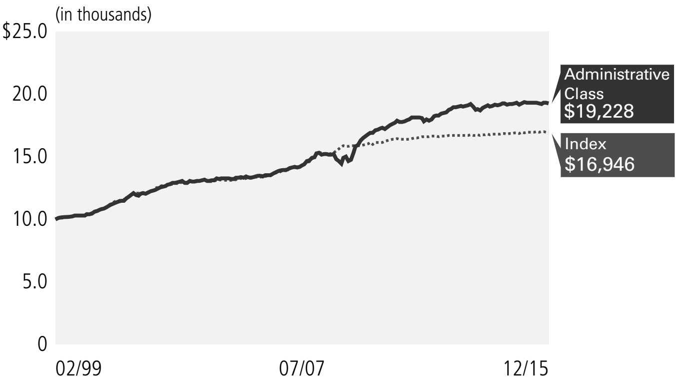
The Trustees are responsible generally for overseeing the management of the Trust. The Trustees authorize the Trust to enter into service agreements with the Adviser, the Distributor, the Administrator and other service providers in order to provide, and in some cases authorize service providers to procure through other parties, necessary or desirable services on behalf of the Trust and the Portfolio. Shareholders are not parties to or third-party beneficiaries of such service agreements. Neither this Portfolio's prospectus nor summary prospectus, the Trust's Statement of Additional Information ("SAI"), any contracts filed as exhibits to the Trust's registration statement, nor any other communications, disclosure documents or regulatory filings (including this report) from or on behalf of the Trust or the Portfolio creates a contract between or among any shareholder of the Portfolio, on the one hand, and the Trust, the Portfolio, a service provider to the Trust or the Portfolio, and/or the Trustees or officers of the Trust, on the other hand. The Trustees (or the Trust and its officers, service providers or other delegates acting under authority of the Trustees) may amend the most recent prospectus or use a new prospectus, summary prospectus or SAI with respect to the Portfolio or the Trust, and/or amend, file and/or issue any other communications, disclosure documents or regulatory filings, and may amend or enter into any contracts to which the Trust or the Portfolio is a party, and interpret the investment objective(s), policies, restrictions and contractual provisions applicable to the Portfolio, without shareholder input or approval, except in circumstances in which shareholder approval is specifically required by law (such as changes to fundamental investment policies) or where a shareholder approval requirement is specifically disclosed in the Trust's then-current prospectus or SAI.

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 pvit.pimco-funds.com, and on the Securities and Exchange Commission's ("SEC") website at 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 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 pvit.pimco-funds.com. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

The Trust is distributed by PIMCO Investments LLC, 1633 Broadway, New York, New York 10019.

Cumulative Returns Through December 31, 2015



$10,000 invested at the end of the month when the Portfolio's Administrative Class commenced operations.

Allocation Breakdown†

Corporate Bonds & Notes	39.1%
U.S. Treasury Obligations	14.8%
U.S. Government Agencies	14.5%
Asset-Backed Securities	9.7%
Non-Agency Mortgage-Backed Securities	7.3%
Short-Term Instruments‡	7.2%
Sovereign Issues	6.2%
Other	1.2%

† % of Investments, at value as of 12/31/15. Financial derivative instruments, if any, are excluded.

‡ Includes Central Funds used for Cash Management Purposes

Average Annual Total Return for the period ended December 31, 2015

		1 Year	5 Years	10 Years	Inception*
	PIMCO Low Duration Portfolio Institutional Class	0.47%	1.73%	3.83%	4.12%
—	PIMCO Low Duration Portfolio Administrative Class	0.31%	1.58%	3.67%	3.93%
	PIMCO Low Duration Portfolio Advisor Class	0.21%	1.47%	—	3.65%
·····	BofA Merrill Lynch 1-3 Year U.S. Treasury Index±	0.54%	0.70%	2.42%	3.17%**

All Portfolio returns are net of fees and expenses.

* For class inception dates please refer to the Important Information.
** Average annual total return since 02/16/1999.

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 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 0.50% for Institutional Class shares, 0.65% for Administrative Class shares, and 0.75% for Advisor 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 in an unmanaged index.

Investment Objective and Strategy Overview

» 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.

Portfolio Insights

» Exposure to investment grade credit detracted from performance, as these securities generally posted negative total returns during the reporting period.

» Exposure to high yield credit detracted from performance, as these securities generally posted negative total returns during the reporting period.

» Holdings of U.S. Treasury Inflation-Protected Securities detracted from performance, as these securities generally posted negative total returns during the reporting period.

» Exposure to U.S. dollar-denominated emerging market bonds positively contributed to performance, as these securities generally posted positive total returns during the reporting period.

» Short exposure to the Japanese yen and the euro benefited performance, as both currencies depreciated relative to the U.S. dollar during the reporting period.

Expense Example PIMCO Low Duration Portfolio

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 (if applicable), 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 from July 1, 2015 to December 31, 2015 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 = $8.60), then multiply the result by the number in the appropriate column for your share class, in the column 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.

Expense ratios may vary period to period because of various factors, such as an increase in expenses that are not covered by the management fees such as fees and expenses of the independent trustees and their counsel, extraordinary expenses and interest expense.

	Actual			Hypothetical (5% return before expenses)			
	Beginning Account Value (07/01/15)	Ending Account Value (12/31/15)	Expenses Paid During Period*	Beginning Account Value (07/01/15)	Ending Account Value (12/31/15)	Expenses Paid During Period*	Net Annualized Expense Ratio**
Institutional Class	$ 1,000.00	$ 996.80	$ 2.61	$ 1,000.00	$ 1,023.00	$ 2.64	0.51%
Administrative Class	1,000.00	996.00	3.37	1,000.00	1,022.24	3.42	0.66
Advisor Class	1,000.00	995.50	3.88	1,000.00	1,021.72	3.94	0.76

** 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 187/365 (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.*

*** Net Annualized Expense Ratio is reflective of any applicable contractual fee waivers and/or expense reimbursements or voluntary fee waivers. Details regarding fee waivers can be found in Note 8 in the Notes to Financial Statements.*

Selected Per Share Data for the Year Ended:	Net Asset Value Beginning of Year	Net Investment Income [(a)]	Net Realized/ Unrealized Gain (Loss)	Total from Investment Operations	Dividends from Net Investment Income [(b)]	Total Distributions
Institutional Class						
12/31/2015	$ 10.58	$ 0.15	$ (0.10)	$ 0.05	$ (0.38)	$ (0.38)
12/31/2014	10.61	0.10	0.01	0.11	(0.14)	(0.14)
12/31/2013	10.78	0.10	(0.10)	0.00	(0.17)	(0.17)
12/31/2012	10.38	0.15	0.47	0.62	(0.22)	(0.22)
12/31/2011	10.44	0.16	(0.03)	0.13	(0.19)	(0.19)
Administrative Class						
12/31/2015	10.58	0.14	(0.11)	0.03	(0.36)	(0.36)
12/31/2014	10.61	0.10	(0.01)	0.09	(0.12)	(0.12)
12/31/2013	10.78	0.08	(0.09)	(0.01)	(0.16)	(0.16)
12/31/2012	10.38	0.14	0.46	0.60	(0.20)	(0.20)
12/31/2011	10.44	0.14	(0.02)	0.12	(0.18)	(0.18)
Advisor Class						
12/31/2015	10.58	0.13	(0.11)	0.02	(0.35)	(0.35)
12/31/2014	10.61	0.09	(0.01)	0.08	(0.11)	(0.11)
12/31/2013	10.78	0.07	(0.10)	(0.03)	(0.14)	(0.14)
12/31/2012	10.38	0.13	0.46	0.59	(0.19)	(0.19)
12/31/2011	10.44	0.13	(0.02)	0.11	(0.17)	(0.17)

[(a)] Per share amounts based on average number of shares outstanding during the year.
[(b)] Determined in accordance with federal income tax regulations, see Note 2(d) in the Notes to Financial Statements for more information.

Net Asset Value End of Year	Total Return	Net Assets End of Year (000s)	Ratio of Expenses to Average Net Assets	Ratio of Expenses to Average Net Assets Excluding Interest Expense	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
$ 10.25	0.47%	$ 8,291	0.51%	0.50%	1.39%	181%
10.58	1.00	13,590	0.50	0.50	0.96	208
10.61	0.01	58,621	0.50	0.50	0.95	316
10.78	6.01	54,192	0.50	0.50	1.45	647
10.38	1.26	63,047	0.50	0.50	1.52	456
10.25	0.31	1,323,009	0.66	0.65	1.32	181
10.58	0.85	1,481,605	0.65	0.65	0.90	208
10.61	(0.14)	1,510,077	0.65	0.65	0.79	316
10.78	5.85	1,527,088	0.65	0.65	1.29	647
10.38	1.11	1,326,770	0.65	0.65	1.37	456
10.25	0.21	677,728	0.76	0.75	1.25	181
10.58	0.75	647,468	0.75	0.75	0.80	208
10.61	(0.23)	617,374	0.75	0.75	0.69	316
10.78	5.75	532,901	0.75	0.75	1.18	647
10.38	1.01	388,854	0.75	0.75	1.27	456

Statement of Assets and Liabilities PIMCO Low Duration Portfolio

(Amounts in thousands, except per share amounts)	December 31, 2015
Assets:	
Investments, at value	
Investments in securities*	$ 2,159,398
Investments in Affiliates	114,868
Financial Derivative Instruments	
Exchange-traded or centrally cleared	722
Over the counter	36,014
Deposits with counterparty	5,314
Foreign currency, at value	2,674
Receivable for investments sold	37
Receivable for TBA investments sold	185,468
Receivable for Portfolio shares sold	5,564
Interest receivable	6,795
Dividends receivable from Affiliates	65
Total Assets	2,516,919
Liabilities:	
Borrowings & Other Financing Transactions	
Payable for short sales	$ 4,046
Financial Derivative Instruments	
Exchange-traded or centrally cleared	823
Over the counter	8,272
Payable for investments purchased	284
Payable for investments in Affiliates purchased	65
Payable for TBA investments purchased	463,999
Deposits from counterparty	28,720
Payable for Portfolio shares redeemed	346
Overdraft due to custodian	59
Accrued investment advisory fees	467
Accrued supervisory and administrative fees	467
Accrued distribution fees	157
Accrued servicing fees	185
Other liabilities	1
Total Liabilities	507,891
Net Assets	$ 2,009,028
Net Assets Consist of:	
Paid in capital	$ 2,074,423
(Overdistributed) net investment income	(17,299)
Accumulated undistributed net realized (loss)	(30,779)
Net unrealized (depreciation)	(17,317)
	$ 2,009,028
Net Assets:	
Institutional Class	$ 8,291
Administrative Class	1,323,009
Advisor Class	677,728
Shares Issued and Outstanding:	
Institutional Class	809
Administrative Class	129,022
Advisor Class	66,093
Net Asset Value and Redemption Price Per Share Outstanding:	
Institutional Class	$ 10.25
Administrative Class	10.25
Advisor Class	10.25
Cost of investments in securities	$ 2,198,157
Cost of investments in Affiliates	$ 115,332
Cost of foreign currency held	$ 2,680
Proceeds received on short sales	$ 4,053
Cost or premiums of financial derivative instruments, net	$ (470)
* Includes repurchase agreements of:	$ 1,963

See Accompanying Notes

Statement of Operations PIMCO Low Duration Portfolio

(Amounts in thousands)	Year Ended December 31, 2015
Investment Income:	
Interest, net of foreign taxes*	$ 39,701
Dividends from Investments in Affiliates	700
Total Income	40,401
Expenses:	
Investment advisory fees	5,083
Supervisory and administrative fees	5,083
Servicing fees - Administrative Class	2,039
Distribution and/or servicing fees - Advisor Class	1,661
Trustee fees	41
Interest expense	136
Miscellaneous expense	4
Total Expenses	14,047
Net Investment Income	26,354
Net Realized Gain (Loss):	
Investments in securities	(80,287)
Investments in Affiliates	(882)
Exchange-traded or centrally cleared financial derivative instruments	(9,120)
Over the counter financial derivative instruments	66,627
Foreign currency	2,699
Net Realized (Loss)	(20,963)
Net Change in Unrealized Appreciation (Depreciation):	
Investments in securities	3,263
Investments in Affiliates	488
Exchange-traded or centrally cleared financial derivative instruments	(3,006)
Over the counter financial derivative instruments	1,309
Foreign currency assets and liabilities	62
Net Change in Unrealized Appreciation	2,116
Net Increase in Net Assets Resulting from Operations	$ 7,507
* Foreign tax withholdings	$ 18

Statements of Changes in Net Assets PIMCO Low Duration Portfolio

(Amounts in thousands)	Year Ended December 31, 2015	Year Ended December 31, 2014
(Decrease) in Net Assets from:		
Operations:		
Net investment income	$ 26,354	$ 19,646
Net realized gain (loss)	(20,963)	20,561
Net change in unrealized appreciation (depreciation)	2,116	(21,423)
Net Increase in Net Assets Resulting from Operations	7,507	18,784
Distributions to Shareholders:		
From net investment income [(a)]		
Institutional Class	(308)	(607)
Administrative Class	(45,888)	(17,615)
Advisor Class	(22,510)	(6,660)
Total Distributions	(68,706)	(24,882)
Portfolio Share Transactions:		
Net (decrease) resulting from Portfolio share transactions**	(72,436)	(37,311)
Total (Decrease) in Net Assets	(133,635)	(43,409)
Net Assets:		
Beginning of year	2,142,663	2,186,072
End of year*	$ 2,009,028	$ 2,142,663
* Including undistributed (overdistributed) net investment income of:	$ (17,299)	$ 37,549

**See Note 12 in the Notes to Financial Statements.
[(a)] Determined in accordance with federal income tax regulations, see Note 2(d) in the Notes to Financial Statements for more information.

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
INVESTMENTS IN SECURITIES 107.5%		
BANK LOAN OBLIGATIONS 0.3%		
Chrysler Group LLC		
3.500% due 05/24/2017	$ 2,954	$ 2,948
HCA, Inc.		
3.174% due 03/31/2017	2,955	2,955
Total Bank Loan Obligations (Cost $5,919)		**5,903**
CORPORATE BONDS & NOTES 44.3%		
BANKING & FINANCE 26.2%		
ABN AMRO Bank NV		
1.800% due 06/04/2018	4,300	4,269
AerCap Ireland Capital Ltd.		
2.750% due 05/15/2017	3,800	3,786
Ally Financial, Inc.		
2.750% due 01/30/2017	6,360	6,360
3.125% due 01/15/2016	2,200	2,201
3.500% due 07/18/2016	3,400	3,417
6.250% due 12/01/2017	2,000	2,103
American Tower Corp.		
2.800% due 06/01/2020	7,400	7,324
Banco Espirito Santo S.A.		
2.625% due 05/08/2017	EUR 3,500	553
Banco Popolare SC		
3.500% due 03/14/2019	9,700	10,822
Bank of America Corp.		
1.272% due 09/15/2026	$ 900	776
2.650% due 04/01/2019	1,200	1,204
5.650% due 05/01/2018	8,000	8,607
6.875% due 11/15/2018	2,700	3,036
Bank of America N.A.		
0.812% due 06/15/2017	23,900	23,716
Bankia S.A.		
0.147% due 01/25/2016	EUR 2,000	2,173
BB&T Corp.		
1.036% due 01/15/2020	$ 5,100	5,061
BBVA Bancomer S.A.		
4.500% due 03/10/2016	6,100	6,132
Bear Stearns Cos. LLC		
6.400% due 10/02/2017	1,500	1,616
BPCE S.A.		
0.934% due 11/18/2016	500	500
1.203% due 06/23/2017	400	399
1.375% due 03/06/2017	GBP 2,300	3,400
1.625% due 02/10/2017	$ 2,100	2,097
Caterpillar Financial Services Corp.		
2.250% due 12/01/2019	1,300	1,304
CIT Group, Inc.		
4.250% due 08/15/2017	7,100	7,277
5.000% due 05/15/2017	9,700	10,015
Citigroup, Inc.		
1.013% due 04/27/2018	18,200	18,137
1.202% due 07/30/2018	12,000	12,002
1.350% due 03/10/2017	2,500	2,491
Citizens Bank N.A.		
2.300% due 12/03/2018	3,600	3,599
Commonwealth Bank of Australia		
1.750% due 11/02/2018	1,800	1,788
Credit Agricole S.A.		
1.457% due 06/10/2020	11,700	11,704
Dexia Credit Local S.A.		
0.724% due 11/07/2016	4,500	4,505
Eksportfinans ASA		
1.570% due 02/14/2018	JPY 500,000	4,122
2.375% due 05/25/2016	$ 6,000	6,008
5.500% due 05/25/2016	$ 5,700	$ 5,775
5.500% due 06/26/2017	4,500	4,691
Ford Motor Credit Co. LLC		
0.794% due 11/08/2016	7,500	7,449
1.264% due 11/04/2019	5,500	5,347
1.412% due 06/15/2018	6,000	5,930
1.700% due 05/09/2016	2,100	2,102
2.375% due 01/16/2018	5,224	5,215
3.000% due 06/12/2017	2,700	2,727
5.750% due 02/01/2021	600	664
8.000% due 12/15/2016	2,600	2,750
General Motors Financial Co., Inc.		
1.681% due 04/10/2018	4,600	4,568
1.881% due 01/15/2020	3,900	3,841
2.388% due 01/15/2019	5,500	5,532
3.000% due 09/25/2017	5,000	5,021
3.200% due 07/13/2020	7,000	6,899
4.750% due 08/15/2017	2,000	2,074
Goldman Sachs Group, Inc.		
1.462% due 11/15/2018	1,292	1,298
1.476% due 04/23/2020	15,200	15,238
1.522% due 04/30/2018	3,200	3,216
1.712% due 09/15/2020	4,500	4,515
2.012% due 11/29/2023	1,700	1,718
6.000% due 06/15/2020	2,000	2,263
7.500% due 02/15/2019	600	687
Harley-Davidson Financial Services, Inc.		
2.700% due 03/15/2017	400	406
HBOS PLC		
1.303% due 09/30/2016	4,155	4,146
HSBC Bank PLC		
1.002% due 05/15/2018	500	498
HSBC Finance Corp.		
0.844% due 06/01/2016	7,000	6,988
HSBC USA, Inc.		
0.969% due 11/13/2019	12,900	12,719
2.375% due 11/13/2019	3,800	3,787
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	2,216
3.750% due 09/29/2016	3,400	3,455
ING Bank NV		
2.050% due 08/17/2018	4,000	3,998
International Lease Finance Corp.		
2.462% due 06/15/2016	5,500	5,500
5.750% due 05/15/2016	3,535	3,588
6.250% due 05/15/2019	2,250	2,416
Intesa Sanpaolo SpA		
2.375% due 01/13/2017	9,400	9,433
3.125% due 01/15/2016	9,645	9,650
JPMorgan Chase & Co.		
0.924% due 03/01/2018	3,000	2,981
1.063% due 05/30/2017	GBP 6,300	9,228
1.271% due 01/23/2020	$ 4,100	4,107
1.529% due 10/29/2020	5,800	5,863
JPMorgan Chase Bank N.A.		
6.000% due 10/01/2017	1,000	1,070
KEB Hana Bank		
4.000% due 11/03/2016	1,600	1,632
Kookmin Bank		
1.198% due 01/27/2017	10,000	10,035
LeasePlan Corp. NV		
2.500% due 05/16/2018	300	296
3.000% due 10/23/2017	1,200	1,204
Lloyds Bank PLC		
0.912% due 05/14/2018	8,000	7,947
2.000% due 08/17/2018	6,900	6,909
Macquarie Bank Ltd.		
1.444% due 07/29/2020	$ 8,900	$ 8,921
Metropolitan Life Global Funding		
1.300% due 04/10/2017	3,600	3,600
MUFG Americas Holdings Corp.		
0.914% due 02/09/2018	3,500	3,488
MUFG Union Bank N.A.		
0.734% due 05/05/2017	6,600	6,571
Navient Corp.		
6.250% due 01/25/2016	1,407	1,410
8.780% due 09/15/2016	MXN 49,700	2,900
Nordea Bank AB		
1.366% due 09/17/2018	$ 4,900	4,921
Pacific Life Global Funding		
2.622% due 06/02/2018	3,500	3,502
Piper Jaffray Cos.		
5.060% due 10/09/2018	1,500	1,498
Pricoa Global Funding		
1.350% due 08/18/2017	23,600	23,446
Santander Bank N.A.		
1.251% due 01/12/2018	6,200	6,159
Shinhan Bank		
0.968% due 04/08/2017	13,600	13,596
Springleaf Finance Corp.		
6.500% due 09/15/2017	4,900	5,010
Sumitomo Mitsui Banking Corp.		
0.897% due 01/16/2018	12,300	12,264
Synchrony Financial		
1.564% due 02/03/2020	5,600	5,517
UBS AG		
0.974% due 06/01/2017	6,500	6,489
Wachovia Corp.		
0.691% due 10/15/2016	5,000	4,992
WEA Finance LLC		
1.750% due 09/15/2017	1,000	992
Wells Fargo & Co.		
1.200% due 07/22/2020	2,000	1,995
		526,314
INDUSTRIALS 12.2%		
Actavis Funding SCS		
1.582% due 03/12/2018	1,700	1,706
1.757% due 03/12/2020	5,300	5,324
2.450% due 06/15/2019	300	297
Actavis, Inc.		
1.875% due 10/01/2017	2,800	2,798
Adani Ports & Special Economic Zone Ltd.		
3.500% due 07/29/2020	4,300	4,245
Amgen, Inc.		
2.125% due 05/15/2017	3,695	3,719
2.200% due 05/22/2019	2,700	2,699
Barrick Gold Corp.		
6.950% due 04/01/2019	130	133
BAT International Finance PLC		
1.022% due 06/15/2018	9,200	9,193
1.850% due 06/15/2018	1,600	1,600
Becton Dickinson and Co.		
1.800% due 12/15/2017	2,100	2,098
2.675% due 12/15/2019	900	906
Boston Scientific Corp.		
2.850% due 05/15/2020	1,300	1,295
5.125% due 01/12/2017	1,500	1,548
Canadian Natural Resources Ltd.		
0.978% due 03/30/2016	1,100	1,098
1.750% due 01/15/2018	1,200	1,168

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Cardinal Health, Inc.		
1.950% due 06/15/2018	$ 1,000	$ 998
CCO Safari LLC		
3.579% due 07/23/2020	3,700	3,682
4.464% due 07/23/2022	600	599
CNPC General Capital Ltd.		
1.450% due 04/16/2016	3,400	3,400
ConocoPhillips Co.		
1.262% due 05/15/2022	3,500	3,453
Cox Communications, Inc.		
9.375% due 01/15/2019	400	464
Daimler Finance North America LLC		
0.836% due 03/02/2018	2,700	2,671
0.837% due 03/10/2017	11,400	11,342
2.000% due 08/03/2018	6,000	5,963
2.375% due 08/01/2018	900	902
DISH DBS Corp.		
4.625% due 07/15/2017	4,700	4,806
Dominion Gas Holdings LLC		
2.500% due 12/15/2019	2,300	2,299
Freeport-McMoRan, Inc.		
2.300% due 11/14/2017	2,200	1,884
General Mills, Inc.		
0.624% due 01/29/2016	8,900	8,899
Georgia-Pacific LLC		
2.539% due 11/15/2019	4,400	4,380
5.400% due 11/01/2020	2,400	2,651
Gilead Sciences, Inc.		
1.850% due 09/04/2018	1,100	1,105
2.350% due 02/01/2020	800	801
Hellenic Railways Organization S.A.		
4.028% due 03/17/2017	EUR 1,300	1,314
4.500% due 12/06/2016	JPY 29,000	222
Hewlett Packard Enterprise Co.		
2.353% due 10/05/2017	$ 4,100	4,108
2.450% due 10/05/2017	5,900	5,898
Humana, Inc.		
7.200% due 06/15/2018	1,200	1,344
Hyundai Capital America		
1.450% due 02/06/2017	950	946
1.875% due 08/09/2016	300	300
Imperial Tobacco Finance PLC		
2.050% due 02/11/2018	1,250	1,245
Intel Corp.		
2.450% due 07/29/2020	800	810
Kinder Morgan Energy Partners LP		
2.650% due 02/01/2019	500	463
9.000% due 02/01/2019	300	323
Kinder Morgan, Inc.		
2.000% due 12/01/2017	1,500	1,446
3.050% due 12/01/2019	4,000	3,707
7.000% due 06/15/2017	1,500	1,546
7.250% due 06/01/2018	400	416
KLA-Tencor Corp.		
2.375% due 11/01/2017	500	500
3.375% due 11/01/2019	150	152
Korea National Oil Corp.		
4.000% due 10/27/2016	7,200	7,349
Kraft Heinz Foods Co.		
2.000% due 07/02/2018	2,300	2,293
Kroger Co.		
0.845% due 10/17/2016	5,600	5,598
Lowe's Cos., Inc.		
1.102% due 09/14/2018	1,200	1,204
Medtronic, Inc.		
1.312% due 03/15/2020	6,300	6,288
1.375% due 04/01/2018	2,900	2,886
Merck & Co., Inc.		
0.716% due 02/10/2020	$ 5,700	$ 5,671
Merck Sharp & Dohme Corp.		
5.000% due 06/30/2019	1,400	1,546
MGM Resorts International		
6.875% due 04/01/2016	500	506
7.500% due 06/01/2016	7,700	7,861
10.000% due 11/01/2016	400	424
Nissan Motor Acceptance Corp.		
1.800% due 03/15/2018	200	199
1.950% due 09/12/2017	400	401
2.350% due 03/04/2019	200	199
Pearson Dollar Finance PLC		
6.250% due 05/06/2018	600	648
Pioneer Natural Resources Co.		
6.875% due 05/01/2018	300	319
QUALCOMM, Inc.		
3.000% due 05/20/2022	4,600	4,560
Reynolds American, Inc.		
2.300% due 06/12/2018	1,800	1,812
SABMiller Holdings, Inc.		
2.200% due 08/01/2018	1,300	1,298
2.450% due 01/15/2017	500	504
3.750% due 01/15/2022	200	206
SABMiller PLC		
6.500% due 07/15/2018	300	331
Sinopec Group Overseas Development Ltd.		
2.750% due 05/17/2017	6,000	6,055
Southern Natural Gas Co. LLC		
5.900% due 04/01/2017	300	305
Southwest Airlines Co.		
2.750% due 11/06/2019	6,300	6,357
Southwestern Energy Co.		
3.300% due 01/23/2018	700	575
4.050% due 01/23/2020	2,800	2,033
Telefonica Emisiones S.A.U.		
1.243% due 06/23/2017	13,000	12,930
5.375% due 02/02/2018	GBP 1,300	2,040
6.421% due 06/20/2016	$ 1,600	1,637
Thermo Fisher Scientific, Inc.		
1.300% due 02/01/2017	6,600	6,578
Time Warner Cable, Inc.		
5.850% due 05/01/2017	700	733
6.750% due 07/01/2018	1,800	1,965
8.750% due 02/14/2019	1,100	1,277
UnitedHealth Group, Inc.		
1.400% due 12/15/2017	1,000	997
1.450% due 07/17/2017	1,800	1,800
1.900% due 07/16/2018	1,800	1,806
Volkswagen Group of America Finance LLC		
0.810% due 11/20/2017	7,500	7,210
1.250% due 05/23/2017	1,500	1,465
2.450% due 11/20/2019	4,200	4,031
Walgreens Boots Alliance, Inc.		
0.814% due 05/18/2016	4,500	4,485
1.750% due 11/17/2017	1,700	1,698
WestRock RKT Co.		
4.450% due 03/01/2019	400	417
Whirlpool Corp.		
1.650% due 11/01/2017	1,100	1,095
Woodside Finance Ltd.		
3.650% due 03/05/2025	950	844
		245,302
UTILITIES 5.9%		
AES Corp.		
3.414% due 06/01/2019	$ 600	$ 552
AT&T, Inc.		
1.023% due 03/30/2017	6,800	6,785
1.533% due 06/30/2020	12,300	12,225
2.950% due 05/15/2016	900	906
3.000% due 06/30/2022	2,200	2,143
Consumers Energy Co.		
6.700% due 09/15/2019	200	230
Dayton Power & Light Co.		
1.875% due 09/15/2016	1,000	1,001
DTE Energy Co.		
2.400% due 12/01/2019	3,700	3,689
Electricite de France S.A.		
6.500% due 01/26/2019	100	112
Exelon Corp.		
1.550% due 06/09/2017	900	897
Kinder Morgan Finance Co. LLC		
6.000% due 01/15/2018	1,500	1,513
KT Corp.		
1.750% due 04/22/2017	3,700	3,692
Ooredoo International Finance Ltd.		
3.375% due 10/14/2016	2,300	2,328
Orange S.A.		
2.750% due 09/14/2016	2,500	2,528
Petrobras Global Finance BV		
1.990% due 05/20/2016	2,500	2,444
2.000% due 05/20/2016	4,500	4,444
2.886% due 03/17/2017	6,400	5,880
3.250% due 03/17/2017	1,500	1,391
3.500% due 02/06/2017	1,200	1,125
4.875% due 03/17/2020	4,400	3,311
5.750% due 01/20/2020	2,000	1,575
7.875% due 03/15/2019	2,200	1,953
Plains All American Pipeline LP		
8.750% due 05/01/2019	700	769
Sinopec Group Overseas Development Ltd.		
2.500% due 04/28/2020	11,000	10,843
Sprint Communications, Inc.		
9.125% due 03/01/2017	14,800	15,059
Verizon Communications, Inc.		
0.877% due 06/09/2017	3,500	3,486
2.252% due 09/14/2018	19,300	19,775
2.500% due 09/15/2016	2,041	2,057
2.550% due 06/17/2019	4,655	4,718
2.625% due 02/21/2020	900	904
		118,335
Total Corporate Bonds & Notes (Cost $907,325)		**889,951**
MUNICIPAL BONDS & NOTES 1.0%		
CALIFORNIA 0.5%		
University of California Revenue Bonds, Series 2011		
0.744% due 07/01/2041	10,600	10,598
NEW JERSEY 0.5%		
New Jersey Economic Development Authority Revenue Notes, Series 2014		
1.096% due 06/15/2016	9,525	9,525

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
TEXAS 0.0%		
North Texas Higher Education Authority, Inc. Revenue Bonds, Series 2011		
1.426% due 04/01/2040	$ 334	$ 333
Total Municipal Bonds & Notes (Cost $20,467)		**20,456**
U.S. GOVERNMENT AGENCIES 16.5%		
Fannie Mae		
0.482% due 12/25/2036 - 07/25/2037	589	558
0.772% due 09/25/2042 - 03/25/2044	410	408
0.922% due 12/25/2022	49	49
1.000% due 01/25/2043	421	386
1.222% due 04/25/2023	52	53
1.251% due 06/17/2027	31	32
1.272% due 02/25/2023	3	3
1.322% due 05/25/2022	5	5
1.443% due 07/01/2042 - 06/01/2043	318	326
1.493% due 09/01/2041	209	213
1.643% due 09/01/2040	1	1
2.122% due 11/01/2035	49	51
2.274% due 09/01/2035	339	359
2.333% due 07/01/2035	54	57
4.321% due 12/01/2036	16	17
4.500% due 03/01/2018 - 01/01/2027	4,957	5,236
4.611% due 09/01/2034	10	11
5.000% due 05/01/2027 - 04/25/2033	247	271
5.500% due 12/01/2027 - 12/01/2028	840	935
5.735% due 12/25/2042	8	9
6.000% due 03/01/2017 - 01/01/2039	3,491	3,970
6.500% due 04/01/2036	117	134
Fannie Mae, TBA		
4.000% due 01/01/2046 - 02/01/2046	133,000	140,593
4.500% due 01/01/2046 - 02/01/2046	132,000	142,448
FDIC Structured Sale Guaranteed Notes		
2.980% due 12/06/2020	1,422	1,446
Federal Housing Administration		
7.430% due 10/01/2020	1	1
Freddie Mac		
0.462% due 12/25/2036	720	719
0.682% due 08/25/2031	132	129
0.731% due 06/15/2018	7	7
1.443% due 02/25/2045	274	279
2.000% due 11/15/2026	9,369	9,426
2.505% due 07/01/2035	128	136
2.521% due 09/01/2035	371	395
5.000% due 05/01/2024 - 12/01/2041	601	662
5.500% due 12/01/2022 - 08/15/2030	1	1
6.500% due 07/25/2043	58	67
9.151% due 08/15/2044	5,455	6,415
Ginnie Mae		
0.652% due 06/20/2065	3,756	3,729
0.712% due 10/20/2065	10,210	10,142
1.892% due 02/20/2041	854	856
6.000% due 09/15/2017	226	231
Total U.S. Government Agencies (Cost $329,937)		**330,766**

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
U.S. TREASURY OBLIGATIONS 16.7%		
U.S. Treasury Inflation Protected Securities (e)		
0.125% due 04/15/2018	$ 173,550	$ 173,204
0.125% due 04/15/2019 (h)	117,726	117,006
0.625% due 07/15/2021	22,579	22,725
0.750% due 02/15/2042 (j)	1,894	1,662
1.125% due 01/15/2021	10,327	10,647
1.250% due 07/15/2020 (h)	4,144	4,309
1.375% due 02/15/2044	5,816	5,908
Total U.S. Treasury Obligations (Cost $342,230)		**335,461**
NON-AGENCY MORTGAGE-BACKED SECURITIES 8.3%		
Adjustable Rate Mortgage Trust		
2.757% due 09/25/2035	960	803
Aire Valley Mortgages PLC		
0.790% due 09/20/2066	2,101	2,011
Alba PLC		
2.832% due 12/16/2042	GBP 1,205	1,781
American Home Mortgage Investment Trust		
2.314% due 10/25/2034	$ 214	214
2.654% due 02/25/2045	148	148
Banc of America Commercial Mortgage Trust		
5.568% due 04/10/2049	2,502	2,577
5.617% due 07/10/2046	2,072	2,091
Banc of America Funding Trust		
0.702% due 07/25/2037	1,089	935
3.007% due 01/20/2047 ^	435	369
Banc of America Mortgage Trust		
2.677% due 07/25/2034	690	704
2.789% due 08/25/2034	2,040	2,021
2.791% due 05/25/2033	406	410
6.500% due 10/25/2031	6	6
BCAP LLC Trust		
0.335% due 09/26/2035	426	423
Bear Stearns Adjustable Rate Mortgage Trust		
2.480% due 08/25/2035	1,066	1,072
2.537% due 04/25/2033	4	4
2.581% due 02/25/2033	1	1
2.924% due 03/25/2035	1,234	1,250
2.928% due 07/25/2034	278	270
2.965% due 01/25/2035	3,579	3,516
3.059% due 01/25/2034	18	19
3.147% due 01/25/2035	170	166
Bear Stearns ALT-A Trust		
0.582% due 02/25/2034	428	393
Bear Stearns Commercial Mortgage Securities Trust		
5.331% due 02/11/2044	334	344
Bear Stearns Structured Products, Inc. Trust		
2.566% due 12/26/2046	569	421
2.693% due 01/26/2036	988	817
Chevy Chase Funding LLC Mortgage-Backed Certificates		
0.702% due 01/25/2035	72	66
Citigroup Commercial Mortgage Trust		
5.710% due 12/10/2049	3,500	3,620
6.137% due 12/10/2049	770	810
Citigroup Global Markets Mortgage Securities, Inc.		
7.000% due 12/25/2018	7	8
Citigroup Mortgage Loan Trust, Inc.		
2.660% due 05/25/2035	161	159
2.706% due 08/25/2035 ^	655	489
Citigroup/Deutsche Bank Commercial Mortgage Trust		
5.289% due 12/11/2049	14,280	14,638
Countrywide Alternative Loan Trust		
0.602% due 05/25/2047	549	454
6.000% due 10/25/2033	13	14

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Countrywide Home Loan Mortgage Pass-Through Trust		
2.602% due 02/20/2036 ^	$ 522	$ 459
2.640% due 11/20/2034	1,249	1,203
2.646% due 11/25/2034	582	555
2.671% due 02/20/2035	848	846
Credit Suisse Commercial Mortgage Trust		
5.297% due 12/15/2039	3,604	3,687
5.448% due 01/15/2049	10	10
5.659% due 03/15/2039	8,019	8,019
5.816% due 06/15/2038	4,426	4,440
Credit Suisse First Boston Mortgage Securities Corp.		
0.824% due 03/25/2032	1	1
Credit Suisse Mortgage Capital Certificates		
2.087% due 09/27/2036	3,833	3,841
2.703% due 09/26/2047	520	519
Deco Pan Europe Ltd.		
0.149% due 04/27/2018	EUR 429	463
Deutsche Mortgage Securities, Inc. Re-REMIC Trust Certificates		
2.740% due 06/26/2035	$ 253	252
Eurosail PLC		
0.044% due 12/10/2044	EUR 162	169
1.283% due 09/13/2045	GBP 980	1,409
1.535% due 06/13/2045	9,300	12,887
Extended Stay America Trust		
2.958% due 12/05/2031	$ 500	502
First Horizon Alternative Mortgage Securities Trust		
2.204% due 09/25/2034	1,194	1,172
First Horizon Mortgage Pass-Through Trust		
2.723% due 08/25/2035	309	277
2.726% due 02/25/2035	2,083	2,076
GE Commercial Mortgage Corp. Trust		
5.483% due 12/10/2049	6,894	7,145
GMAC Mortgage Corp. Loan Trust		
2.862% due 11/19/2035	218	197
Granite Mortgages PLC		
0.329% due 01/20/2044	EUR 19	21
0.962% due 01/20/2044	GBP 17	25
Great Hall Mortgages PLC		
0.663% due 06/18/2039	$ 2,144	2,023
Greenwich Capital Commercial Funding Corp.		
5.444% due 03/10/2039	1,604	1,640
GS Mortgage Securities Corp.		
2.329% due 11/10/2045 (a)	2,854	275
GS Mortgage Securities Trust		
5.560% due 11/10/2039	2,120	2,118
GSR Mortgage Loan Trust		
2.798% due 09/25/2034	161	154
2.806% due 09/25/2035	674	691
HarborView Mortgage Loan Trust		
0.622% due 05/19/2035	120	101
2.685% due 07/19/2035	625	555
Hercules Eclipse PLC		
0.819% due 10/25/2018	GBP 2,243	3,259
Hilton USA Trust		
1.269% due 11/05/2030	$ 1,813	1,806
Impac CMB Trust		
1.422% due 07/25/2033	155	150
Infinity Classico		
0.109% due 02/15/2024	EUR 846	905
JPMorgan Chase Commercial Mortgage Securities Trust		
5.257% due 05/15/2047	$ 3,061	3,108
5.397% due 05/15/2045	499	504
5.420% due 01/15/2049	543	555
5.794% due 02/12/2051	3,623	3,770
5.882% due 02/15/2051	1,300	1,350

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
JPMorgan Commercial Mortgage-Backed Securities Trust			
5.637% due 03/18/2051	$	2,067	$ 2,122
JPMorgan Mortgage Trust			
5.750% due 01/25/2036 ^		28	24
Juno Eclipse Ltd.			
0.088% due 11/20/2022	EUR	1,937	2,064
LB-UBS Commercial Mortgage Trust			
5.342% due 09/15/2039	$	1,412	1,437
MASTR Asset Securitization Trust			
5.500% due 09/25/2033		5	6
Merrill Lynch Mortgage Investors Trust			
0.672% due 11/25/2035		208	198
1.082% due 09/25/2029		1,188	1,187
1.244% due 10/25/2035		123	117
2.062% due 01/25/2029		1	1
Merrill Lynch/Countrywide Commercial Mortgage Trust			
5.485% due 03/12/2051		2,700	2,771
Opteum Mortgage Acceptance Corp. Asset-Backed Pass-Through Certificates			
0.702% due 12/25/2035		706	627
0.732% due 04/25/2035		2,879	2,851
PHHMC Series 2005-4 Trust			
5.645% due 07/18/2035		774	780
Prime Mortgage Trust			
0.822% due 02/25/2034		9	8
Residential Funding Mortgage Securities, Inc. Trust			
3.192% due 09/25/2035 ^		1,008	809
RFTI 2015-FL1 Issuer Ltd.			
2.081% due 08/15/2030		10,000	9,929
Structured Adjustable Rate Mortgage Loan Trust			
1.657% due 01/25/2035		297	240
2.561% due 08/25/2034		438	435
2.586% due 02/25/2034		310	308
2.586% due 08/25/2035		263	246
Structured Asset Mortgage Investments Trust			
0.702% due 02/25/2036 ^		171	133
1.062% due 09/19/2032		4	4
Ulysses European Loan Conduit PLC			
0.739% due 07/25/2017	GBP	2,700	3,841
Vulcan European Loan Conduit Ltd.			
0.199% due 05/15/2017	EUR	244	262
Wachovia Bank Commercial Mortgage Trust			
0.561% due 04/15/2047	$	9,800	9,490
5.749% due 07/15/2045		1,171	1,181
WaMu Mortgage Pass-Through Certificates Trust			
0.692% due 12/25/2045		134	130
0.987% due 01/25/2047		342	312
1.102% due 01/25/2045		923	875
1.457% due 11/25/2042		54	51
1.643% due 08/25/2042		123	117
1.657% due 06/25/2042		31	30
Washington Mutual Mortgage Loan Trust			
1.439% due 05/25/2041		7	7
Wells Fargo Mortgage-Backed Securities Trust			
2.642% due 03/25/2035		271	274
2.743% due 09/25/2034		5,796	5,946
2.763% due 03/25/2036		387	385
2.823% due 01/25/2035		391	397
2.853% due 12/25/2034		335	330
Total Non-Agency Mortgage-Backed Securities (Cost $171,782)			**166,088**

ASSET-BACKED SECURITIES 11.0%

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
ACE Securities Corp. Home Equity Loan Trust			
0.482% due 10/25/2036		112	60
1.322% due 12/25/2034		1,518	1,373
Ally Auto Receivables Trust			
0.680% due 07/17/2017	$	3,300	$ 3,300
Ameriquest Mortgage Securities, Inc. Asset-Backed Pass-Through Certificates			
0.922% due 09/25/2035		7,100	6,543
Amortizing Residential Collateral Trust			
1.002% due 07/25/2032		13	12
Ares European CLO BV			
0.256% due 08/15/2024	EUR	894	968
Asset-Backed Funding Certificates Trust			
1.097% due 06/25/2035	$	10,799	10,392
Asset-Backed Securities Corp. Home Equity Loan Trust			
0.972% due 09/25/2034		4	4
1.981% due 03/15/2032		116	113
Atrium CDO Corp.			
1.421% due 11/16/2022		3,451	3,437
Avoca CLO PLC			
0.259% due 01/16/2023	EUR	222	241
Bear Stearns Asset-Backed Securities Trust			
1.422% due 10/25/2037	$	2,168	2,017
Cadogan Square CLO BV			
0.278% due 08/12/2022	EUR	435	473
0.279% due 01/17/2023		1,208	1,302
Carlyle Global Market Strategies CLO Ltd.			
1.547% due 04/20/2022	$	5,200	5,176
Carlyle High Yield Partners Ltd.			
0.540% due 04/19/2022		740	720
Cavalry CLO Ltd.			
1.687% due 01/16/2024		10,200	10,169
Celf Loan Partners PLC			
0.342% due 12/15/2021	EUR	890	959
CIFC Funding Ltd.			
1.587% due 01/19/2023	$	4,850	4,848
1.802% due 12/05/2024		4,800	4,782
Citigroup Mortgage Loan Trust, Inc.			
1.142% due 09/25/2035 ^		6,200	5,899
Countrywide Asset-Backed Certificates			
0.602% due 09/25/2036		2,272	2,247
0.701% due 12/25/2031 ^		32	23
1.122% due 12/25/2033		1,657	1,589
1.222% due 03/25/2033		1,208	1,123
Credit Suisse First Boston Mortgage Securities Corp.			
1.042% due 01/25/2032		7	6
Doral CLO Ltd.			
1.657% due 05/26/2023		6,784	6,775
Duane Street CLO Ltd.			
0.592% due 11/14/2021		349	344
Educational Services of America, Inc.			
1.572% due 09/25/2040		1,838	1,839
Elm CLO Ltd.			
1.715% due 01/17/2023		7,841	7,865
Equity One Mortgage Pass-Through Trust			
0.982% due 11/25/2032		4	4
First Franklin Mortgage Loan Trust			
1.142% due 05/25/2035		300	294
Fortress Credit Investments Ltd.			
1.565% due 07/17/2023		4,765	4,764
Four Corners CLO Ltd.			
0.590% due 01/26/2020		1,021	1,016
Fraser Sullivan CLO Ltd.			
1.362% due 04/20/2023		4,074	4,070
Galaxy CLO Ltd.			
1.660% due 08/20/2022		1,020	1,019
GE-WMC Mortgage Securities Trust			
0.462% due 08/25/2036		11	6
Goldentree Loan Opportunities Ltd.			
1.010% due 10/18/2021		691	688

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
GSAMP Trust			
0.812% due 01/25/2036	$	1,067	$ 893
Halcyon Structured Asset Management European CLO BV			
0.289% due 01/25/2023	EUR	595	644
Highbridge Loan Management Ltd.			
1.436% due 09/20/2022	$	5,379	5,370
Inwood Park CDO Ltd.			
0.542% due 01/20/2021		2,803	2,802
JPMorgan Mortgage Acquisition Corp.			
0.602% due 02/25/2036		670	646
0.652% due 05/25/2035		8,007	7,815
Jubilee CDO BV			
0.282% due 08/21/2021	EUR	202	218
0.776% due 10/15/2019		677	735
LCM LP			
1.521% due 07/14/2022	$	2,976	2,974
1.575% due 10/19/2022		5,100	5,067
Leopard CLO BV			
0.254% due 07/24/2023	EUR	1,649	1,789
Lockwood Grove CLO Ltd.			
1.690% due 01/25/2024	$	5,400	5,381
Madison Park Funding Ltd.			
1.762% due 06/15/2022		687	687
Massachusetts Educational Financing Authority			
1.270% due 04/25/2038		557	554
Mercator CLO PLC			
0.149% due 02/18/2024	EUR	752	811
Merrill Lynch Mortgage Investors Trust			
0.622% due 08/25/2036	$	93	93
Motor PLC			
1.022% due 06/25/2022		10,000	9,974
MT Wilson CLO Ltd.			
0.551% due 07/11/2020		550	550
Navient Private Education Loan Trust			
1.531% due 12/15/2028		2,100	2,082
Panhandle-Plains Higher Education Authority, Inc.			
1.742% due 10/01/2035		1,317	1,318
Panther CDO BV			
0.304% due 03/20/2084	EUR	6,984	7,330
Prospero CLO BV			
0.189% due 10/20/2022		282	304
Queen Street CLO BV			
0.246% due 08/15/2024		1,165	1,267
RAAC Trust			
0.902% due 03/25/2037	$	677	657
Renaissance Home Equity Loan Trust			
0.922% due 12/25/2033		3,686	3,465
Residential Asset Securities Corp. Trust			
0.742% due 01/25/2036		4,155	4,076
1.307% due 01/25/2034		4,492	4,047
SLC Student Loan Trust			
0.492% due 11/15/2021		8,785	8,750
0.612% due 09/15/2026		4,900	4,712
SLM Private Credit Student Loan Trust			
0.692% due 03/15/2024		858	847
0.702% due 12/15/2023		586	577
SLM Private Education Loan Trust			
1.081% due 10/16/2023		890	888
1.381% due 06/15/2023		637	637
SLM Student Loan Trust			
0.410% due 10/25/2024		4,359	4,269
1.820% due 04/25/2023		521	522
South Carolina Student Loan Corp.			
1.164% due 03/02/2020		1,391	1,378
Specialty Underwriting & Residential Finance Trust			
0.812% due 12/25/2036		4,800	3,980

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
SpringCastle America Funding LLC			
2.700% due 05/25/2023		$ 7,007	$ 6,993
Stone Tower CLO Ltd.			
0.545% due 04/17/2021		707	700
Structured Asset Investment Loan Trust			
1.127% due 03/25/2034		681	625
1.397% due 10/25/2033		912	886
Sunrise SRL			
0.396% due 08/27/2031	EUR	672	729
Symphony CLO LP			
1.617% due 04/16/2022		$ 989	985
Symphony CLO Ltd.			
1.586% due 07/23/2023		4,100	4,093
Voya CLO Ltd.			
1.621% due 10/15/2022		4,800	4,764
1.641% due 10/15/2022		5,300	5,271
Wells Fargo Home Equity Asset-Backed Securities Trust			
0.682% due 05/25/2036		1,100	1,039
Wood Street CLO BV			
0.231% due 11/22/2021	EUR	226	245
Total Asset-Backed Securities (Cost $220,084)			**220,899**
SOVEREIGN ISSUES 7.1%			
Athens Urban Transportation Organisation			
4.851% due 09/19/2016		2,200	2,232
Autonomous Community of Catalonia			
4.750% due 06/04/2018		2,700	3,104
Brazil Letras do Tesouro Nacional			
0.000% due 04/01/2016 (d)	BRL	97,700	23,881
0.000% due 10/01/2016 (d)		143,300	32,487
Export-Import Bank of Korea			
1.071% due 01/14/2017		$ 4,600	4,608
Korea Development Bank			
0.945% due 01/22/2017		800	801
3.250% due 03/09/2016		6,300	6,326
3.250% due 09/20/2016		1,500	1,520
3.875% due 05/04/2017		1,200	1,232
Korea Housing Finance Corp.			
3.500% due 12/15/2016		1,500	1,524
Korea Land & Housing Corp.			
1.875% due 08/02/2017		500	499
Mexico Government International Bond			
4.000% due 11/15/2040 (e)	MXN	3,230	$ 190
5.000% due 06/16/2016 (e)		6,999	415
8.500% due 12/13/2018		733,500	46,849
Province of Ontario			
1.000% due 07/22/2016		$ 2,800	2,801
1.100% due 10/25/2017		13,600	13,542
Total Sovereign Issues (Cost $152,241)			**142,011**

	SHARES	MARKET VALUE (000S)
CONVERTIBLE PREFERRED SECURITIES 0.0%		
INDUSTRIALS 0.0%		
Motors Liquidation Co.		
5.250% due 03/06/2032 (b)	4,000	0
Total Convertible Preferred Securities (Cost $0)		**0**

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
SHORT-TERM INSTRUMENTS 2.3%			
CERTIFICATES OF DEPOSIT 0.8%			
Intesa Sanpaolo SpA			
1.701% due 04/11/2016		$ 14,600	14,612
Itau Unibanco Holding S.A.			
1.605% due 06/21/2016		2,200	2,202
			16,814
COMMERCIAL PAPER 0.6%			
Hyundai Capital America			
0.580% due 01/21/2016		13,000	12,996
REPURCHASE AGREEMENTS (f) 0.1%			
			1,963
SHORT-TERM NOTES 0.5%			
JPMorgan Chase Bank N.A.			
0.010% due 10/04/2016		10,600	10,323
MEXICO TREASURY BILLS 0.2%			
3.620% due 05/26/2016	MXN	81,000	$ 4,634
U.S. TREASURY BILLS 0.1%			
0.165% due 01/14/2016 (c)(j)		$ 1,133	1,133
Total Short-Term Instruments (Cost $48,172)			**47,863**
Total Investments in Securities (Cost $2,198,157)			**2,159,398**

	SHARES	MARKET VALUE (000S)
INVESTMENTS IN AFFILIATES 5.7%		
SHORT-TERM INSTRUMENTS 5.7%		
CENTRAL FUNDS USED FOR CASH MANAGEMENT PURPOSES 5.7%		
PIMCO Short-Term Floating NAV Portfolio III	11,633,387	114,868
Total Short-Term Instruments (Cost $115,332)		**114,868**
Total Investments in Affiliates (Cost $115,332)		**114,868**
Total Investments 113.2% (Cost $2,313,489)		**$ 2,274,266**
Financial Derivative Instruments (g)(i) 1.4% (Cost or Premiums, net $(470))		**27,641**
Other Assets and Liabilities, net (14.6%)		**(292,879)**
Net Assets 100.0%		**$ 2,009,028**

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) Security did not produce income within the last twelve months.

(c) Coupon represents a weighted average yield to maturity.

(d) Zero coupon bond.

(e) Principal amount of security is adjusted for inflation.

BORROWINGS AND OTHER FINANCING TRANSACTIONS

(f) REPURCHASE AGREEMENTS:

Counterparty	Lending Rate	Settlement Date	Maturity Date	Principal Amount	Collateralized By	Collateral (Received)	Repurchase Agreements, at Value	Repurchase Agreement Proceeds to be Received [1]
SSB	0.010%	12/31/2015	01/04/2016	$ 1,963	Fannie Mae 2.140% due 11/07/2022	$ (2,006)	$ 1,963	$ 1,963
Total Repurchase Agreements						**$ (2,006)**	**$ 1,963**	**$ 1,963**

[1] Includes accrued interest.

As of December 31, 2015, there were no open reverse repurchase agreements. The average amount of borrowings outstanding during the period ended December 31, 2015 was $(25,879) at a weighted average interest rate of 0.302%.

SHORT SALES:

SHORT SALES ON U.S. GOVERNMENT AGENCIES*:

Description	Coupon	Maturity Date	Principal Amount	Proceeds	Payable for Short Sales
Fannie Mae, TBA	5.000%	01/01/2046	$ 100	$ (110)	$ (110)
Fannie Mae, TBA	6.000	01/01/2046	3,000	(3,394)	(3,390)
Freddie Mac, TBA	5.000	01/01/2046	500	(549)	(546)
Total Short Sales				**$ (4,053)**	**$ (4,046)**

* Short Sales shown are To-Be-Announced ("TBA") securities which are not subject to collateral pledging under the terms of any master agreements.

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, 2015:

Counterparty	Repurchase Agreement Proceeds to be Received	Payable for Reverse Repurchase Agreements	Payable for Sale-Buyback Transactions	Total Borrowings and Other Financing Transactions	Collateral (Received)	Net Exposure [(2)]
Global/Master Repurchase Agreement						
SSB	$ 1,963	$ 0	$ 0	$ 1,963	$ (2,006)	$ (43)
Total Borrowings and Other Financing Transactions	**$ 1,963**	**$ 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.

(g) 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 June Futures	Short	06/2017	467	$ (219)	$ 0	$ (18)
90-Day Eurodollar March Futures	Short	03/2018	53	(48)	0	(3)
U.S. Treasury 2-Year Note March Futures	Long	03/2016	526	(190)	25	0
U.S. Treasury 5-Year Note March Futures	Long	03/2016	1,156	(408)	162	0
U.S. Treasury 10-Year Note March Futures	Short	03/2016	476	224	0	(141)
United Kingdom 90-Day LIBOR Sterling Interest Rate June Futures	Short	06/2017	1,968	(968)	109	0
United Kingdom 90-Day LIBOR Sterling Interest Rate March Futures	Short	03/2017	575	63	32	0
Total Futures Contracts				**$ (1,546)**	**$ 328**	**$ (162)**

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
Receive	3-Month USD-LIBOR	2.000%	12/16/2019	$ 58,300	$ (986)	$ 395	$ 0	$ (61)
Receive	3-Month USD-LIBOR	2.000	12/16/2020	233,600	(3,437)	(4,451)	0	(423)
Pay	3-Month USD-LIBOR	2.000	12/16/2020	104,800	1,424	(225)	163	0
Receive	3-Month USD-LIBOR*	2.250	06/15/2026	28,700	118	183	0	(113)
Receive	3-Month USD-LIBOR	2.750	12/16/2045	7,600	(191)	(329)	0	(64)
Receive	6-Month GBP-LIBOR	1.880	10/05/2017	GBP 8,100	(209)	(4)	2	0
Receive	6-Month GBP-LIBOR	1.837	10/06/2017	1,300	(32)	(1)	0	0
Receive	6-Month GBP-LIBOR	1.500	03/16/2018	37,600	(348)	(94)	19	0
Pay	28-Day MXN-TIIE	3.960	05/16/2016	MXN 931,900	68	(16)	5	0
Pay	28-Day MXN-TIIE	5.250	06/11/2018	15,300	14	(1)	1	0
Pay	28-Day MXN-TIIE	5.500	06/11/2018	18,800	24	(1)	2	0
Pay	28-Day MXN-TIIE	4.955	06/24/2019	360,000	(20)	(13)	40	0
Pay	28-Day MXN-TIIE	5.280	10/02/2019	370,000	162	(33)	39	0
Pay	28-Day MXN-TIIE	5.010	10/10/2019	354,500	(61)	(40)	36	0
Pay	28-Day MXN-TIIE	5.615	06/02/2020	667,100	447	(122)	57	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	5.575%	03/16/2022	MXN 224,800	$ (173)	$ 71	$ 23	$ 0
Pay	28-Day MXN-TIIE	5.980	08/26/2024	52,600	(58)	8	7	0
					$ (3,258)	$ (4,673)	$ 394	$ (661)
Total Swap Agreements					**$ (3,258)**	**$ (4,673)**	**$ 394**	**$ (661)**

* This security has a forward starting effective date. See Note 2a for further information.

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, 2015:

(h) Securities with an aggregate market value of $11,380 and cash of $5,314 have been pledged as collateral for exchange-traded and centrally cleared financial derivative instruments as of December 31, 2015. 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**	**$ 328**	**$ 394**	**$ 722**	**$ 0**	**$ (162)**	**$ (661)**	**$ (823)**

(i) 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	01/2016	BRL	3,389	$	868	$ 11	$ 0
	01/2016	$	877	BRL	3,389	0	(20)
	02/2016	EUR	27,636	$	29,914	0	(147)
	02/2016	SGD	7,071		4,962	0	(17)
	02/2016	$	1,993	ILS	7,720	0	(7)
BPS	01/2016	BRL	25,603	$	6,557	85	0
	01/2016	$	6,693	BRL	25,603	0	(221)
	02/2016	ILS	85,070	$	21,934	54	0
	03/2016	MXN	930,937		53,376	0	(375)
	03/2016	$	3,411	RUB	253,506	0	(4)
	01/2017	BRL	20,000	$	7,269	2,766	0
BRC	01/2016		1,420		364	5	0
	01/2016	$	355	BRL	1,420	4	0
	02/2016		712	ILS	2,764	0	(1)
	03/2016		1,404	MXN	24,203	0	(6)
CBK	01/2016	BRL	61,700	$	15,801	206	0
	01/2016	$	15,502	BRL	61,700	93	0
	01/2016		2,007	INR	133,302	2	0
	01/2016		1,408	JPY	173,600	36	0
	02/2016	EUR	16,392	$	17,591	0	(239)
	02/2016	SGD	10		7	0	0
	02/2016	$	37,909	EUR	35,386	589	(7)
	02/2016		1,241	GBP	823	0	(28)
	02/2016		2,422	ILS	9,422	1	0
	02/2016		9,304	JPY	1,143,100	214	0
	04/2016	BRL	51,347	$	15,205	2,612	0
DUB	01/2016		98,838		25,817	835	0
	01/2016	GBP	29,051		43,795	968	0
	01/2016	KRW	2,318,158		1,983	12	0
	01/2016	$	25,425	BRL	98,838	0	(442)
	01/2016		1,983	KRW	2,318,159	0	(12)
	02/2016		9,905	BRL	39,106	0	(117)
	03/2016		7,757	RUB	535,079	0	(567)
	10/2016	BRL	34,544	$	9,067	1,093	0
FBF	01/2016	KRW	4,637,725		4,049	105	0
	03/2016	$	519	RUB	37,290	0	(18)
	04/2016	BRL	45,300	$	12,601	1,493	0
GLM	01/2016		34,071		8,809	197	0
	01/2016	JPY	10,312,346		84,146	0	(1,651)

Counterparty	Settlement Month	Currency to be Delivered		Currency to be Received		Unrealized Appreciation/ (Depreciation) Asset	Liability
	01/2016	MYR	8,623	$	2,027	$ 29	$ 0
	01/2016	PHP	91,509		1,943	0	(5)
	01/2016	$	8,708	BRL	34,072	0	(96)
	01/2016		23,914	JPY	2,926,800	437	0
	01/2016		997	KRW	1,155,025	0	(15)
	02/2016	EUR	2,287	$	2,489	2	0
	03/2016	$	1,657	RUB	121,988	0	(18)
	05/2016	MXN	78,599	$	4,803	289	0
HUS	01/2016	$	1,014	KRW	1,175,733	0	(14)
	02/2016	THB	93,264	$	2,576	0	(12)
	10/2016	CNH	63,822		9,761	309	0
	12/2016		33,375		5,023	98	0
JPM	01/2016	BRL	111,900		37,752	9,467	0
	01/2016	KRW	6,788,987		5,909	135	0
	01/2016	RUB	434,279		6,034	98	0
	01/2016	$	28,917	BRL	111,900	0	(632)
	01/2016		7,833	KRW	9,157,315	0	(46)
	02/2016	CHF	292	$	291	0	(1)
	02/2016	EUR	81,155		87,463	18	(831)
	02/2016	JPY	1,785,500		14,507	0	(359)
	02/2016	SGD	1,660		1,176	8	0
	02/2016	THB	363,213		10,039	0	(41)
	02/2016	$	2,641	GBP	1,756	0	(52)
	02/2016		10,162	ILS	39,359	1	(40)
	03/2016		240	MXN	4,091	0	(3)
	03/2016		1,352	RUB	99,737	0	(12)
	04/2016		5,892		434,279	0	(100)
	10/2016	BRL	143,300	$	34,111	1,033	0
MSB	01/2016		156,900		48,293	8,634	0
	01/2016	JPY	416,300		3,432	0	(32)
	01/2016	$	39,369	BRL	156,900	290	0
	01/2016		43,010	GBP	29,051	0	(183)
	01/2016		61,166	JPY	7,405,946	450	0
	02/2016	GBP	29,051	$	43,012	182	0
	02/2016	JPY	7,405,946		61,201	0	(451)
	12/2016	CNH	69,590		10,460	190	0
NGF	01/2016	THB	88,565		2,454	0	(7)
SCX	01/2016	BRL	1,572		402	5	0
	01/2016	MYR	47,432		11,023	36	(5)
	01/2016	$	389	BRL	1,572	8	0
	02/2016		1,673	EUR	1,560	24	0
SOG	01/2016		6,603	RUB	434,279	0	(667)
	02/2016	SGD	4,276	$	3,020	9	0
	02/2016	$	6,766	ILS	26,161	0	(37)
UAG	01/2016	INR	118,505	$	1,783	0	(3)
	01/2016	JPY	793,100		6,462	0	(137)
	01/2016	$	8,300	JPY	1,015,400	148	0
	01/2016		1,944	PHP	91,714	8	0
	02/2016		26,708	JPY	3,266,700	492	0
Total Forward Foreign Currency Contracts						**$ 33,781**	**$ (7,678)**

WRITTEN OPTIONS:

FOREIGN CURRENCY OPTIONS

Counterparty	Description	Strike Price	Expiration Date	Notional Amount	Premiums (Received)	Market Value
BOA	Put - OTC EUR versus USD	$ 1.082	01/15/2016	EUR 13,100	$ (83)	$ (69)
	Put - OTC USD versus JPY	JPY 80.000	02/18/2019	$ 8,300	(472)	(52)
FBF	Call - OTC USD versus BRL	BRL 4.600	03/14/2016	9,300	(263)	(88)
GLM	Call - OTC USD versus BRL	4.450	01/14/2016	11,300	(232)	(6)
SCX	Call - OTC USD versus CNH	CNH 6.850	06/01/2016	4,600	(42)	(52)
					$ (1,092)	$ (267)

INTEREST RATE SWAPTIONS

Counterparty	Description	Floating Rate Index	Pay/Receive Floating Rate	Exercise Rate	Expiration Date	Notional Amount	Premiums (Received)	Market Value
DUB	Put - OTC 5-Year Interest Rate Swap	3-Month USD-LIBOR	Pay	1.900%	02/16/2016	$ 26,800	$ (108)	$ (69)
MYC	Put - OTC 5-Year Interest Rate Swap	3-Month USD-LIBOR	Pay	1.900	02/16/2016	32,700	(127)	(85)
							$ (235)	$ (154)
Total Written Options							**$ (1,327)**	**$ (421)**

TRANSACTIONS IN WRITTEN CALL AND PUT OPTIONS FOR THE PERIOD ENDED DECEMBER 31, 2015:

	# of Contracts	Notional Amount in $	Notional Amount in AUD	Notional Amount in EUR	Premiums
Balance at Beginning of Period	0	$ 1,295,500	AUD 11,500	EUR 78,700	$ (8,115)
Sales	1,071	1,240,900	26,800	210,600	(6,981)
Closing Buys	(394)	(1,349,800)	0	(51,600)	6,788
Expirations	(677)	(911,500)	(24,400)	(192,400)	5,780
Exercised	0	(182,100)	(13,900)	(32,200)	1,201
Balance at End of Period	0	$ 93,000	AUD 0	EUR 13,100	$ (1,327)

SWAP AGREEMENTS:

CREDIT DEFAULT SWAPS ON CORPORATE AND SOVEREIGN ISSUES - SELL PROTECTION (1)

Counterparty	Reference Entity	Fixed Receive Rate	Maturity Date	Implied Credit Spread at December 31, 2015 (2)	Notional Amount (3)	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value Asset	Swap Agreements, at Value Liability
BOA	BP Capital Markets America, Inc.	1.000%	12/20/2019	0.805%	EUR 5,200	$ 113	$ (67)	$ 46	$ 0
	China Government International Bond	1.000	06/20/2019	0.786	$ 2,800	21	0	21	0
BPS	BP Capital Markets America, Inc.	1.000	12/20/2019	0.805	EUR 1,500	34	(21)	13	0
	Continental AG	1.000	12/20/2020	0.628	2,400	7	42	49	0
BRC	Berkshire Hathaway, Inc.	1.000	03/20/2019	0.456	$ 3,700	60	5	65	0
	Berkshire Hathaway, Inc.	1.000	12/20/2023	1.038	1,000	(29)	27	0	(2)
	MetLife, Inc.	1.000	03/20/2019	0.545	2,700	20	20	40	0
	Mexico Government International Bond	1.000	03/20/2018	1.050	4,300	(7)	4	0	(3)
	Volkswagen International Finance NV	1.000	12/20/2017	1.310	EUR 3,200	(66)	46	0	(20)
CBK	BP Capital Markets America, Inc.	1.000	12/20/2019	0.805	1,100	25	(15)	10	0
	Brazil Government International Bond	1.000	06/20/2016	1.387	$ 27,000	(52)	13	0	(39)
	HSBC Bank PLC	1.000	03/20/2019	0.765	EUR 3,600	(36)	67	31	0
	Mexico Government International Bond	1.000	09/20/2016	0.582	$ 1,000	5	(2)	3	0
DUB	Berkshire Hathaway, Inc.	1.000	03/20/2019	0.456	1,700	36	(6)	30	0
	China Government International Bond	1.000	03/20/2019	0.732	1,300	1	10	11	0
	China Government International Bond	1.000	06/20/2019	0.786	600	5	0	5	0
	Export-Import Bank of China	1.000	12/20/2016	0.410	2,300	(186)	200	14	0
	MetLife, Inc.	1.000	03/20/2019	0.545	1,700	29	(4)	25	0
	Mexico Government International Bond	1.000	03/20/2016	0.481	3,200	(18)	23	5	0
	Mexico Government International Bond	1.000	06/20/2016	0.531	7,900	19	2	21	0
	Mexico Government International Bond	1.000	09/20/2016	0.582	700	3	(1)	2	0
FBF	BP Capital Markets America, Inc.	1.000	12/20/2019	0.805	EUR 200	4	(2)	2	0
	Brazil Government International Bond	1.000	12/20/2016	2.151	$ 3,800	(62)	21	0	(41)
	Prudential Financial, Inc.	1.000	09/20/2019	0.633	3,400	69	(22)	47	0
	Wendel S.A.	5.000	12/20/2019	0.824	EUR 300	74	(20)	54	0
GST	Brazil Government International Bond	1.000	12/20/2016	2.151	$ 1,100	(19)	7	0	(12)
	MetLife, Inc.	1.000	06/20/2016	0.119	3,800	65	(48)	17	0
	Mexico Government International Bond	1.000	09/20/2016	0.582	1,900	9	(2)	7	0
	Wendel S.A.	5.000	12/20/2019	0.824	EUR 1,000	251	(70)	181	0
HUS	Brazil Government International Bond	1.000	03/20/2016	1.120	$ 1,200	(6)	6	0	0
	Mexico Government International Bond	1.000	09/20/2016	0.582	700	4	(2)	2	0
JPM	BP Capital Markets America, Inc.	1.000	12/20/2019	0.805	EUR 3,800	85	(52)	33	0
	China Government International Bond	1.000	06/20/2019	0.786	$ 3,000	15	8	23	0
	Mexico Government International Bond	1.000	09/20/2016	0.582	800	4	(1)	3	0
	Prudential Financial, Inc.	1.000	09/20/2019	0.633	5,000	102	(33)	69	0
	PSEG Power LLC	1.000	12/20/2018	0.604	1,700	11	9	20	0
	Volkswagen International Finance NV	1.000	12/20/2018	1.403	EUR 1,700	(104)	83	0	(21)
MYC	BP Capital Markets America, Inc.	1.000	12/20/2019	0.805	3,400	78	(48)	30	0
	BP Capital Markets America, Inc.	1.000	03/20/2020	0.863	2,800	47	(28)	19	0
	Wendel S.A.	5.000	12/20/2019	0.824	1,600	397	(107)	290	0
						$ 1,008	$ 42	$ 1,188	$ (138)

CREDIT DEFAULT SWAPS ON CREDIT INDICES - SELL PROTECTION [(1)]

Counterparty	Index/Tranches	Fixed Receive Rate	Maturity Date	Notional Amount [(3)]	Premiums Paid/(Received)	Unrealized Appreciation	Swap Agreements, at Value [(4)] Asset	Liability
GST	CDX.IG-9 10-Year Index 30-100%	0.548%	12/20/2017	$ 193	$ 0	$ 2	$ 2	$ 0
JPM	CDX.IG-9 10-Year Index 30-100%	0.553	12/20/2017	386	0	4	4	0
MYC	CMBX.NA.AAA.3 Index	0.080	12/13/2049	8,876	(61)	26	0	(35)
					$ (61)	$ 32	$ 6	$ (35)

(1) 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.

(2) 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.

(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

Counterparty	Pay/Receive Floating Rate	Floating Rate Index	Fixed Rate	Maturity Date	Notional Amount	Premiums Paid/(Received)	Unrealized Appreciation	Swap Agreements, at Value Asset	Liability
DUB	Receive	1-Year BRL-CDI	12.810%	01/04/2021	BRL 43,000	$ (90)	$ 1,126	$ 1,036	$ 0
HUS	Pay	28-Day MXN-TIIE	5.500	06/11/2018	MXN 2,700	0	3	3	0
						$ (90)	$ 1,129	$ 1,039	$ 0
Total Swap Agreements						**$ 857**	**$ 1,203**	**$ 2,233**	**$ (173)**

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, 2015:

(j) Securities with an aggregate market value of $1,891 have been pledged as collateral for financial derivative instruments as governed by International Swaps and Derivatives Association, Inc. master agreements as of December 31, 2015.

	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 [(5)]
BOA	$ 11	$ 0	$ 67	$ 78	$ (191)	$ (121)	$ 0	$ (312)	$ (234)	$ 372	$ 138
BPS	2,905	0	62	2,967	(600)	0	0	(600)	2,367	(2,650)	(283)
BRC	9	0	105	114	(7)	0	(25)	(32)	82	(230)	(148)
CBK	3,753	0	44	3,797	(274)	0	(39)	(313)	3,484	(3,302)	182
DUB	2,908	0	1,149	4,057	(1,138)	(69)	0	(1,207)	2,850	(3,680)	(830)
FBF	1,598	0	103	1,701	(18)	(88)	(41)	(147)	1,554	(1,639)	(85)
GLM	954	0	0	954	(1,785)	(6)	0	(1,791)	(837)	756	(81)
GST	0	0	207	207	0	0	(12)	(12)	195	(270)	(75)
HUS	407	0	5	412	(26)	0	0	(26)	386	(380)	6
JPM	10,760	0	152	10,912	(2,117)	0	(21)	(2,138)	8,774	(8,656)	118
MSB	9,746	0	0	9,746	(666)	0	0	(666)	9,080	(9,050)	30
MYC	0	0	339	339	0	(85)	(35)	(120)	219	(280)	(61)
NGF	0	0	0	0	(7)	0	0	(7)	(7)	0	(7)
SCX	73	0	0	73	(5)	(52)	0	(57)	16	0	16
SOG	9	0	0	9	(704)	0	0	(704)	(695)	763	68
UAG	648	0	0	648	(140)	0	0	(140)	508	(470)	38
Total Over the Counter	**$33,781**	**$0**	**$2,233**	**$36,014**	**$(7,678)**	**$(421)**	**$(173)**	**$(8,272)**			

(5) 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, 2015:

	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	$ 328	$ 328
Swap Agreements	0	0	0	0	394	394
	$ 0	$ 0	$ 0	$ 0	$ 722	$ 722
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 33,781	$ 0	$ 33,781
Swap Agreements	0	1,194	0	0	1,039	2,233
	$ 0	$ 1,194	$ 0	$ 33,781	$ 1,039	$ 36,014
	$ 0	$ 1,194	$ 0	$ 33,781	$ 1,761	$ 36,736
Financial Derivative Instruments - Liabilities						
Exchange-traded or centrally cleared						
Futures	$ 0	$ 0	$ 0	$ 0	$ 162	$ 162
Swap Agreements	0	0	0	0	661	661
	$ 0	$ 0	$ 0	$ 0	$ 823	$ 823
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 7,678	$ 0	$ 7,678
Written Options	0	0	0	267	154	421
Swap Agreements	0	173	0	0	0	173
	$ 0	$ 173	$ 0	$ 7,945	$ 154	$ 8,272
	$ 0	$ 173	$ 0	$ 7,945	$ 977	$ 9,095

The effect of Financial Derivative Instruments on the Statement of Operations for the period ended December 31, 2015:

	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	$ 333	$ 333
Futures	0	0	0	0	(8,644)	(8,644)
Swap Agreements	0	(396)	0	0	(413)	(809)
	$ 0	$ (396)	$ 0	$ 0	$ (8,724)	$ (9,120)
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 62,056	$ 0	$ 62,056
Purchased Options	0	0	0	(5)	(372)	(377)
Written Options	0	108	0	1,944	4,194	6,246
Swap Agreements	0	(870)	0	0	(428)	(1,298)
	$ 0	$ (762)	$ 0	$ 63,995	$ 3,394	$ 66,627
	$ 0	$ (1,158)	$ 0	$ 63,995	$ (5,330)	$ 57,507
Net Change in Unrealized Appreciation (Depreciation) on Financial Derivative Instruments						
Exchange-traded or centrally cleared						
Futures	$ 0	$ 0	$ 0	$ 0	$ 660	$ 660
Swap Agreements	0	42	0	0	(3,708)	(3,666)
	$ 0	$ 42	$ 0	$ 0	$ (3,048)	$ (3,006)
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ (3,720)	$ 0	$ (3,720)
Purchased Options	0	0	0	0	661	661
Written Options	0	(106)	0	(298)	(494)	(898)
Swap Agreements	0	2,728	0	0	2,538	5,266
	$ 0	$ 2,622	$ 0	$ (4,018)	$ 2,705	$ 1,309
	$ 0	$ 2,664	$ 0	$ (4,018)	$ (343)	$ (1,697)

FAIR VALUE MEASUREMENTS

The following is a summary of the fair valuations according to the inputs used as of December 31, 2015 in valuing the Portfolio's assets and liabilities:

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 12/31/2015
Investments in Securities, at Value				
Bank Loan Obligations	$ 0	$ 5,903	$ 0	$ 5,903
Corporate Bonds & Notes				
Banking & Finance	0	524,816	1,498	526,314
Industrials	0	245,302	0	245,302
Utilities	0	118,335	0	118,335
Municipal Bonds & Notes				
California	0	10,598	0	10,598
New Jersey	0	9,525	0	9,525
Texas	0	333	0	333
U.S. Government Agencies	0	330,765	1	330,766
U.S. Treasury Obligations	0	335,461	0	335,461
Non-Agency Mortgage-Backed Securities	0	155,738	10,350	166,088
Asset-Backed Securities	0	220,899	0	220,899
Sovereign Issues	0	142,011	0	142,011
Short-Term Instruments				
Certificates of Deposit	0	16,814	0	16,814
Commercial Paper	0	12,996	0	12,996
Repurchase Agreements	0	1,963	0	1,963
Short-Term Notes	0	10,323	0	10,323
Mexico Treasury Bills	0	4,634	0	4,634
U.S. Treasury Bills	0	1,133	0	1,133
	$ 0	$ 2,147,549	$ 11,849	$ 2,159,398

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 12/31/2015
Investments in Affiliates, at Value				
Short-Term Instruments				
Central Funds Used for Cash Management Purposes	$ 114,868	$ 0	$ 0	$ 114,868
Total Investments	$ 114,868	$ 2,147,549	$ 11,849	$ 2,274,266
Short Sales, at Value - Liabilities				
U.S. Government Agencies	$ 0	$ (4,046)	$ 0	$ (4,046)
Financial Derivative Instruments - Assets				
Exchange-traded or centrally cleared	328	394	0	722
Over the counter	0	36,014	0	36,014
	$ 328	$ 36,408	$ 0	$ 36,736
Financial Derivative Instruments - Liabilities				
Exchange-traded or centrally cleared	(162)	(661)	0	(823)
Over the counter	0	(8,272)	0	(8,272)
	$ (162)	$ (8,933)	$ 0	$ (9,095)
Totals	$ 115,034	$ 2,170,978	$ 11,849	$ 2,297,861

There were no significant transfers between Levels 1, 2, or 3 during the period ended December 31, 2015.

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. 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. Securities purchased or sold on a when-issued or delayed-delivery basis may be settled 15 days or more after the trade date. 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, with the exception of securities with a forward starting effective date, where interest income is recorded on the accrual basis from effective 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 appreciation (depreciation) 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 registered investment companies are recorded as dividend income. Long-term capital gain distributions received from registered investment companies 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 gain (loss) and net change in unrealized appreciation (depreciation) 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, if any). 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 (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 (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 net assets. 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. Under certain circumstances, the per share net asset value ("NAV") of a class of the Portfolio's shares may be different from the per share NAV of another class of shares as a result of the different daily expense accruals applicable to each class of shares.

(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 transactions that may cause character 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 Statements of Changes in Net Assets and have been recorded to paid in capital. In addition, other amounts have been reclassified between undistributed (overdistributed) net investment income (loss), accumulated undistributed (overdistributed) net realized gains (losses) and/or paid in capital to more appropriately conform financial accounting to tax characterizations of dividend distributions.

(e) New Accounting Pronouncements In June 2014, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU"), ASU 2014-11, that expanded 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 became effective prospectively for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. The Portfolio has adopted the ASU. The financial statements have been modified to provide enhanced disclosures surrounding secured borrowing transactions, if any. See the Notes to Schedule of Investments for additional details.

In August 2014, the FASB issued ASU 2014-15 requiring management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern. The ASU is effective prospectively for annual periods ending after December 15, 2016, and interim periods thereafter. At this time, management is evaluating the implications of these changes on the financial statements.

In May 2015, the FASB issued ASU 2015-07 which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. The ASU also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share practical expedient. The ASU is effective for annual periods beginning after December 15, 2015 and interim periods within those annual periods. 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 price of the Portfolio's shares is based on the Portfolio's NAV. The NAV of the Portfolio, or each of its share classes, as applicable, is determined by dividing the total value of portfolio investments and other assets attributable to the Portfolio or class, less any liabilities, by the total number of shares outstanding of the Portfolio or class.

On each day that the New York Stock Exchange ("NYSE") is open, Portfolio shares are ordinarily valued as of the close of regular trading ("NYSE Close"). Information that becomes known to the Portfolio or its agents after the time as of which 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. The Portfolio reserves the right to change the time its NAV is calculated if the Portfolio closes earlier, or as permitted by the SEC.

For purposes of calculating NAV, portfolio securities and other assets for which market quotes are readily available are valued at market value. 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 established market makers or prices (including evaluated prices) supplied by the Portfolio's approved pricing services, quotation reporting systems and other third-party sources (together, "Pricing Services"). The Portfolio will normally use pricing data for domestic equity securities received shortly after the NYSE Close and does not normally take into account trading, clearances or settlements that take place after the NYSE Close. A foreign (non-U.S.) equity security traded on a foreign exchange or on more than one exchange is typically valued using pricing information from the exchange considered by the Adviser to be the primary exchange. A foreign (non-U.S.) equity security will be valued as of the close of trading on the foreign exchange, or the NYSE Close, if the NYSE Close occurs before the end of trading on the foreign exchange. Domestic and foreign (non-U.S.) fixed income securities, non-exchange traded derivatives, and equity options are normally valued on the basis of quotes obtained from brokers and dealers or Pricing Services using data reflecting the earlier closing of the principal markets for those securities. Prices obtained from Pricing Services may be based on, among other things, information provided by market makers or estimates of market values obtained from yield data relating to investments or securities with similar characteristics. Certain fixed income securities purchased on a delayed-delivery basis are marked to market daily until settlement at the forward settlement date. Exchange-traded options, except equity options, futures and options on futures are valued at the settlement price determined by the relevant exchange. Swap agreements are valued on the basis of bid quotes obtained from brokers and dealers or market-based prices supplied by Pricing Services or other pricing sources. With respect to any portion of the Portfolio's assets that are invested in one or more open-end management investment companies (other than exchange-traded funds ("ETFs")), a Portfolio's NAV will be calculated based upon the NAVs of such investments.

If a foreign (non-U.S.) equity security's value has materially changed after the close of the security's primary exchange or principal market but before the NYSE Close, the security may be valued at fair value based on procedures established and approved by the Board of Trustees of the Trust (the "Board"). Foreign (non-U.S.) equity securities that do not trade when the NYSE is open are also valued at fair value. With respect to foreign (non-U.S.) equity securities, the Portfolio may determine the fair value of investments based on information provided by Pricing Services and other third-party vendors, which may recommend fair value or adjustments with reference to other securities, indices or assets. In considering whether fair valuation is required and in determining fair values, the Portfolio may, among other things, consider significant events (which may be considered to include changes in the value of U.S. securities or securities indices) that occur after the close of the relevant market and before the NYSE Close. The Portfolio may utilize modeling tools provided by third-party vendors to determine fair values of non-U.S. securities. Foreign (non-U.S.) exchanges may permit trading in foreign (non-U.S.) equity securities on days when the Trust is not open for business, which may result in the Portfolio's portfolio investments being affected when shareholders are unable to buy or sell shares.

Senior secured floating rate loans for which an active secondary market exists to a reliable degree will be valued at the mean of the last available bid/ask prices in the market for such loans, as provided by a Pricing Service. Senior secured floating rate loans for which an active secondary market does not exist to a reliable degree will be valued at fair value, which is intended to approximate market value. In valuing a senior secured floating rate loan at fair value, the factors considered may include, but are not limited to, the following: (a) the creditworthiness of the borrower and any intermediate participants, (b) the terms of the loan, (c) recent prices in the market for similar loans, if any, and (d) recent prices in the market for instruments of similar quality, rate, period until next interest rate reset and maturity.

Investments valued in currencies other than the U.S. dollar are converted to the U.S. dollar using exchange rates obtained from Pricing Services. As a result, the value of such investments and, in turn, 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 investments 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 Trust is not open for business. As a result, to the extent that the Portfolio holds foreign (non-U.S.) investments, the value of those investments may change at times when shareholders are unable to buy or sell shares and the value of such investments will be reflected in the Portfolio's next calculated NAV.

Investments for which market quotes or market based valuations are not readily available are valued at fair value as determined in good faith by the Board or persons acting at their direction. The Board has adopted methods for valuing securities and other assets in circumstances where market quotes are not readily available, and has delegated to the Adviser the responsibility for applying the fair valuation methods. In the event that market quotes or market based valuations are not readily available, and the security or asset cannot be valued pursuant to a Board approved valuation method, the value of the security or asset will be determined in good faith by the Valuation Oversight Committee of the Board ("Valuation Oversight Committee"), generally based on recommendations provided by the Adviser. 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, indicative market quotations ("Broker Quotes"), Pricing Services' prices), including where events occur after the close of the relevant market, but prior to the NYSE Close, that materially affect the values of a Portfolio's securities or assets. In addition, market quotes are considered not readily available when, due to extraordinary circumstances, the exchanges or markets on which the 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 assets and for determining whether the value of the applicable securities or assets should be reevaluated in light of such significant events.

When a Portfolio uses fair valuation to determine the value of a portfolio security or other asset for purposes of calculating its NAV, such investments will not be priced on the basis of quotes from the primary market in which they are traded, but rather may be priced by another method that the Board or persons acting at their direction believe reflects fair value. Fair valuation 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 ensure that fair values determined by the Board or persons acting at their direction would accurately reflect the price that a 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 a Portfolio may differ from the value that would be realized if the securities were sold. The Portfolio's use of fair valuation may also help to deter "stale price arbitrage" as discussed under the "Frequent or Excessive Purchases, Exchanges and Redemptions" section in the Portfolio's prospectus.

(b) Fair Value Hierarchy U.S. GAAP describes fair 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, or 3). The inputs or methodology used for valuing securities are not necessarily an indication of the risks 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 realized gain (loss), unrealized appreciation (depreciation), purchases and sales, accrued discounts (premiums), and transfers in and 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 value The valuation methods (or "techniques") and significant inputs used in determining the fair values of portfolio securities or other assets and liabilities 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 on the basis of quotes obtained from brokers and dealers or Pricing Services that use broker-dealer quotations, reported trades or valuation estimates from their internal pricing models. The Pricing Services' 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 Services that use broker-dealer quotations, reported trades 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, ETFs, exchange-traded notes and financial derivative instruments, such as futures contracts, rights and warrants, 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.

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 Services 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 (other than ETFs) 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 debt instruments (such as commercial paper) having a remaining maturity of 60 days or less may be valued at amortized cost, so long as the amortized cost of such short-term debt instrument is approximately the same as the fair value of the instrument as determined without the use of amortized cost valuation. Prior to July 31, 2015, short-term investments having a maturity of 60 days or less and repurchase agreements were generally valued at amortized cost which approximates fair value. Short-term debt instruments having a remaining maturity of 60 days or less 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. Other than swap agreements, which are valued using a broker-dealer bid quotation or on market-based prices provided by Pricing Services or other pricing sources, these contracts are normally valued on the basis of quotes obtained from a quotation reporting system, established market makers or Pricing Services (normally determined as of the NYSE Close). Depending on the product and the terms of the transaction, financial derivative instruments can be valued by Pricing Services 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 (if available). 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 the Adviser that uses significant unobservable inputs, investments 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 validity of the fair value is reviewed by the Adviser on a periodic basis and may be amended in accordance with the Trust's valuation procedures.

4. SECURITIES AND OTHER INVESTMENTS

(a) Investments in Affiliates

The Portfolio may invest in the PIMCO Short-Term Floating NAV Portfolio III ("Central Fund") to the extent permitted by the Act and rules thereunder. The Central Fund is a registered investment company created for use solely by the series of the Trust and other series of registered investment companies advised by the Adviser, in connection with their cash management activities. The main investments of the Central Fund are money market and short maturity fixed income instruments. The Central Fund may incur expenses related to their investment activities, but do not pay Investment Advisory Fees or Supervisory and Administrative Fees to the Adviser. The Central Fund is considered to be affiliated with the Portfolio. The table below shows the Portfolio's transactions in and earnings from investments in affiliated Funds for the period ended December 31, 2015 (amounts in thousands†):

Investments in PIMCO Short-Term Floating NAV Portfolio III

Market Value 12/31/2014	Purchases at Cost	Proceeds from Sales	Net Realized Gain (Loss)	Change in Unrealized Appreciation (Depreciation)	Market Value 12/31/2015	Dividend Income [(1)]	Realized Net Capital Gain Distributions [(1)]
$ 186,362	$ 1,026,700	$ (1,097,800)	$ (882)	$ 488	$ 114,868	$ 700	$ 0

† A zero balance may reflect actual amounts rounding to less than one thousand.

(1) A portion of this may be recharacterized to return of capital and reflected as such on tax forms mailed to shareholders on or about January 31st following each calendar year.

(b) 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 borrowers of the loans. 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, 2015, 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. In addition to the normal risks associated with fixed income securities discussed elsewhere in this report and the Portfolio's prospectus and statement of additional information (e.g., prepayment risk, credit risk, liquidity risk, market risk, structural risk, legal risk and interest rate risk (which may be exacerbated if the interest rate payable on a structured financing changes based on multiples of changes in interest rates or inversely to changes in interest rates)), CBOs, CLOs and other 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 quality of the collateral may decline in value or default, (iii) the Portfolio may invest in CBOs, CLOs, or other 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.

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. An 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.

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.

The Portfolio may engage in strategies where it seeks to extend the expiration or maturity of a position, such as a To Be Announced ("TBA") security on an underlying asset, by closing out the position before expiration and opening a new position with respect to the same underlying asset with a later expiration date. TBA securities purchased or sold are reflected on the Statement of Assets and Liabilities as an asset or liability, respectively.

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 of these instruments is 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 the 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 the Adviser 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 the Adviser 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 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, 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 net realized gain (loss) and net change in unrealized appreciation (depreciation) 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 net realized gain (loss) and net change in unrealized appreciation (depreciation) 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 are 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 and 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. To mitigate such risk, cash or securities may be exchanged as collateral pursuant to the terms of the underlying 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 based on such movements in the price of the contracts, an appropriate payable or receivable for the change in value may be posted or collected by the Portfolio ("Futures Variation Margin"). Gains or losses are recognized but not considered realized until the contracts expire or close. Futures contracts involve, to varying degrees, risk of loss in excess of the Futures Variation Margin included within exchange traded or centrally cleared financial derivative instruments on the Statement of Assets and Liabilities.

(c) Options Contracts The Portfolio may write or purchase options to enhance returns or to hedge an existing position or future investment. 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.

Interest Rate Swaptions The Portfolio may write or purchase interest rate swaptions 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 with specified amounts of currency and a rate of exchange that may be exercised by a certain 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 may be privately negotiated in the over the counter market ("OTC swaps") or may be cleared through a third party, known as a central counterparty or derivatives clearing organization ("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.

Centrally Cleared Swaps are marked to market daily based upon valuations as determined from the underlying contract or in accordance with the requirements of the central counterparty or derivatives clearing organization. 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 ("Swap Variation Margin"), if any, are included within centrally cleared financial derivative instruments 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.

For purposes of applying the Portfolio's investment policies and restrictions, swap agreements are generally valued by the Portfolio at market value. In the case of a credit default swap (see below), however, in applying certain of the Portfolio's investment policies and restrictions, the Portfolio will value the credit default swap at its notional value or its full exposure value (*i.e.,* the sum of the notional amount for the contract plus the market value), but may value the credit default swap at market value for purposes of applying certain of the Portfolio's other investment policies and restrictions. For example, the Portfolio may value credit default swaps at full exposure value for purposes of the Portfolio's credit quality guidelines (if any) because such value reflects the Portfolio's actual economic exposure during the term of the credit default swap agreement. In this context, both the notional amount and the market value may be positive or negative depending on whether the Portfolio is selling or buying protection through the credit default swap. The manner in which certain securities or other instruments are valued by the Portfolio for purposes of applying investment policies and restrictions may differ from the manner in which those investments are valued by other types of investors.

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 A Portfolio may use credit default swaps on corporate, loan, sovereign, U.S. municipal or U.S. Treasury issues to provide a measure of protection against defaults of the issuers (*i.e.,* to reduce risk where a 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 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 that the referenced entity, obligation or index, as specified in the swap agreement, undergoes a certain credit event. 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. 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).

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, loan, sovereign, U.S. municipal or U.S. Treasury issues as of period end, if any, 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 derivative instruments 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.

Duration is a measure of the sensitivity of a fixed income security's market price to interest rate (*i.e.*, yield) movements that incorporates a security's yield, coupon, final maturity and call features, among other characteristics. Convexity is an additional measure of interest rate sensitivity that measures the rate of change of duration in response to changes in interest rates. 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. 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. The Portfolio may be subject to heightened interest rate risk because the Fed has ended its quantitative easing program and has begun, and may continue, to raise interest rates. 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 the Portfolio to lose value. If the Portfolio lost enough value, the Portfolio could face increased redemptions by shareholders, which could further impair its performance.

To the extent that the Portfolio may invest in securities and instruments that are economically tied to Russia, the Portfolio is subject to various risks such as, but not limited 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 further 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, as compared to U.S. markets, has significant price volatility, less liquidity, difficulties in obtaining accurate prices, a smaller market capitalization and a smaller number of traded securities. Settlement, clearing and registration of securities transactions are subject to risks, which may result in significant delays or problems in registering the transfer of securities, including issues with foreign nominee accounts held with custodian banks. It is possible that the ownership rights of the Portfolio could be lost through fraud or negligence. In addition, it may be difficult for the Portfolio to enforce any rights it may have 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 derivative instruments 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, where applicable. For financial derivative instruments traded on exchanges or clearinghouses, the primary credit risk is the creditworthiness of the Portfolio's clearing broker or the exchange or clearinghouse itself. The Portfolio could lose money if the issuer or guarantor of a fixed income security, or the counterparty to a financial derivative instruments 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 and financial derivative instruments are subject to varying degrees of credit risk, which may be 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. PIMCO, as the Adviser, minimizes counterparty risks to the Portfolio through a number of ways. Prior to entering into transactions with a new counterparty, the PIMCO Counterparty Risk Committee conducts an extensive credit review of such counterparty and must approve the use of such counterparty. Furthermore, pursuant to the terms of the underlying contract, to the extent that unpaid amounts owed to the Portfolio exceed a predetermined threshold, such counterparty shall advance collateral to the Portfolio in the form of cash or securities 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.

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 ("Master Agreements") with select counterparties. 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. Each type of Master Agreement governs certain types of transactions. Different types of transactions may be traded out of different legal entities or affiliates of a particular organization, 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 Master Agreement with a counterparty. For financial reporting purposes the Statement of Assets and Liabilities generally presents derivative assets and liabilities on a gross basis, which reflects the full risks and exposures prior to netting.

Master Agreements can also help limit counterparty risk by specifying collateral posting arrangements at pre-arranged exposure levels. Under most 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 depending on the terms outlined in the applicable Master Agreement. Securities and cash pledged as collateral are reflected as assets on the Statement of Assets and Liabilities as either a component of Investments at value (securities) or Deposits with counterparty. Cash collateral received is not typically held in a segregated account and as such is reflected as a liability on the Statement of Assets and Liabilities as Deposits from counterparty. The market value of any securities received as collateral is not reflected as a component of NAV. 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 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 addenda govern cleared derivatives transactions such as futures, options on futures, and cleared over the counter ("OTC") derivatives. Such transactions require posting of initial margin as determined by each relevant clearing agency which is segregated in an account at a futures commission merchant ("FCM") registered with the Commodity Futures Trading Commission ("CFTC"). In the United States, counterparty risk is significantly reduced as creditors of an FCM cannot have a claim to Portfolio assets in the segregated account. Additionally, portability of exposure in the event of an FCM default scenario 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 (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 bilateral OTC derivative transactions entered into by the Portfolio with 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 PIMCO provides or procures supervisory and administrative services for shareholders and also bears the costs of various third-party services required by the Portfolios, including audit, custodial, portfolio accounting, legal, transfer agency and printing costs. The Trust is responsible for the following expenses: (i) taxes and governmental fees; (ii) brokerage fees and commissions and other portfolio transaction expenses; (iii) the costs of borrowing money, including interest expense; (iv) fees and expenses of the Trustees who are not "interested persons" of PIMCO or the Trust, and any counsel retained exclusively for their benefit; (v) extraordinary expense, including costs of litigation and indemnification expenses; (vi) organizational expenses; and (vii) 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.

Each Trustee, other than those affiliated with PIMCO or its affiliates, receives an annual retainer of $35,000, plus $3,600 for each Board meeting attended in person, $750 for each committee meeting attended and $750 for each Board meeting attended telephonically, plus reimbursement of related expenses. In addition, the audit committee chair receives an additional annual retainer of $5,000, the valuation oversight committee lead receives an additional annual retainer of $3,250 (to the extent there are co-leads of the valuation oversight committee, the annual retainer will be split evenly between the co-leads) and the governance committee chair receives 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, which 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. The procedures have been designed to ensure that any purchase or sale of securities by the Portfolio from or to another fund or 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 under the Act. Further, as defined under the procedures, each transaction is effected at the current market price. During the period ended December 31, 2015, the Portfolio engaged in purchases and sales of securities pursuant to Rule 17a-7 under the Act (amounts in thousands):

Purchases	Sales
$ 112,662	$ 132,432

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 the Portfolio has held a particular security is not generally a consideration in investment decisions. A change in the securities held by the 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 may involve correspondingly greater transaction costs 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 transaction costs and tax effects associated with portfolio turnover may adversely affect the 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, 2015, were as follows (amounts in thousands):

U.S. Government/Agency		All Other	
Purchases	Sales	Purchases	Sales
$ 3,464,982	$ 3,091,477	$ 796,394	$ 534,545

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 12/31/2015		Year Ended 12/31/2014	
	Shares	Amount	Shares	Amount
Receipts for shares sold				
Institutional Class	409	$ 4,303	115	$ 1,217
Administrative Class	24,857	261,154	34,121	363,560
Advisor Class	15,590	164,276	13,683	145,639
Issued as reinvestment of distributions				
Institutional Class	30	308	57	607
Administrative Class	4,414	45,887	1,654	17,615
Advisor Class	2,167	22,510	626	6,660
Cost of shares redeemed				
Institutional Class	(914)	(9,687)	(4,411)	(46,929)
Administrative Class	(40,239)	(425,738)	(38,068)	(405,306)
Advisor Class	(12,840)	(135,449)	(11,304)	(120,374)
Net increase (decrease) resulting from Portfolio share transactions	(6,526)	$ (72,436)	(3,527)	$ (37,311)

As of December 31, 2015, two shareholders each owned 10% or more of the Portfolio's total outstanding shares comprising 44% of the Portfolio.

13. REGULATORY AND LITIGATION MATTERS

The Portfolio is not named as a defendant in any material litigation or arbitration proceedings and is not aware of any material litigation or claim pending or threatened against it.

PIMCO has received a Wells Notice from the staff of the U.S. Securities and Exchange Commission ("SEC") that relates to the PIMCO Total Return Active Exchange-Traded Fund ("BOND"), a series of PIMCO ETF Trust. The notice indicates the staff's preliminary determination to recommend that the SEC commence a civil action against PIMCO stemming from a non-public investigation relating to BOND. A Wells Notice is neither a formal allegation of wrongdoing nor a finding that any law was violated.

This matter principally pertains to the valuation of smaller sized positions in non-agency mortgage-backed securities purchased by BOND between its inception on February 29, 2012 and June 30, 2012, BOND's performance disclosures for that period, and PIMCO's compliance policies and procedures related to these matters.

The Wells process provides PIMCO with the opportunity to demonstrate to the SEC staff why it believes its conduct was appropriate, in keeping with industry standards, and that no action should be taken. PIMCO believes that this matter is unlikely to have a material adverse effect on any Portfolio or on PIMCO's ability to provide investment management services to any Portfolio.

The foregoing speaks only as of the date of this report.

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.

The Portfolio may be subject to local withholding taxes, including those imposed on realized capital gains. Any applicable foreign capital gains tax is accrued daily based upon net unrealized gains, and may be payable following the sale of any applicable investments.

In accordance with U.S. GAAP, the Adviser has reviewed the Portfolio's tax positions for all open tax years. As of December 31, 2015, 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 2012-2014, 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, 2015, 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)
PIMCO Low Duration Portfolio	$ 9,035	$ —	$ (43,909)	$ —	$ (30,521)	$ —	$ —

(1) Adjusted for open wash sale loss deferrals and the accelerated recognition of unrealized gain or loss on certain futures and forward contracts for federal income tax purposes. Also adjusted for differences between book and tax realized and unrealized gain (loss) on swap contracts and treasury inflation-protected 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, 2015 through December 31, 2015 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, 2015 through December 31, 2015, which the Portfolio elected to defer to the following taxable year pursuant to income tax regulations.

As of December 31, 2015, 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		
	12/31/2016	12/31/2017	12/31/2018
PIMCO Low Duration Portfolio	$ —	$ 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, 2015, the Portfolio had the following post-effective capital losses with no expiration (amounts in thousands):

	Short-Term	Long-Term
PIMCO Low Duration Portfolio	$ 13,392	$ 8,530

As of December 31, 2015, 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)
PIMCO Low Duration Portfolio	$ 2,315,662	$ 8,135	$ (49,531)	$ (41,396)

(6) Primary differences, if any, between book and tax net unrealized appreciation/(depreciation) on investments are attributable to open wash sale loss deferrals and treasury inflation-protected securities.

For the years ended December 31, 2015 and December 31, 2014, 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)
PIMCO Low Duration Portfolio	12/31/2015	$ 68,706	$ —	$ —
	12/31/2014	$ 24,882	$ —	$ —

(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 financial accounting to tax accounting.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of PIMCO Variable Insurance Trust and 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 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, 2015, 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 presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Portfolio's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2015 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Kansas City, Missouri
February 18, 2016

Counterparty Abbreviations:

BOA	Bank of America N.A.	**GLM**	Goldman Sachs Bank USA	**NGF**	Nomura Global Financial Products, Inc.
BPS	BNP Paribas S.A.	**GST**	Goldman Sachs International	**SCX**	Standard Chartered Bank
BRC	Barclays Bank PLC	**HUS**	HSBC Bank USA N.A.	**SOG**	Societe Generale
CBK	Citibank N.A.	**JPM**	JPMorgan Chase Bank N.A.	**SSB**	State Street Bank and Trust Co.
DUB	Deutsche Bank AG	**MSB**	Morgan Stanley Bank, N.A	**UAG**	UBS AG Stamford
FBF	Credit Suisse International	**MYC**	Morgan Stanley Capital Services, Inc.		

Currency Abbreviations:

AUD	Australian Dollar	**ILS**	Israeli Shekel	**PHP**	Philippine Peso
BRL	Brazilian Real	**INR**	Indian Rupee	**RUB**	Russian Ruble
CHF	Commercial Mortgage-Backed Index	**JPY**	Japanese Yen	**SGD**	Singapore Dollar
CNH	Chinese Renminbi (Offshore)	**KRW**	South Korean Won	**THB**	Thai Baht
EUR	Euro	**MXN**	Mexican Peso	**USD (or $)**	United States Dollar
GBP	British Pound	**MYR**	Malaysian Ringgit		

Exchange Abbreviations:

OTC	Over the Counter

Index/Spread Abbreviations:

CDX.IG	Credit Derivatives Index - High Yield	**CMBX**	Commercial Mortgage-Backed Index

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		

Management of the Trust

The charts below identify the Trustees and executive officers of the Trust. 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 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 Past 5 Years	Number of Funds in Fund Complex Overseen by Trustee	Other Public Company and Investment Company Directorships Held by Trustee During the Past 5 Years
Interested Trustees*				
Brent R. Harris (1959) *Chairman of the Board and Trustee*	08/1997 to present	Managing Director, PIMCO. Formerly, member of Executive Committee, PIMCO.	168	Chairman and Trustee, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series, PIMCO Equity Series VIT; Director, StocksPLUS® Management, 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); 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.	146	Trustee, PIMCO Funds; Trustee, PIMCO ETF Trust.
Independent Trustees				
George E. Borst (1948) *Trustee*	04/2015 to present	Executive Advisor, McKinsey & Company; Formerly, Executive Advisor, Toyota Financial Services; CEO, Toyota Financial Services.	146	Trustee, PIMCO Funds; Trustee, PIMCO ETF Trust.
E. Philip Cannon (1940) *Trustee*	05/2000 to present	Private Investor. Formerly, President, Houston Zoo.	168	Trustee, PIMCO Funds; Trustee, PIMCO ETF; Trustee, PIMCO Equity Series; and Trustee, PIMCO Equity Series VIT. Formerly, Trustee, Allianz Funds (formerly, PIMCO Funds: Multi-Manager Series.
Jennifer Holden Dunbar (1963) *Trustee*	04/2015 to present	Managing Director, Dunbar Partners, LLC (business consulting and investments).	168	Trustee, PIMCO Funds; Trustee, PIMCO ETF Trust; Trustee, PIMCO Equity Series; and Trustee, PIMCO Equity Series VIT. Director, PS Business Parks; Director, Big 5 Sporting Goods Corporation.
Gary F. Kennedy (1955) *Trustee*	04/2015 to present	Formerly, Senior Vice President, General Counsel and Chief Compliance Officer, American Airlines and AMR Corporation (now American Airlines Group).	146	Trustee, PIMCO Funds; Trustee, PIMCO ETF Trust.
Peter B. McCarthy (1950) *Trustee*	04/2015 to present	Formerly, Assistant Secretary and Chief Financial Officer, United States Department of Treasury; Deputy Managing Director, Institute of International Finance.	168	Trustee, PIMCO Funds; Trustee, PIMCO ETF; Trustee, PIMCO Equity Series; and Trustee, PIMCO Equity Series VIT.
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).	168	Trustee, PIMCO Funds; Trustee, PIMCO ETF Trust; Trustee, PIMCO Equity Series; and Trustee, PIMCO Equity Series VIT.

* Mr. Harris and Mr. Hodge are "interested persons" of the Trust (as that term is defined in the 1940 Act) because of their affiliations 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 Vice President 05/2008 to 11/2013	Managing Director, PIMCO. President, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series, PIMCO Equity Series VIT, PIMCO Managed Accounts Trust and PIMCO Closed-End Funds.
David C. Flattum (1964) *Chief Legal Officer*	11/2006 to present	Managing Director and General Counsel, PIMCO. Chief Legal Officer, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. 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 and Chief Compliance Officer, PIMCO. Chief Compliance Officer, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT.
Brent R. Harris (1959) *Senior Vice President*	01/2015 to present President 03/2009 to 01/2015	Managing Director and current member of Executive Committee, PIMCO. Senior Vice President, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT.
Douglas M. Hodge (1957) *Senior Vice President*	05/2010 to present	Managing Director, Chief Executive Officer, PIMCO (since 2/14); 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. Senior Vice President, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT.
Kevin M. Broadwater (1964) *Vice President - Senior Counsel*	05/2012 to present	Executive Vice President and Deputy General Counsel, PIMCO. Vice President — Senior Counsel, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT.
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. Chief Legal Officer, PIMCO Investments LLC. Vice President — Senior Counsel, Secretary, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. Vice President, Secretary and Chief Legal Officer, PIMCO Managed Accounts Trust and PIMCO Closed-End Funds.
Ryan G. Leshaw (1980) *Assistant Secretary*	05/2012 to present	Senior Vice President and Senior Counsel, PIMCO. Assistant Secretary, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series, PIMCO Equity Series VIT, PIMCO Managed Accounts Trust and PIMCO Closed-End Funds. Formerly, Associate, Willkie Farr & Gallagher LLP.
Stacie D. Anctil (1969) *Vice President*	05/2015 to present Assistant Treasurer 11/2003 to 05/2015	Senior Vice President, PIMCO. Vice President, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series, PIMCO Equity Series VIT, PIMCO Managed Accounts Trust and PIMCO Closed-End Funds.
William G. Galipeau (1974) *Vice President*	11/2013 to present	Executive Vice President, PIMCO. Vice President, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. Treasurer, PIMCO Managed Accounts Trust and PIMCO Closed-End Funds. Formerly, Vice President, Fidelity Investments.
Eric D. Johnson (1970)** *Vice President*	05/2011 to present	Executive Vice President, PIMCO. Vice President, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series, PIMCO Equity Series VIT, PIMCO Managed Accounts Trust and PIMCO Closed-End Funds.
Henrik P. Larsen (1970) *Vice President*	02/1999 to present	Senior Vice President, PIMCO. Vice President, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT.
Greggory S. Wolf (1970) *Vice President*	05/2011 to present	Senior Vice President, PIMCO. Vice President, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT.
Trent W. Walker (1974) *Treasurer*	11/2013 to present Assistant Treasurer 05/2007 to 11/2013	Executive Vice President, PIMCO. Treasurer, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. Assistant Treasurer, PIMCO Managed Accounts Trust and PIMCO Closed-End Funds.
Erik C. Brown (1967) *Assistant Treasurer*	02/2001 to present	Executive Vice President, PIMCO. Assistant Treasurer, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series, PIMCO Equity Series VIT, PIMCO Managed Accounts Trust and PIMCO Closed-End Funds.
Jason J. Nagler (1982)** *Assistant Treasurer*	05/2015 to present	Vice President, PIMCO. Assistant Treasurer, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series, PIMCO Equity Series VIT, PIMCO Managed Accounts Trust and PIMCO Closed-End Funds. Formerly, Head of Mutual Fund Reporting, GMO and Assistant Treasurer, GMO Trust and GMO Series Trust Funds.

* The term "PIMCO Closed-End Funds" as used herein includes: PIMCO California Municipal Income Fund, PIMCO California Municipal Income Fund II, PIMCO California Municipal Income Fund III, PIMCO Municipal Income Fund, PIMCO Municipal Income Fund II, PIMCO Municipal Income Fund III, PIMCO New York Municipal Income Fund, PIMCO New York Municipal Income Fund II, PIMCO New York Municipal Income Fund III, PCM Fund Inc., PIMCO Corporate & Income Opportunity Fund, PIMCO Corporate & Income Strategy Fund, PIMCO Dynamic Credit Income Fund, PIMCO Dynamic Income Fund, PIMCO Global StocksPLUS & Income Fund, PIMCO High Income Fund, PIMCO Income Opportunity Fund, PIMCO Income Strategy Fund, PIMCO Income Strategy Fund II and PIMCO Strategic Income Fund, Inc.

** The address of these officers is Pacific Investment Management Company LLC, 1633 Broadway, New York, New York 10019.

Privacy Policy[1]

The Trust[2] 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' non-public 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 advisers or sub-advisers ("Advisers"), 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 applicable websites.

Respecting Your Privacy

As a matter of policy, the Trust does not disclose any non-public personal 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 or its affiliates 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 or account 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 fund advised by PIMCO in which a shareholder has invested. In addition, the Trust may disclose information about a shareholder or 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 Advisers, 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 applicable websites, 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.

Information Collected from Websites

Websites maintained by the Trust or its service providers may use a variety of technologies to collect information that help the Trust and its service providers understand how the website is used. Information collected from your web browser (including small files stored on your device that are commonly referred to as "cookies") allow the websites to recognize your web browser and help to personalize and improve your user experience and enhance navigation of the website. In addition, the Trust or its Service Affiliates may use third parties to place advertisements for the Trust on other websites, including banner advertisements. Such third parties may collect anonymous information through the use of cookies or action tags (such as web beacons). The information these third parties collect is generally limited to technical and web navigation information, such as your IP address, web pages visited and browser type, and does not include personally identifiable information such as name, address, phone number or email address.

You can change your cookie preferences by changing the setting on your web browser to delete or reject cookies. If you delete or reject cookies, some website pages may not function properly.

Changes to the Privacy Policy

From time to time, the Trust may update or revise this privacy policy. If there are changes to the terms of this privacy policy, documents containing the revised policy on the relevant website will be updated.

[1] Effective as of September 5, 2014.

[2] 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").

Approval of Renewal of the Amended and Restated Investment Advisory Contract, Supervision and Administration Agreement and Amended and Restated Asset Allocation Sub-Advisory Agreement

At a meeting held on August 10-11, 2015, the Board of Trustees (the "Board") of PIMCO Variable Insurance Trust (the "Trust"), including all of the Trustees who are not "interested persons" of the Trust under the Investment Company Act of 1940, as amended (the "Independent Trustees"), considered and unanimously approved the Amended and Restated Investment Advisory Contract (the "Investment Advisory Contract") between the Trust, on behalf of each of the Trust's series (the "Portfolios"), and Pacific Investment Management Company LLC ("PIMCO") for an additional one-year term through August 31, 2016. The Board also considered and unanimously approved for an additional one-year term through August 31, 2016, the Supervision and Administration Agreement (together with the Investment Advisory Contract, the "Agreements") between the Trust, on behalf of the Portfolios, and PIMCO. In addition, the Board considered and unanimously approved the renewal of the Amended and Restated Asset Allocation Sub-Advisory Agreement (the "Asset Allocation Agreement") between PIMCO, on behalf of PIMCO All Asset Portfolio and PIMCO All Asset All Authority Portfolio, each a series of the Trust, and Research Affiliates, LLC ("Research Affiliates") for an additional one-year term through August 31, 2016.

The information, material factors and conclusions that formed the basis for the Board's approvals are summarized below.

1. INFORMATION RECEIVED

(a) Materials Reviewed: During the course of the past year, the Trustees received a wide variety of materials relating to the services provided by PIMCO and Research Affiliates to the Trust. At each of its quarterly meetings, the Board reviewed the Portfolios' investment performance and a significant amount of information relating to Portfolio operations, including shareholder services, valuation and custody, the Portfolios' compliance program 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 the renewal of the Agreements and the 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 information for PIMCO and, where relevant, Research Affiliates, information regarding the profitability to PIMCO of its relationship with the Portfolios, 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). In addition, the Board reviewed materials 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 and the Asset Allocation Agreement.

(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, where applicable, Research Affiliates in response to requests from counsel to the Trust and the Independent Trustees. The Board 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 heard oral presentations on matters related to the Agreements and the Asset Allocation Agreement and met both as a full Board and in a separate session of the Independent Trustees, without management present, at the August 10-11, 2015 meeting. The Independent Trustees also conducted a telephonic meeting with counsel to the Trust and the Independent Trustees on July 30, 2015 and executive sessions on August 10, 2015 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 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 the 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 also 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 managed by PIMCO, and its efforts to keep the Trustees informed about matters relevant to the Portfolios and their shareholders. The Board also considered PIMCO's continuous investment in new disciplines and talented personnel, which has enhanced PIMCO's service to the Funds and has allowed PIMCO to introduce innovative new funds over time. In addition, the Board considered the nature and quality of services provided by PIMCO to the wholly-owned subsidiaries of applicable Portfolios.

The Trustees considered information they had received about 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 also considered that, over the last several years, PIMCO has continued to strengthen the process it uses to assess the financial stability of counterparties 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 only those counterparties that meet its stringent and monitored criteria. The Trustees considered that PIMCO's collateral management team utilizes a counterparty risk system to analyze portfolio level exposure and collateral being exchanged with counterparties.

In addition, the Trustees considered new services and service enhancements that PIMCO has implemented since the Board renewed the Agreements in 2014, including, but not limited to: conducting a targeted review of quality and efficiency in the valuation process; expanding the analytical review of shareholder reports by State Street Bank and Trust Company, the Portfolios' custodian; developing a process for monthly forecasts of taxable and book income to enhance portfolio management of investment income; continuing the expansion of a proprietary performance reconciliation tool, which includes next-day comparison of daily internal performance to custodian bank performance to identify potential errors and guardrail net asset value calculations; developing and implementing the Global Process Monitor application, which includes real-time tracking and escalation protocols for critical activities; and implementing monthly cash flow reporting processes to support client and media demands for information about investor flows and assets under management data. The Trustees also considered the recent outflows from the Portfolios. The Trustees further considered whether the decline in the Portfolios' assets and the reduction in PIMCO's total assets under management materially impacted the service quality or resources available to the Portfolios. The Trustees concluded that there has been no adverse impact to service quality or resources available to the Portfolios.

Similarly, the Board considered the asset allocation services provided by Research Affiliates to the PIMCO All Asset Portfolio and PIMCO All Asset All Authority Portfolio. The Board noted that the PIMCO All Asset All Authority Portfolio recently commenced operations. The Board also 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 respective shareholders (as applicable).

(b) Other Services: The Board also considered the nature, extent, quality and cost of supervisory and administrative services provided by PIMCO to the Portfolios under the Supervision and Administration Agreement. 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 Supervision and Administration Agreement, under which the Trust pays for the supervisory and administrative services provided pursuant to 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 Supervision and Administration Agreement continue to increase. The Board considered PIMCO's provision of these services and its 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 available 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' performance, as available, over short- and long-term periods ended May 31, 2015 and other performance data, as available, over short- and long-term periods ended June 30, 2015 (the "PIMCO Report") and from Lipper concerning the Portfolios' performance, as available, over short- and long-term periods ended May 31, 2015 (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 10-11, 2015 meeting. The Trustees noted that a majority of the Portfolios outperformed their respective Lipper medians over the three-year and longer periods ended May 31, 2015.

The Board also noted that, as of May 31, 2015, the Administrative Class of 44%, 79% and 92% of the Portfolios outperformed its Lipper category median on a net-of-fees basis 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 investments and that differences in performance among classes could principally be attributed to differences in the supervisory and administrative fees and 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 and that the Lipper categories do not: separate funds based upon maturity or duration; account for the applicable Portfolios' hedging strategies; distinguish between enhanced index and actively managed equity strategies; 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); or 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 not be particularly relevant to the consideration of Portfolio performance.

The Board noted that 63% 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, 2015 (based on the performance of the Administrative Class). The Board also noted that 8 of 14 Portfolios, representing 69% of the total assets of the Trust, had outperformed their respective benchmark indexes on a net-of-fees basis over the five-year period ending May 31, 2015. The Board also noted that, while the Lipper universe comparisons provide a valuable performance comparison reference, there are certain Portfolios that do not fit neatly 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. The Board also considered that the Trust's assets were over $20 billion as of December 31, 2014.

The Board considered PIMCO's discussion of the intensive nature of managing bond funds, noting that it requires the management of a number of factors, including: varying maturities; prepayments; collateral management; counterparty management; pay-downs; credit events; workouts; derivatives; net new issuance in the bond market; and decreased market maker inventory levels. The Board noted that in addition to managing these factors, PIMCO must also balance risk controls and strategic positions in each portfolio it manages, including the Portfolios. Despite these challenges, the Board noted that PIMCO has generated "alpha" (*i.e.*, non-market correlated excess performance) for its clients over time, 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 to scale at the outset with reference to the total expense ratios of the respective Lipper median (if available), while providing a premium for innovative investment offerings. PIMCO reported to the Board that, in proposing fees for any Portfolio or class of shares, it considers a number of factors, including the type and complexity of the services provided, the cost of providing services, the risk assumed by PIMCO in the development of products and the provision of services, the impact on potential returns from different levels of fees, the competitive marketplace for financial products, and the attractiveness of potential Portfolio returns to current and potential investors. 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 Trust's assets under management over the long-term 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. The Board also reviewed information relating to the sub-advisory fees paid to Research Affiliates with respect to applicable Portfolios, taking into account that PIMCO compensates Research Affiliates from the advisory fees paid by such Portfolios to PIMCO. With respect to advisory fees, the Board reviewed data from Lipper that compared the average and median advisory fees of other funds in a "Peer 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 Peer Group and Lipper universe. In addition, the Board noted the fee waivers in place with respect to the fees that might result from investments by applicable Portfolios in their respective wholly-owned subsidiaries.

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 Board noted that advisory fees for most Portfolios were similar to the fee rates charged to separate account strategies with the same investment strategies as the Portfolios. 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. The Trustees also took into account that there are various reasons for any such difference in fees, including, but not limited to, the fact that PIMCO may be subject to varying levels of entrepreneurial risk and regulatory requirements, differing legal liabilities on a contract-by-contract basis and different 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 as compared to when PIMCO serves as investment adviser and sponsor.

The Board considered the Portfolios' supervisory and administrative fees, comparing them to similar funds in the report supplied by Lipper. The Board also considered that as the Portfolios' business has become increasingly complex, PIMCO has provided an increasingly broad array of fund supervisory and administrative functions. In addition, 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 further considered that many other funds pay for these services separately, and thus it is difficult to directly compare the Trust's unified supervisory and administrative fees with the fees paid by other funds for administrative services alone. The Board also considered that the unified supervisory and administrative fee leads to Portfolio fees that are fixed, rather than variable. The Board 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. The Board also considered that the Portfolios' unified fee structure meant that fees were not impacted by recent outflows in certain Portfolios, unlike funds without a unified fee structure, which may see increased expense ratios when fixed costs are passed through to a smaller asset base. The Board further noted that, with few exceptions, PIMCO has generally 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 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 Portfolio 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 peers (if any), and cannot easily be grouped with comparable funds. Upon comparing the Portfolios' total expenses to other funds in the "Peer 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 funds in which the Funds of Funds may invest and, therefore, such services were not duplicative of the advisory services provided to the underlying funds. The Board also considered the various fee waiver agreements in place for the Funds of Funds.

Based on the information presented by PIMCO, Research Affiliates and Lipper, members of the Board 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 lower than in the previous year due to the impact of the Portfolios' overall outflows. To the extent applicable, the Board also reviewed information regarding the portion of a Portfolio's advisory fee retained by PIMCO, following the payment of sub-advisory fees to Research Affiliates, with respect to the Portfolio. Additionally, the Board noted that profit margins with respect to the Portfolios 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 the PIMCO's profit margin with respect to the Trust shows that the Trust is profitable, although less so than PIMCO Funds due to payments made by PIMCO to participating insurance companies. The Board also noted that it had 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, information 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 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 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 fee.

The Trustees 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 also considered that the unified fee protects shareholders from a rise in operating costs that may result from, among other things, PIMCO's investments in various business enhancements and infrastructure, including those referenced 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 each of the Portfolios, to the benefit of their respective 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 Trust. The Board also considered that affiliates of PIMCO provide distribution and shareholder services to the Portfolios and their respective 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 their review, including their consideration of each of the factors summarized above, the Independent Trustees and the Board as a whole 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 Independent Trustees and the Board as a whole 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

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Transfer Agent

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Independent Registered Public Accounting Firm

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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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Annual Report
December 31, 2015

FRANKLIN TEMPLETON
INVESTMENTS

Franklin Templeton
Variable Insurance Products Trust

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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 FEBRUARY 8, 2016
TO THE STATEMENT OF ADDITIONAL INFORMATION DATED MAY 1, 2015
OF
FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST

The statement of additional information (SAI) is amended as follows:

The section under the heading "**Dealer Compensation**" beginning on page 99 is replaced with the following:

In addition to the payments above, Distributors and/or its affiliates may make the following payments out of its own assets to certain dealers who sell shares of Franklin Templeton funds, or participate in the offering of variable insurance products that invest directly or indirectly in the Trust (VIP Qualifying Dealers):

Marketing support payments. Distributors may make payments to VIP Qualifying Dealers out of its own resources. A VIP Qualifying Dealer's marketing support services may include business planning assistance, marketing and advertising, training and ongoing education and support for dealer personnel about the Franklin Templeton funds (including the Trust) and financial planning needs of shareholders of the Franklin Templeton funds or contract owners that allocate contract value indirectly to one or more Franklin Templeton funds, placement on the VIP Qualifying Dealer's list of offered funds, access to sales meetings, sales representatives and management representatives of the dealer, and contract owner assistance in allocating contract value directly or indirectly to the Trust. Distributors compensates VIP Qualifying Dealers differently depending upon, among other factors, whether the VIP Qualifying Dealer is directly selling Franklin Templeton funds, or participating in the offering of variable insurance products that invest directly or indirectly in the Trust, sales and asset levels, redemption rates and the level and/or type of marketing and educational activities provided by the VIP Qualifying Dealer. Such compensation may include financial assistance to such dealers that enable Distributors to develop, manage or participate in and/or present at conferences or seminars, sales or training programs for invited registered representatives and other employees, client and investor events, and other dealer-sponsored events. These payments may vary depending upon the nature of the event. Distributors will, on an annual basis, determine whether to continue such payments. Currently, Distributors does not make marketing support payments in connection with the Trust except under limited circumstances for certain Funds of the Trust offered through a special product. Marketing support payments will not exceed 0.20% of the relevant Fund's or Funds' average daily net assets attributable to an insurance company, on an annual basis.

Other payments. From time to time, Distributors, at its expense, may provide additional compensation to VIP Qualifying Dealers which sell or arrange for the direct or indirect sale of shares of Franklin Templeton funds, including the Trust. Such compensation may include financial assistance to VIP Qualifying Dealers that enable Distributors to participate in and/or present at conferences or seminars, sales or training programs for invited registered representatives and other employees, client and investor events and other dealer-sponsored events. These payments may vary depending upon the nature of the event.

Distributors routinely sponsors due diligence meetings for registered representatives during which they receive updates on various Franklin Templeton funds and are afforded the opportunity to speak with portfolio managers. Invitation to these meetings is not conditioned on selling a specific number of shares. Those who have shown an interest in Franklin Templeton funds, however, are more likely to be considered. To the extent permitted by their firm's policies and procedures, registered representatives' expenses in attending these meetings may be covered by Distributors.

Other compensation may be offered to the extent not prohibited by federal or state laws or any self-regulatory agency, such as FINRA. Distributors makes payments for events it deems appropriate, subject to Distributors' guidelines and applicable law. Distributors and/or its affiliates may also reimburse VIP Qualifying Dealers and/or their affiliates for certain costs associated with obtaining voting instructions from contract owners and the solicitation process in connection with Trust-sponsored proxy statements.

You can ask your insurance company and VIP Qualifying Dealer for information about any payments they receive from Distributors and any services provided. Additional disclosure may be included in the insurance contract prospectus.

Please keep this supplement with your statement of additional information for future reference.

Templeton Developing Markets VIP Fund

This annual report for Templeton Developing Markets VIP Fund covers the fiscal year ended December 31, 2015.

Class 2 Performance Summary as of December 31, 2015

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 12/31/15	1-Year	5-Year	10-Year
Average Annual Total Return	-19.60%	-7.02%	+0.96%

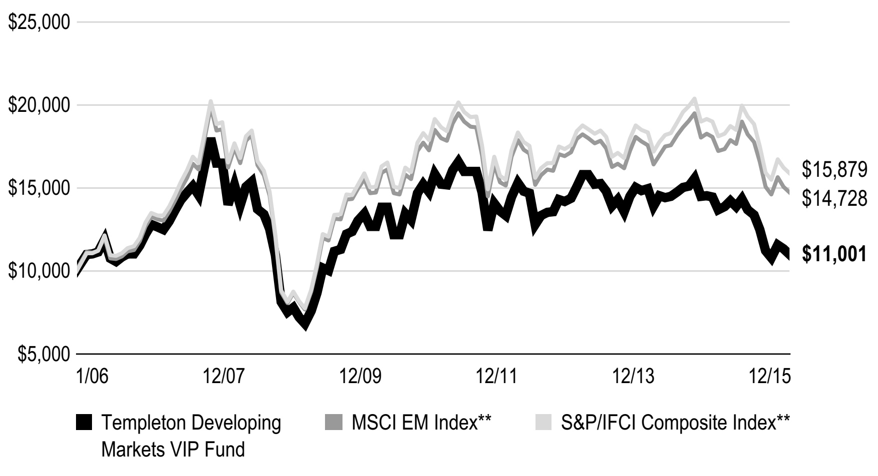
*The Fund has a fee waiver associated with any investment in a Franklin Templeton money fund, contractually guaranteed through at least its current fiscal year-end. Fund investment results reflect the fee waiver, to the extent applicable; without this reduction, the results would have been lower.

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 (1/1/06–12/31/15)

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 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

The 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.

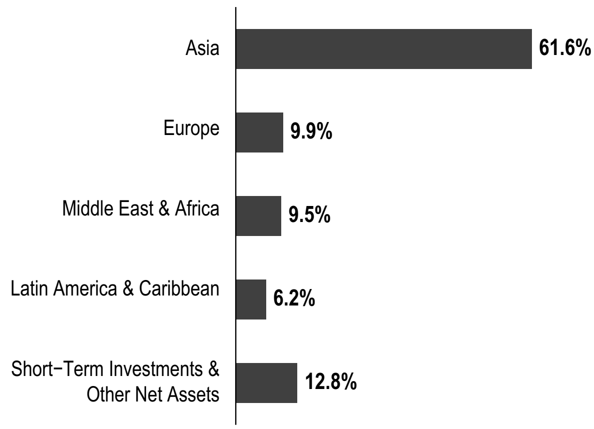
Performance Overview

You can find the Fund's one-year total return in the Performance Summary. In comparison, the MSCI EM Index had a -14.60% total return, and the S&P/IFCI Composite Index had a -12.38% 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 expanded moderately during the 12 months under review. Although some 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 grew at a less robust pace in 2015 than in 2014, as strength in services and consumption was offset by weakness in fixed-asset investment, imports and exports, and manufacturing. Domestic demand continued to account for a greater portion of China's gross domestic product (GDP), as per-capita income rose, supported by the government's market-friendly policies for sustainable growth. In the third quarter, Brazil's and Russia's quarterly GDPs continued to contract but at slower rates compared with the second quarter. Despite moderating growth in some emerging market countries, India, the Czech Republic and Mexico showed signs of improvement.

Geographic Breakdown
Based on Total Net Assets as of 12/31/15



Many emerging market central banks, including those of Russia and India, lowered benchmark interest rates to promote economic growth. The People's Bank of China (PBOC) cut its benchmark interest rate and reduced the bank's cash reserve requirement several times. Toward period-end, the PBOC lowered short-term borrowing costs for smaller banks as part of its efforts to establish an interest rate corridor intended to help banks access funds in times of a liquidity crunch and to avoid heightened volatility in money market rates. In contrast, Brazil's central bank raised its benchmark interest rate despite an economic downturn, in an effort to control inflation and support the country's currency.

Events in China significantly affected stock performance in all regions during the year. The Chinese government's efforts to promote stable growth supported China's domestic stock market in 2015's first half. However, tight liquidity conditions and uncertainties about the PBOC's monetary policy led China's domestic market to correct from June through August, contributing to a global stock market correction. The PBOC's effective devaluation of the yuan to support export growth led to investor anxiety about China's economy and the possibility of a regional currency war, further pressuring emerging market stocks.

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.

Investor concerns about moderating global economic growth, the future course of U.S. monetary policy, geopolitical tensions in certain regions and the depreciation of many currencies against the U.S. dollar also contributed to stock market volatility. Price declines of many commodities, particularly crude oil, negatively affected certain commodity-producing countries' economies, financial positions and currencies, weighing further on investor sentiment.

However, accommodative monetary policies of many major central banks provided investors with some optimism. China's additional monetary and fiscal stimulus measures to support economic growth aided emerging market stocks in October, but weak commodity prices and terrorist attacks in Beirut and Paris hindered stocks toward period-end. Markets recovered somewhat after the U.S. Federal Reserve increased its federal funds target rate in December, alleviating some uncertainty about the direction of U.S. monetary policy.

For the 12 months ended December 31, 2015, emerging market stocks, as measured by the MSCI EM Index, had a -14.60% total return, as weak emerging market currencies led all major regions to post negative returns in U.S. dollar terms.[1]

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, the Fund remained diversified among different emerging market countries. Consistent with our long-term investment strategy, we viewed market corrections in China and other emerging markets in the context of a long-term uptrend. We continued to monitor global economic and market developments while seeking to minimize risk and to establish long-term positions in quality companies at share prices we considered more attractive.

Key detractors from the Fund's absolute performance during the 12-month reporting period included positions in Itau Unibanco Holding, MTN Group and MGM China Holdings.

Top 10 Countries
12/31/15

	% of Total Net Assets
China	19.8%
India	10.8%
South Africa	9.2%
South Korea	8.9%
Taiwan	8.7%
Brazil	5.6%
U.K.	5.0%
Thailand	4.4%
Hong Kong	3.5%
Belgium	3.4%

Itau Unibanco, one of Brazil's largest financial conglomerates, continued to produce solid operating performance despite the country's difficult economic environment. However, investor concerns about the potential for deteriorating asset quality and higher loan-loss provisions weighed on share price performance. The Brazilian financial market as a whole came under pressure during the reporting period, further hurting Itau Unibanco's shares. Falling prices for energy and other commodities coincided with an economic recession, rising unemployment and political uncertainty, leading to equity weakness and currency depreciation. Standard & Poor's downgrade of the country's long-term foreign currency sovereign credit rating to below investment grade in September heightened market anxiety.

MTN Group is Africa's largest cellular network in subscriber terms. The South Africa-based company's share price declined following an announcement that the Nigerian Communications Commission imposed a US$5.2 billion fine, which was subsequently reduced to US$3.4 billion. MTN allegedly failed to meet a deadline for disconnecting subscribers identified as unregistered. Disappointing first-half 2015 earnings results amid a weak regional economic backdrop and depreciation of regional currencies also hurt share price performance. Although third-quarter corporate results showed some improvement in the company's operations in South Africa, issues in the Nigerian market continued to weigh on overall operations. The resignation of the company's chief executive officer and concerns about potential challenges in the company's cash repatriation from Nigeria further pressured investor sentiment.

MGM China Holdings is a Hong Kong-listed casino gaming and entertainment business based in Macau. Shares of casino gaming companies, including MGM China's, fell during the reporting period due to investor concerns about declining numbers of high-spending customers, a result of China's anti-corruption campaign. Reduced dividend distributions also hurt overall sentiment in the casino gaming sector. However, despite weak revenue trends, MGM China reported slightly better-than-expected second- and third-quarter earnings results as the company achieved greater operating efficiencies.

Amid a challenging market environment, several Fund holdings performed well. Key contributors to absolute performance during the reporting period included NetEase, Tencent Holdings and Anheuser-Busch InBev.

China's Internet sector has been growing rapidly and could benefit further from the government's "Internet Plus" strategy, which is designed to integrate the Internet with traditional businesses to support the country's economic growth. NetEase is one of the largest companies in China's online gaming market. It also has presence in online advertising, email and e-commerce. The company's strong corporate results in 2015, driven by its mobile gaming operations, and plans to release new games in 2016 boosted the company's share price to a record high in December.

Tencent is one of the world's largest and most widely used Internet service portals. Founded in 1998 to provide instant messenger services, the company rapidly grew into a provider of mass media, entertainment, and Internet and mobile phone value-added services in China and internationally. Tencent reported solid earnings in 2015, supported by strong mobile gaming and advertising revenues.

Anheuser-Busch InBev is the world's largest brewer by volume, with operations in 25 countries globally. The Belgium-listed company produces, markets, distributes and sells over 200 beer and other malt beverage brands, as well as produces and distributes soft drinks, notably in Latin America. In November, Anheuser-Busch InBev reached an agreement to acquire SABMiller, the second-largest global brewer, which would substantially extend the group's global footprint. The transaction is expected to be completed in 2016's second half and was positively received by the market, bolstering the company's share price.

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. The U.S. dollar appreciated against most foreign currencies during the period, and the portfolio benefited from underweighted positions in markets with especially weak currencies, such as Russia, Brazil and Colombia, as well as positions in relatively stable currency markets such as Saudi Arabia and Hong Kong.

In the past 12 months, we increased the Fund's holdings in South Korea, Taiwan and Hong Kong as we sought to invest in opportunities we considered attractive. Additionally, we initiated investments in certain countries, notably Mexico and Cambodia, and made some purchases in Russia. In sector terms, we increased investments in information technology, consumer discretionary and health care.[2] Key purchases included new positions in Baidu, China's leading Internet search engine; Hon

Top 10 Holdings
12/31/15

Company ***Sector/Industry, Country***	**% of Total Net Assets**
Naspers Ltd., N *Media, South Africa*	5.4%
Unilever PLC *Personal Products, U.K.*	5.0%
TSMC (Taiwan Semiconductor Manufacturing Co.) Ltd. *Semiconductors & Semiconductor Equipment, Taiwan*	4.9%
Brilliance China Automotive Holdings Ltd. *Automobiles, China*	4.0%
Tencent Holdings Ltd. *Internet Software & Services, China*	3.7%
Anheuser-Busch InBev NV *Beverages, Belgium*	3.4%
Tata Consultancy Services Ltd. *IT Services, India*	3.0%
Baidu Inc., ADR *Internet Software & Services, China*	2.5%
Samsung Electronics Co. Ltd. *Technology Hardware, Storage & Peripherals, South Korea*	2.5%
Itau Unibanco Holding SA, ADR, pfd. *Banks, Brazil*	2.3%

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. The information technology sector comprises electronic equipment, instruments and components; Internet software and services; IT services; semiconductors and semiconductor equipment; software; and technology hardware, storage and peripherals in the SOI. The consumer discretionary sector comprises auto components; automobiles; distributors; hotels, restaurants and leisure; Internet and catalog retail; media; and textiles, apparel and luxury goods in the SOI. The health care sector comprises biotechnology and pharmaceuticals in the SOI.

Hai Precision Industry, a leading Taiwanese electronics manufacturing services provider; and SK Hynix, one of the world's largest DRAM (dynamic random access memory) makers.

Conversely, we reduced the Fund's investments in Thailand, South Africa, India and China primarily through China H shares to focus on companies we considered to be more attractively valued within our investment universe and to raise funds for share redemptions.[3] We also eliminated exposures to certain countries, notably Turkey. In sector terms, we reduced holdings largely in financials, energy, materials and industrials.[4] Key sales included trimming the Fund's positions in Siam Commercial Bank, a Thai bank; Remgro, a South African conglomerate with interests in finance, health care, food and industrials; and Tata Motors, an Indian automobile manufacturer.

Thank you for your participation in Templeton Developing Markets VIP Fund. We look forward to serving your future investment needs.

The foregoing information reflects our analysis, opinions and portfolio holdings as of December 31, 2015, 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.

3. "China H" denotes shares of China-incorporated, Hong Kong Stock Exchange-listed companies with most businesses in China.

4. The financials sector comprises banks, capital markets, diversified financial services, insurance, and real estate management and development in the SOI. The energy sector comprises oil, gas and consumable fuels in the SOI. The materials sector comprises chemicals and construction materials in the SOI. The industrials sector comprises construction and engineering, trading companies and distributors, and transportation infrastructure in the SOI.

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 7/1/15	Ending Account Value 12/31/15	Fund-Level Expenses Incurred During Period* 7/1/15–12/31/15
Actual	$1,000	$ 821.20	$7.02
Hypothetical (5% return before expenses)	$1,000	$1,017.49	$7.78

*Expenses are calculated using the most recent six-month annualized expense ratio, net of expense waivers, for the Fund's Class 2 shares (1.53%), 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,				
	2015	**2014**	**2013**	**2012**	**2011**
Class 1					
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	$9.27	$10.26	$10.58	$9.50	$11.40
Income from investment operations[a]:					
Net investment income[b]	0.06	0.15[c]	0.13	0.19	0.17
Net realized and unrealized gains (losses)	(1.63)	(0.97)	(0.22)	1.06	(1.94)
Total from investment operations	(1.57)	(0.82)	(0.09)	1.25	(1.77)
Less distributions from:					
Net investment income	(0.20)	(0.17)	(0.23)	(0.17)	(0.13)
Net realized gains	(1.13)	—	—	—	—
Total distributions	(1.33)	(0.17)	(0.23)	(0.17)	(0.13)
Redemption fees	—	—[d]	—[d]	—[d]	—[d]
Net asset value, end of year	$6.37	$9.27	$10.26	$10.58	$9.50
Total return[e]	(19.42)%	(8.09)%	(0.73)%	13.40%	(15.67)%
Ratios to average net assets					
Expenses before waiver and payments by affiliates	1.33%	1.36%	1.35%	1.35%	1.40%
Expenses net of waiver and payments by affiliates	1.32%	1.36%[f]	1.35%	1.35%	1.40%
Net investment income	0.74%	1.51%[c]	1.25%	1.93%	1.57%
Supplemental data					
Net assets, end of year (000's)	$77,000	$114,487	$145,707	$203,568	$232,544
Portfolio turnover rate	71.69%	82.87%	44.59%	24.45%	14.90%

[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's 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 related to income received in the form of special dividends in connection with certain fund holdings. Excluding this amount, 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 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%.

Templeton Developing Markets VIP Fund (continued)

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Class 2					
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	$9.20	$10.19	$10.50	$9.42	$11.30
Income from investment operations[a]:					
Net investment income[b]	0.04	0.12[c]	0.10	0.17	0.14
Net realized and unrealized gains (losses)	(1.61)	(0.96)	(0.21)	1.05	(1.92)
Total from investment operations	(1.57)	(0.84)	(0.11)	1.22	(1.78)
Less distributions from:					
Net investment income	(0.18)	(0.15)	(0.20)	(0.14)	(0.10)
Net realized gains	(1.13)	—	—	—	—
Total distributions	(1.31)	(0.15)	(0.20)	(0.14)	(0.10)
Redemption fees	—	—[d]	—[d]	—[d]	—[d]
Net asset value, end of year	$6.32	$9.20	$10.19	$10.50	$9.42
Total return[e]	(19.60)%	(8.39)%	(0.92)%	13.16%	(15.86)%
Ratios to average net assets					
Expenses before waiver and payments by affiliates	1.58%	1.61%	1.60%	1.60%	1.65%
Expenses net of waiver and payments by affiliates	1.57%	1.61%[f]	1.60%	1.60%	1.65%
Net investment income	0.49%	1.26%[c]	1.00%	1.68%	1.32%
Supplemental data					
Net assets, end of year (000's)	$192,120	$250,813	$274,683	$291,638	$295,223
Portfolio turnover rate	71.69%	82.87%	44.59%	24.45%	14.90%

[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's 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 related to income received in the form of special dividends in connection with certain fund holdings. Excluding this amount, 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 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%.

Templeton Developing Markets VIP Fund (continued)

	Year Ended December 31,				
	2015	**2014**	**2013**	**2012**	**2011**
Class 4					
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	$9.22	$10.20	$10.50	$9.42	$11.30
Income from investment operations[a]:					
Net investment income[b]	0.03	0.12[c]	0.10	0.16	0.13
Net realized and unrealized gains (losses)	(1.62)	(0.97)	(0.21)	1.04	(1.91)
Total from investment operations	(1.59)	(0.85)	(0.11)	1.20	(1.78)
Less distributions from:					
Net investment income	(0.16)	(0.13)	(0.19)	(0.12)	(0.10)
Net realized gains	(1.13)	—	—	—	—
Total distributions	(1.29)	(0.13)	(0.19)	(0.12)	(0.10)
Redemption fees	—	—[d]	—[d]	—[d]	—[d]
Net asset value, end of year	$6.34	$9.22	$10.20	$10.50	$9.42
Total return[e]	(19.70)%	(8.48)%	(1.07)%	13.06%	(15.88)%
Ratios to average net assets					
Expenses before waiver and payments by affiliates	1.68%	1.71%	1.70%	1.70%	1.75%
Expenses net of waiver and payments by affiliates	1.67%	1.71%[f]	1.70%	1.70%	1.75%
Net investment income	0.39%	1.16%[c]	0.90%	1.58%	1.22%
Supplemental data					
Net assets, end of year (000's)	$7,109	$11,106	$15,225	$23,341	$24,380
Portfolio turnover rate	71.69%	82.87%	44.59%	24.45%	14.90%

[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's 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 related to income received in the form of special dividends in connection with certain fund holdings. Excluding this amount, 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%.

Statement of Investments, December 31, 2015

Templeton Developing Markets VIP Fund

	Industry	Shares	Value
Common Stocks 82.3%			
Argentina 0.1%			
[a] Grupo Clarin SA, B, GDR, Reg S	Media	9,190	$ 165,420
Belgium 3.4%			
Anheuser-Busch InBev NV	Beverages	76,142	9,461,938
Brazil 1.0%			
BM&F BOVESPA SA	Diversified Financial Services	116,800	321,135
CETIP SA Mercados Organizados	Capital Markets	36,000	340,840
M Dias Branco SA	Food Products	82,100	1,378,421
Mahle-Metal Leve SA Industria e Comercio	Auto Components	8,100	50,615
Totvs SA	Software	74,900	586,787
			2,677,798
Cambodia 1.1%			
NagaCorp Ltd.	Hotels, Restaurants & Leisure	4,824,000	3,049,954
China 19.8%			
[b] Baidu Inc., ADR	Internet Software & Services	36,735	6,944,384
Brilliance China Automotive Holdings Ltd.	Automobiles	8,901,300	11,186,708
China Construction Bank Corp., H	Banks	6,167,300	4,225,513
China Life Insurance Co. Ltd., H	Insurance	855,000	2,769,043
China Mobile Ltd.	Wireless Telecommunication Services	550,500	6,215,202
China Petroleum and Chemical Corp., H	Oil, Gas & Consumable Fuels	5,924,000	3,569,619
COSCO Pacific Ltd.	Transportation Infrastructure	517,500	570,241
Dah Chong Hong Holdings Ltd.	Distributors	1,746,100	878,666
[c] Inner Mongolia Yitai Coal Co. Ltd., B	Oil, Gas & Consumable Fuels	243,400	222,224
NetEase Inc., ADR	Internet Software & Services	12,903	2,338,540
PetroChina Co. Ltd., H	Oil, Gas & Consumable Fuels	3,407,600	2,237,980
Poly Culture Group Corp. Ltd., H	Media	229,200	626,961
Tencent Holdings Ltd.	Internet Software & Services	522,100	10,286,855
Uni-President China Holdings Ltd.	Food Products	3,479,300	2,675,642
			54,747,578
Hong Kong 3.5%			
Dairy Farm International Holdings Ltd.	Food & Staples Retailing	454,133	2,761,128
MGM China Holdings Ltd.	Hotels, Restaurants & Leisure	2,612,800	3,270,151
Sands China Ltd.	Hotels, Restaurants & Leisure	1,049,200	3,580,749
			9,612,028
Hungary 0.4%			
Richter Gedeon Nyrt	Pharmaceuticals	59,790	1,132,248
India 10.8%			
Biocon Ltd.	Biotechnology	545,046	4,265,266
Dr. Reddy’s Laboratories Ltd.	Pharmaceuticals	84,890	3,985,848
ICICI Bank Ltd.	Banks	1,027,140	4,054,633
Infosys Ltd.	IT Services	183,099	3,057,066
Oil & Natural Gas Corp. Ltd.	Oil, Gas & Consumable Fuels	297,100	1,084,847
Reliance Industries Ltd.	Oil, Gas & Consumable Fuels	206,000	3,156,905
Tata Chemicals Ltd.	Chemicals	184,000	1,115,703
Tata Consultancy Services Ltd.	IT Services	226,350	8,331,221
[b] Tata Motors Ltd., A	Automobiles	166,000	725,489
			29,776,978

Templeton Developing Markets VIP Fund (continued)

	Industry	Shares	Value
Common Stocks (continued)			
Indonesia 2.9%			
Astra International Tbk PT	Automobiles	10,115,100	$ 4,401,857
Bank Danamon Indonesia Tbk PT	Banks	5,707,000	1,324,562
Semen Indonesia (Persero) Tbk PT	Construction Materials	2,764,700	2,285,953
			8,012,372
Mexico 0.5%			
America Movil SAB de CV, L, ADR	Wireless Telecommunication Services	82,000	1,152,920
Nemak SAB de CV	Auto Components	169,100	228,704
			1,381,624
Pakistan 1.1%			
Habib Bank Ltd.	Banks	1,550,000	2,956,605
Philippines 0.3%			
Bloomberry Resorts Corp.	Hotels, Restaurants & Leisure	9,073,300	877,843
Russia 1.1%			
[a,b] Mail.ru Group Ltd., GDR, Reg S	Internet Software & Services	62,377	1,406,601
[b] Yandex NV, A	Internet Software & Services	98,600	1,549,992
			2,956,593
Singapore 0.1%			
DBS Group Holdings Ltd.	Banks	24,700	290,742
South Africa 9.2%			
Massmart Holdings Ltd.	Food & Staples Retailing	126,006	814,787
MTN Group Ltd.	Wireless Telecommunication Services	400,483	3,441,353
Naspers Ltd., N	Media	108,742	14,906,856
Remgro Ltd.	Diversified Financial Services	390,843	6,197,170
			25,360,166
South Korea 8.9%			
Bukwang Pharmaceutical Co. Ltd.	Pharmaceuticals	2,831	61,311
Daelim Industrial Co. Ltd.	Construction & Engineering	38,193	2,180,489
Fila Korea Ltd.	Textiles, Apparel & Luxury Goods	33,470	2,688,285
Hankook Tire Co. Ltd.	Auto Components	21,600	864,691
Hyundai Development Co.	Construction & Engineering	98,910	3,265,273
[b] iMarketkorea Inc.	Trading Companies & Distributors	54,300	1,168,875
Interpark Corp.	Internet & Catalog Retail	4,200	39,487
KT Skylife Co. Ltd.	Media	176,060	2,591,519
Samsung Electronics Co. Ltd.	Technology Hardware, Storage & Peripherals	6,448	6,912,627
SK Hynix Inc.	Semiconductors & Semiconductor Equipment	185,090	4,842,567
			24,615,124
Taiwan 8.7%			
Catcher Technology Co. Ltd.	Technology Hardware, Storage & Peripherals	164,000	1,375,137
Hon Hai Precision Industry Co. Ltd.	Electronic Equipment, Instruments & Components	2,455,000	6,026,370
Largan Precision Co. Ltd.	Electronic Equipment, Instruments & Components	14,000	965,488
Pegatron Corp.	Technology Hardware, Storage & Peripherals	973,800	2,130,077
Taiwan Semiconductor Manufacturing Co. Ltd.	Semiconductors & Semiconductor Equipment	3,143,000	13,654,423
			24,151,495
Thailand 4.4%			
Kasikornbank PCL, fgn.	Banks	604,100	2,506,604

Templeton Developing Markets VIP Fund (continued)

	Industry	Shares	Value
Common Stocks (continued)			
Thailand (continued)			
Kiatnakin Bank PCL, fgn.	Banks	1,009,800	$ 1,015,966
Land and Houses PCL, fgn.	Real Estate Management & Development	4,997,000	1,310,620
PTT Exploration and Production PCL, fgn.	Oil, Gas & Consumable Fuels	584,500	928,743
PTT PCL, fgn.	Oil, Gas & Consumable Fuels	113,200	766,606
Siam Commercial Bank PCL, fgn.	Banks	306,400	1,016,231
Thai Beverage PCL, fgn.	Beverages	9,695,900	4,718,366
			12,263,136
United Kingdom 5.0%			
Unilever PLC	Personal Products	318,597	13,742,728
Total Common Stocks (Cost $225,877,777)			227,232,370
[d] **Participatory Notes (Cost $968,712) 0.3%**			
Saudi Arabia 0.3%			
[e] Deutsche Bank AG/London, Samba Financial Group, 144A, 9/27/16	Banks	143,055	890,174
Preferred Stocks 4.6%			
Brazil 4.6%			
Banco Bradesco SA, ADR, pfd.	Banks	1,300,900	6,257,329
Itau Unibanco Holding SA, ADR, pfd.	Banks	978,211	6,368,154
Total Preferred Stocks (Cost $15,752,130)			12,625,483
Total Investments before Short Term Investments (Cost $242,598,619)			240,748,027
Short Term Investments (Cost $36,108,301) 13.0%			
Money Market Funds 13.0%			
United States 13.0%			
[b,f] Institutional Fiduciary Trust Money Market Portfolio		36,108,301	36,108,301
Total Investments (Cost $278,706,920) 100.2%			276,856,328
Other Assets, less Liabilities (0.2)%			(626,601)
Net Assets 100.0%			$ 276,229,727

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. These securities have been deemed liquid under guidelines approved by the Trust's Board of Trustees. At December 31, 2015, the aggregate value of these securities was $1,572,021, representing 0.57% of net assets.

[b]Non-income producing.

[c]At December 31, 2015, pursuant to the Fund's policies and the requirements of applicable securities law, the Fund is restricted from trading this security at year end.

[d]See Note 1(c) regarding Participatory Notes.

[e]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. This security has been deemed liquid under guidelines approved by the Trust's Board of Trustees.

[f]See Note 3(e) regarding investments in affiliated management investment companies.

Financial Statements

Statement of Assets and Liabilities

December 31, 2015

	Templeton Developing Markets VIP Fund
Assets:	
Investments in securities:	
Cost - Unaffiliated issuers	$242,598,619
Cost - Non-controlled affiliates (Note 3e)	36,108,301
Total cost of investments	$278,706,920
Value - Unaffiliated issuers	$240,748,027
Value - Non-controlled affiliates (Note 3e)	36,108,301
Total value of investments	276,856,328
Foreign currency, at value (cost $219,189)	219,189
Receivables:	
Investment securities sold	533,765
Capital shares sold	54,063
Dividends	573,602
Foreign tax	23,166
Other assets	30
Total assets	278,260,143
Liabilities:	
Payables:	
Investment securities purchased	1,250,665
Capital shares redeemed	87,497
Management fees	291,442
Distribution fees	86,905
Reports to shareholders	129,000
Deferred tax	119,852
Accrued expenses and other liabilities	65,055
Total liabilities	2,030,416
Net assets, at value	$276,229,727
Net assets consist of:	
Paid-in capital	$328,588,846
Distributions in excess of net investment income	(3,021,032)
Net unrealized appreciation (depreciation)	(2,009,916)
Accumulated net realized gain (loss)	(47,328,171)
Net assets, at value	$276,229,727

Statement of Assets and Liabilities (continued)
December 31, 2015

	Templeton Developing Markets VIP Fund
Class 1:	
Net assets, at value	$ 77,000,388
Shares outstanding	12,082,238
Net asset value and maximum offering price per share	$ 6.37
Class 2:	
Net assets, at value	$192,119,846
Shares outstanding	30,394,847
Net asset value and maximum offering price per share	$ 6.32
Class 4:	
Net assets, at value	$ 7,109,493
Shares outstanding	1,120,931
Net asset value and maximum offering price per share	$ 6.34

Statement of Operations
for the year ended December 31, 2015

	Templeton Developing Markets VIP Fund
Investment income:	
Dividends (net of foreign taxes of $757,277)	$ 6,893,056
Income from securities loaned	32
Total investment income	6,893,088
Expenses:	
Management fees (Note 3a)	4,165,783
Distribution fees: (Note 3c)	
Class 2	566,203
Class 4	32,286
Custodian fees (Note 4)	103,114
Reports to shareholders	107,348
Professional fees	66,358
Trustees' fees and expenses	1,525
Other	20,143
Total expenses	5,062,760
Expenses waived/paid by affiliates (Note 3e)	(38,678)
Net expenses	5,024,082
Net investment income	1,869,006
Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments	(39,632,078)
Foreign currency transactions	(606,798)
Net realized gain (loss)	(40,238,876)
Net change in unrealized appreciation (depreciation) on:	
Investments	(29,089,383)
Translation of other assets and liabilities denominated in foreign currencies	(4,173)
Change in deferred taxes on unrealized appreciation	(90,450)
Net change in unrealized appreciation (depreciation)	(29,184,006)
Net realized and unrealized gain (loss)	(69,422,882)
Net increase (decrease) in net assets resulting from operations	$(67,553,876)

Statements of Changes in Net Assets

	Templeton Developing Markets VIP Fund	
	Year Ended December 31,	
	2015	2014
Increase (decrease) in net assets:		
Operations:		
Net investment income	$ 1,869,006	$ 5,767,995
Net realized gain (loss)	(40,238,876)	66,732,640
Net change in unrealized appreciation (depreciation)	(29,184,006)	(106,645,647)
Net increase (decrease) in net assets resulting from operations	(67,553,876)	(34,145,012)
Distributions to shareholders from:		
Net investment income:		
Class 1	(2,280,023)	(2,319,775)
Class 2	(4,605,588)	(4,358,800)
Class 4	(178,865)	(173,399)
Net realized gains:		
Class 1	(12,555,712)	—
Class 2	(29,329,089)	—
Class 4	(1,242,906)	—
Total distributions to shareholders	(50,192,183)	(6,851,974)
Capital share transactions: (Note 2)		
Class 1	(3,228,881)	(18,560,195)
Class 2	21,548,017	2,280,393
Class 3	—	(33,674,042)
Class 4	(748,959)	(2,909,339)
Total capital share transactions	17,570,177	(52,863,183)
Redemption fees	—	68
Net increase (decrease) in net assets	(100,175,882)	(93,860,101)
Net assets:		
Beginning of year	376,405,609	470,265,710
End of year	$ 276,229,727	$ 376,405,609
Distributions in excess of net investment income included in net assets:		
End of year	$ (3,021,032)	$ (531,967)

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 (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.

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 as of 4 p.m. Eastern time each day the New York Stock Exchange (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 4 p.m. Eastern time whichever is earlier. The value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect at 4 p.m. Eastern time 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 4 p.m. Eastern time. 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 differences, the VLOC monitors price movements following the close

Templeton Developing Markets VIP Fund (continued)

1. Organization and Significant Accounting Policies (continued)

a. Financial Instrument Valuation *(continued)*

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.

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 in 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 to earn additional income. 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 deposited into a joint cash account with other funds and is used to invest in a money market fund managed by Franklin Advisers, Inc., an affiliate of the Fund. The Fund may receive income from the investment of cash collateral, in addition to lending fees and rebates paid by the borrower. Income from securities loaned is reported separately in the Statement of Operations. 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. If the borrower defaults on its obligation to return the securities loaned, the Fund has the right to repurchase the securities in the open market using the collateral received. The securities lending agent has agreed to indemnify

Templeton Developing Markets VIP Fund (continued)

the Fund in the event of default by a third party borrower. At December 31, 2015, the Fund had no securities on loan.

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 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 may recognize an income tax liability related to its uncertain tax positions under U.S. GAAP when the uncertain tax position has a less than 50% probability that it will be sustained upon examination by the tax authorities based on its technical merits. As of December 31, 2015, the Fund has determined that no tax liability is required in its financial statements related to uncertain tax positions for any open tax years (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's 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 dividends from 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 invested 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. There were no redemption fees for the year.

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, 2015, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

	Year Ended December 31,			
	2015		2014	
	Shares	Amount	Shares	Amount
Class 1 Shares:				
Shares sold	1,121,738	$ 9,288,141	1,624,952	$ 16,226,245
Shares issued in reinvestment of distributions	1,921,727	14,835,735	229,681	2,319,775
Shares redeemed	(3,309,863)	(27,352,757)	(3,701,849)	(37,106,215)
Net increase (decrease)	(266,398)	$ (3,228,881)	(1,847,216)	$(18,560,195)
Class 2 Shares:				
Shares sold	4,635,193	$ 35,599,642	7,755,421	$ 76,467,757
Shares issued in reinvestment of distributions	4,430,114	33,934,677	434,143	4,358,800
Shares redeemed	(5,930,164)	(47,986,302)	(7,896,683)	(78,546,164)
Net increase (decrease)	3,135,143	$ 21,548,017	292,881	$ 2,280,393
Class 3 Shares[a]:				
Shares sold			171,371	$ 1,697,483
Shares redeemed			(3,593,907)	(35,371,525)
Net increase (decrease)			(3,422,536)	$(33,674,042)
Class 4 Shares:				
Shares sold	96,241	$ 723,497	89,395	$ 875,146
Shares issued in reinvestment of distributions	184,886	1,421,771	17,219	173,399
Shares redeemed	(364,639)	(2,894,227)	(395,412)	(3,957,884)
Net increase (decrease)	(83,512)	$ (748,959)	(288,798)	$ (2,909,339)

[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

b. Administrative Fees

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.

c. Distribution Fees

The Board has adopted distribution plans for Class 2 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% and 0.35% per year of its average daily net assets of Class 2 and Class 4, respectively. The plan year, for purposes of monitoring compliance with the maximum annual plan rates, is February 1 through January 31.

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 Affiliated Management Investment Companies

The Fund invests in an affiliated management investment company for purposes other than exercising a controlling influence over the management or policies. Management fees paid by the Fund are waived on assets invested in the affiliated management investment company, as noted in the Statement of Operations, in an amount not to exceed the management and administrative fees paid directly or indirectly by each affiliate. Prior to January 1, 2014, the waiver was accounted for as a reduction to management fees.

	Number of Shares Held at Beginning of Year	Gross Additions	Gross Reductions	Number of Shares Held at End of Year	Value at End of Year	Investment Income	Realized Gain (Loss)	% of Affiliated Fund Shares Outstanding Held at End of Year
Non-Controlled Affiliates								
Institutional Fiduciary Trust Money Market Portfolio . . .	29,018,398	147,819,607	(140,729,704)	36,108,301	$36,108,301	$—	$—	0.18%

f. Interfund Transactions

The Fund engaged in purchases and sales of investments with funds or other accounts that have a common investment manager (or affiliated investment managers), directors, trustees, or officers. These transactions complied with Rule 17a-7 under the 1940 Act. During the year ended December 31, 2015, the purchase and sale transactions aggregated $15,932,431 and $4,791,642, respectively.

Templeton Developing Markets VIP Fund (continued)

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, 2015, there were no credits earned.

5. Income Taxes

For tax purposes, capital losses may be carried over to offset future capital gains, if any.

At December 31, 2015, capital loss carryforwards were as follows:

Capital loss carryforwards not subject to expiration:	
Short term	$22,864,241
Long term	18,453,194
Total capital loss carryforwards	$41,317,435

The tax character of distributions paid during the years ended December 31, 2015 and 2014, was as follows:

	2015	2014
Distributions paid from:		
Ordinary income	$ 7,065,009	$6,851,974
Long term capital gain	43,127,174	—
	$50,192,183	$6,851,974

At December 31, 2015, the cost of investments, net unrealized appreciation (depreciation) and undistributed ordinary income for income tax purposes were as follows:

Cost of investments	$290,270,246
Unrealized appreciation	$ 26,814,133
Unrealized depreciation	(40,228,051)
Net unrealized appreciation (depreciation)	$ (13,413,918)
Distributable earnings – undistributed ordinary income	$ 2,531,599

Differences between income and/or capital gains as determined on a book basis and a tax basis are primarily due to differing treatments of corporate actions and wash sales.

6. Investment Transactions

Purchases and sales of investments (excluding short term securities) for the year ended December 31, 2015, aggregated $212,828,608 and $250,489,203, respectively.

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.

Templeton Developing Markets VIP Fund (continued)

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 $2 billion (Global Credit Facility) which matured on February 12, 2016. 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. Effective February 12, 2016, the Borrowers renewed the Global Credit Facility for a one year term, maturing February 10, 2017, for a total of $2 billion.

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. Effective February 12, 2016, the annual commitment fee is 0.15%. These fees are reflected in other expenses in the Statement of Operations. During the year ended December 31, 2015, 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, 2015, 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]	$239,857,853	$ —	$ —	$239,857,853
Participatory Notes	—	890,174	—	890,174
Short Term Investments	36,108,301	—	—	36,108,301
Total Investments in Securities	$275,966,154	$890,174	$ —	$276,856,328

[a]Includes common and preferred stocks.
[b]For detailed categories, see the accompanying Statement of Investments.

10. 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.

Templeton Developing Markets VIP Fund (continued)

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, 2015, 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 presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Fund’s management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit, which included confirmation of securities at December 31, 2015 by correspondence with the custodian, transfer agent and brokers, provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California
February 16, 2016

Tax Information (unaudited)

Templeton Developing Markets VIP Fund

Under Section 852(b)(3)(C) of the Internal Revenue Code (Code), the Fund hereby reports the maximum amount allowable but no less than $43,127,174 as long term capital gain dividends for the fiscal year ended December 31, 2015.

At December 31, 2015, 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 2016 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 reinvestment of any income or 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 1-3 Month U.S. Treasury Bill Index includes all publicly issued zero-coupon U.S. Treasury bills that have a remaining maturity between one month and three months and are investment-grade rated, U.S. dollar denominated, fixed rate and nonconvertible.

Barclays U.S. Aggregate Bond 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 comprises exchange-traded futures on physical commodities, which are weighted to account for economic significance and market liquidity.

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.

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 12/31/15, there were 286 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 12/31/15, there were 71 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 12/31/15, there were 55 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 12/31/15, there were 111 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	147	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).				
Mary C. Choksi (1950) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2014	123	Avis Budget Group Inc. (car rental) (2007-present), Omnicom Group Inc. (advertising and marketing communications services) (2011-present) and H.J. Heinz Company (processed foods and allied products) (1998-2006).
Principal Occupation During at Least the Past 5 Years: Senior Advisor, Strategic Investment Group (investment management group) (August 2015-present); director of various companies; and **formerly,** Founding Partner and Senior Managing Director, Strategic Investment Group (1987-2015); Founding Partner and Managing Director, Emerging Markets Management LLC (investment management firm) (1987-2011); and Loan Officer/Senior Loan Officer/Senior Pension Investment Officer, World Bank Group (international financial institution) (1977-1987).				
Edith E. Holiday (1952) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2005	147	Hess Corporation (exploration and refining of oil and gas) (1993-present), Canadian National Railway (railroad) (2001-present), White Mountains Insurance Group, Ltd. (holding company) (2004-present), RTI International Metals, Inc. (manufacture and distribution of titanium) (1999-2015) and H.J. Heinz Company (processed foods and allied products) (1994-2013).
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).				
J. Michael Luttig (1954) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2009	147	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).				

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
Frank A. Olson (1932) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2005	147	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	147	The Southern Company (energy company) (2014-present; previously 2010-2012), Graham Holdings Company (education and media organization) (2011-present) and Cbeyond, Inc. (business communications provider) (2010-2012).

Principal Occupation During at Least the Past 5 Years:
Director of various companies; John A. Sibley Professor of Corporate and Business Law, University of Georgia School of Law (January 2015; previously 2011-2012); and **formerly,** Executive Vice President – Government Affairs, General Counsel and Corporate Secretary, PepsiCo, Inc. (consumer products) (2012-2014); 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	123	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	164	None

Principal Occupation During at Least the Past 5 Years:
Chairman of the Board, Member – Office of the Chairman, Director 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; Vice Chairman, Investment Company Institute; and **formerly,** President, Franklin Resources, Inc. (1994-2015).

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
****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	147	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 42 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
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 44 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
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; Vice President, Franklin Advisers, Inc. and Franklin Templeton Institutional, LLC; and officer of 44 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
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:
Treasurer, U.S. Fund Administration & Reporting, Franklin Templeton Investments; and officer of 27 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
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; and officer of 44 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
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 44 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
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 44 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, Fiduciary Trust International of the South and Templeton Investment Counsel, LLC; Assistant Secretary, Franklin Resources, Inc.; and officer of 44 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 44 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 44 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
Navid Tofigh (1972) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since November 2015	Not Applicable	Not Applicable

Principal Occupation During at Least the Past 5 Years:
Associate General Counsel, Franklin Templeton Investments; and officer of 44 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 44 of the investment companies in Franklin Templeton Investments.				
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; and officer of 44 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.

Note 3: Effective April 30, 2015, Sam Ginn ceased to be a trustee of the Trust.

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.

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.

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