ZURICH®

February 28, 2017

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, 2016. 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:
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Overland Park, KS 66207-0728

Telephone 877-301-5376
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ZURICHAMERICANLIFEINSURANCE.COM

IMPORTANT NOTICE REGARDING CHANGE IN INVESTMENT POLICY

SUPPLEMENT TO THE CURRENTLY EFFECTIVE SUMMARY PROSPECTUSES

Deutsche Large Cap Value VIP

Effective on or about May 1, 2017, each summary prospectus is supplemented as follows:

Deutsche Large Cap Value VIP will be renamed Deutsche CROCI® U.S. VIP.

The following information replaces the first two sentences of the "Main investments" disclosure contained under the "PRINCIPAL INVESTMENT STRATEGY" section of the fund's summary prospectus.

Main investments. Under normal circumstances, the fund invests at least 80% of net assets, plus the amount of any borrowings for investment purposes, in common stocks issued by US companies.

Please Retain This Supplement for Future Reference

January 18, 2017
PROSTKR-764

Deutsche
Asset Management

SUPPLEMENT TO THE CURRENTLY EFFECTIVE SUMMARY PROSPECTUSES

Deutsche Large Cap Value VIP

The following information replaces similar disclosure contained under the "PRINCIPAL INVESTMENT STRATEGY" section of the fund's summary prospectus.

Main investments. Under normal circumstances, the fund invests at least 80% of net assets, plus the amount of any borrowings for investment purposes, in common stocks and other equity securities of large US companies that are similar in size to the companies in the Russell 1000® Value Index and that portfolio management believes are undervalued. While the market capitalization range of the Russell 1000® Value Index changes throughout the year, as of June 30, 2016, the market capitalization range of the Russell 1000® Value Index was between approximately $1.48 billion and $515.59 billion. Companies are selected for the fund's portfolio using the Cash Return on Capital Invested (CROCI®) strategy as the primary factor, among other factors. Portfolio management will select stocks from among the largest US companies which are under CROCI® coverage at any given time (while the number of companies under CROCI® coverage will vary, as of September 30, 2016, approximately 345 companies were under CROCI® coverage). Approximately 40 companies are identified from the selection universe for investment, though, at times, the number of stocks held may be higher or lower than 40 stocks at the discretion of portfolio management or as a result of corporate actions, mergers or other events.

Companies are selected from the following economic sectors classified in accordance with the Global Industry Classification Standard (GICS): Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Information Technology, Industrials, Materials, Telecommunications Services and Utilities.

Management process. Portfolio management will select stocks of companies that it believes offer economic value, utilizing the CROCI® strategy as the primary factor, among other factors. The CROCI® strategy is an investment process based on a proprietary valuation technique that attempts to understand the value of a company by converting financial statement data into a set of economic inputs that are used to calculate a valuation metric called the CROCI® Economic Price Earnings Ratio which is comparable across markets, sectors and stocks. The CROCI® Economic Price Earnings Ratio seeks to measure the "real" economic value rather than the "accounting" value of a company's invested capital, and the economic returns thereof. Portfolio management believes that, over time, companies with more favorable financial metrics, including CROCI® Economic Price Earnings Ratios, will outperform other companies.

In selecting stocks, portfolio management measures economic value using the CROCI® Economic Price Earnings Ratio and may adjust this by factors such as stock price volatility, as determined by the CROCI® Investment Strategy and Valuation Group. The CROCI® Investment Strategy and Valuation Group may provide other CROCI® valuation metrics which portfolio management may use in addition to the CROCI® Economic Price Earnings Ratio. All CROCI® financial metrics may be adjusted from time to time. Portfolio management may also use factors other than the CROCI® strategy in selecting investments.

The fund's portfolio is reviewed periodically and adjusted in accordance with the CROCI® strategy's rules. Portfolio management actively manages portfolio changes in an attempt to reduce market impact and transaction costs and to manage the portfolio with tax efficiency in mind.

The following disclosure is added under the "MAIN RISKS" section of the fund's summary prospectus:

CROCI® risk. The fund will be managed using the CROCI® Investment Process which is based on portfolio management's belief that, over time, stocks which display more favorable financial metrics (for example, the CROCI® Economic P/E Ratio) as generated by this process may outperform stocks which display less favorable metrics. This premise may not prove to be correct and prospective investors should evaluate this assumption prior to investing in the fund.

The calculation of financial metrics used by the fund (such as, among others, the CROCI® Economic P/E Ratio) are determined by the CROCI® Investment Strategy and Valuation Group using publicly available information. This publicly available information is adjusted based on assumptions made by the CROCI® Investment Strategy and Valuation Group that, subsequently, may prove not to have been correct. As financial metrics are calculated using historical information, there can be no guarantee of the future performance of the CROCI® strategy.

January 18, 2017
PROSTKR-742

Deutsche
Asset Management

All disclosure and references in each fund's prospectus to "Foreign investment risk" and "Active trading risk" are hereby deleted.

The following disclosure is added under the "AVERAGE ANNUAL TOTAL RETURNS" sub-heading of the "PAST PERFORMANCE" section of the fund's summary prospectus.

Effective on or before October 3, 2016, the Standard & Poor's (S&P) 500 Index replaced the Russell 1000® Value Index as the comparative broad-based securities market index because the Advisor believes that the Standard & Poor's (S&P) 500 Index more closely reflects the fund's overall investments.

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 2016.

John Moody, Vice President. Portfolio Manager of the fund. Began managing the fund in 2016.

Please Retain This Supplement for Future Reference

January 18, 2017
PROSTKR-742

Deutsche
Asset Management

Summary Prospectus | May 1, 2016

Deutsche Large Cap Value VIP

Class A

Before you invest, you may want to review the fund's prospectus, which contains more information about the fund and its risks. You can find the fund's prospectus, Statement of Additional Information and other information about the fund online at deutschefunds.com/vipros. You can also get this information at no cost by e-mailing a request to service@db.com, calling (800) 728-3337 or by contacting your insurance company. The prospectus and Statement of Additional Information, both dated May 1, 2016, as supplemented, are incorporated by reference into this Summary Prospectus.

INVESTMENT OBJECTIVE

The fund seeks to achieve a high rate of total return.

FEES AND EXPENSES OF THE FUND

This table describes the fees and expenses you may pay if you buy and hold shares of the fund. This information does not reflect fees 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 fees will increase expenses.

SHAREHOLDER FEES

(paid directly from your investment)	None

ANNUAL FUND OPERATING EXPENSES

(expenses that you pay each year as a % of the value of your investment)

Management fee	0.64
Distribution/service (12b-1) fees	None
Other expenses	0.14
Total annual fund operating expenses	0.78
Fee waiver/expense reimbursement	0.03
Total annual fund operating expenses after fee waiver/ expense reimbursement	0.75

The Advisor has contractually agreed through April 30, 2017 to waive its fees and/or reimburse certain operating expenses of the fund to the extent necessary to maintain the fund's total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expenses) at a ratio no higher than 0.75% for Class A shares. The agreement may only be terminated with the consent of the fund's Board.

EXAMPLE

This Example is intended to help you compare the cost of investing in the fund with the cost of investing in other mutual funds. The Example assumes that you invest $10,000 in the fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the fund's operating expenses (including one year of capped expenses in each period) remain the same. This example does not reflect any fees or sales charges imposed by a variable contract for which the fund is an investment option. If they were included, your costs would be higher.

Although your actual costs may be higher or lower, based on these assumptions your costs would be:

1 Year	3 Years	5 Years	10 Years
$77	$246	$430	$963

PORTFOLIO TURNOVER

The fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover may indicate higher transaction costs. These costs are not reflected in annual fund operating expenses or in the expense example, but can affect the fund's performance.

Portfolio turnover rate for fiscal year 2015: 121%.

PRINCIPAL INVESTMENT STRATEGY

Main Investments. Under normal circumstances, the fund invests at least 80% of net assets, plus the amount of any borrowings for investment purposes, in common stocks and other equity securities of large US companies that are similar in size to the companies in the Russell 1000® Value Index and that portfolio management believes are undervalued. These are typically companies that have been sound historically, but are temporarily out of favor with the market. While the market capitalization range of the Russell 1000® Value Index changes throughout the year, as of the most recent reconstitution date of the index June 26, 2015 the market capitalization range of the Russell 1000® Value Index was between $252 million and $367.19 billion.

Although the fund can invest in stocks of any economic sector (which is comprised of two or more industries), at times it may emphasize certain sectors, even investing more than 25% of total assets in any one sector. The fund may invest up to 20% of net assets in foreign securities.

Management process. Portfolio management employs a "relative value process" that seeks to identify securities that have strong fundamentals but are at the lower end of their valuation range. Current valuations are compared to historical valuations to make these determinations.

Portfolio management seeks to achieve superior long-term risk-adjusted returns by:

- Exploiting market inefficiencies through a bottom-up, relative value, research-driven approach
- Identifying companies with leading market positions that are selling below long-term valuation levels
- Analyzing business models and market and issuer financial factors
- Integrating risk management into the stock selection and portfolio construction processes

Typically, portfolio management expects to invest in 60-80 holdings, drawing on an analysis of economic outlooks for various sectors and industries.

Portfolio management will normally sell a stock when it believes the stock's reward to risk ratio has diminished, the stock's fundamental factors have changed, other investments offer better opportunities or in the course of adjusting the fund's emphasis on a given industry.

Derivatives. Portfolio management generally may use futures contracts, which are a type of derivative (a contract whose value is based on, for example, indices, currencies or securities), as a substitute for direct investment in a particular asset class, to keep cash on hand to meet shareholder redemptions or other needs while maintaining exposure to the stock market.

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

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

Active Trading. The fund may trade actively. This could raise transaction costs (thus lowering returns).

MAIN RISKS

There are several risk factors that could hurt the fund's performance, cause you to lose money or cause the fund's performance to trail that of other investments. The fund may not achieve its investment objective, and is not intended to be a complete investment program. An investment in the fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency.

Stock market risk. When stock prices fall, you should expect the value of your investment to fall as well. Stock prices can be hurt by poor management on the part of the stock's issuer, shrinking product demand and other business risks. These may affect single companies as well as groups of companies. In addition, movements in financial markets may adversely affect a stock's price, regardless of how well the company performs. The market as a whole may not favor the types of investments the fund makes, which could affect the fund's ability to sell them at an attractive price. To the extent the fund invests in a particular capitalization or sector, the fund's performance may be affected by the general performance of that particular capitalization or sector.

Security selection risk. The securities in the fund's portfolio may decline in value. Portfolio management could be wrong in its analysis of industries, companies, economic trends, the relative attractiveness of different securities or other matters.

Value investing risk. As a category, value stocks may underperform growth stocks (and the stock market as a whole) over any period of time. In addition, value stocks selected for investment by portfolio management may not perform as anticipated.

Focus risk. To the extent that the fund focuses its investments in particular industries, asset classes or sectors of the economy, any market price movements, regulatory or technological changes, or economic conditions affecting companies in those industries, asset classes or sectors may have a significant impact on the fund's performance.

Derivatives risk. Risks associated with derivatives may include the risk that the derivative is not well correlated with the security, index or currency to which it relates; the risk that derivatives may result in losses or missed opportunities; the risk that the fund will be unable to sell the derivative because of an illiquid secondary market; the risk that a counterparty is unwilling or unable to meet its obligation; and the risk that the derivative transaction could expose the fund to the effects of leverage, which could increase the fund's exposure to the market and magnify potential losses.

Counterparty risk. A financial institution or other counterparty with whom the fund does business, or that underwrites, distributes or guarantees any investments or contracts that the fund owns or is otherwise exposed to, may decline in financial health and become unable to honor its commitments. This could cause losses for the fund or could delay the return or delivery of collateral or other assets to the fund.

Liquidity risk. In certain situations, it may be difficult or impossible to sell an investment and/or the fund may sell certain investments at a price or time that is not advantageous in order to meet redemption requests or other cash needs. Unusual market conditions, such as an unusually high volume of redemptions or other similar conditions could increase liquidity risk for the fund.

Securities lending risk. Any decline in the value of a portfolio security that occurs while the security is out on loan is borne by the fund and will adversely affect performance. Also, there may be delays in recovery of securities loaned or even a loss of rights in the collateral should the borrower of the securities fail financially while holding the security.

Foreign investment risk. The fund faces the risks inherent in foreign investing. Adverse political, economic or social developments could undermine the value of the fund's investments or prevent the fund from realizing the full value of its investments. Financial reporting standards for companies based in foreign markets differ from those in the US. Additionally, foreign securities markets generally are smaller and less liquid than US markets. To the extent that the fund invests in non-US dollar denominated foreign securities, changes in currency exchange rates may affect the US dollar value of foreign securities or the income or gain received on these securities.

Pricing risk. If market conditions make it difficult to value some investments, the fund may value these investments using more subjective methods, such as fair value pricing. In such cases, the value determined for an investment could be different from the value realized upon such investment's sale. As a result, you could pay more than the market value when buying fund shares or receive less than the market value when selling fund shares.

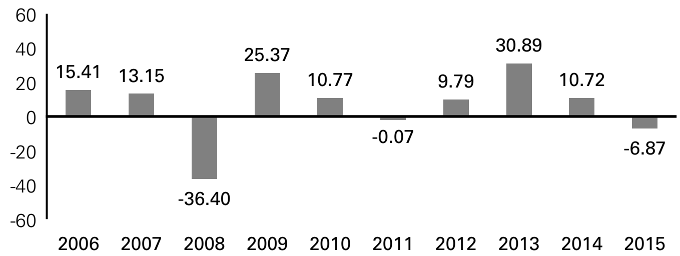
Active trading risk. The fund may trade actively. This could raise transaction costs (thus lowering returns).

Operational and technology risk. Cyber-attacks, disruptions, or failures that affect the fund's service providers or counterparties, issuers of securities held by the fund, or other market participants may adversely affect the fund and its shareholders, including by causing losses for the fund or impairing fund operations.

PAST PERFORMANCE

How a fund's returns vary from year to year can give an idea of its risk; so can comparing fund performance to overall market performance (as measured by an appropriate market index). Past performance may not indicate future results. All performance figures below assume that dividends and distributions were reinvested. For more recent performance figures, go to deutschefunds.com (the Web site does not form a part of this prospectus) or call the phone number included in this prospectus. This information doesn't reflect fees 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 fees will reduce returns.

CALENDAR YEAR TOTAL RETURNS (%) (CLASS A)



	Returns	Period ending
Best Quarter	15.86%	June 30, 2009
Worst Quarter	-22.50%	December 31, 2008
Year-to-Date	-7.52%	March 31, 2016

AVERAGE ANNUAL TOTAL RETURNS

(For periods ended 12/31/2015 expressed as a %)

	Class Inception	1 Year	5 Years	10 Years
Class A	5/1/1996	-6.87	8.17	5.50
Russell 1000 Value Index (reflects no deduction for fees, expenses or taxes)		-3.83	11.27	6.16

MANAGEMENT

Investment Advisor

Deutsche Investment Management Americas Inc.

Portfolio Manager(s)

Deepak Khanna, CFA, Managing Director. Lead Portfolio Manager of the fund. Began managing the fund in 2014.

PURCHASE AND SALE OF FUND SHARES

The fund is intended for use in a variable insurance product. You should contact the sponsoring insurance company for information on how to purchase and sell shares of the fund.

TAX INFORMATION

The fund normally distributes its net investment income and realized capital gains, if any, to its shareholders, the separate accounts of participating insurance companies. These distributions may not be taxable to the holders of variable annuity contracts and variable life insurance policies. For information concerning the federal income tax consequences for the holders of such contracts or policies, holders should consult the prospectus used in connection with the issuance of their particular contracts or policies.

PAYMENTS TO FINANCIAL INTERMEDIARIES

If you purchase the fund through selected affiliated and unaffiliated brokers, dealers, participating insurance companies or other financial intermediaries, the fund, the Advisor, and/or the Advisor's affiliates, may pay the financial intermediary for the sale of fund shares and related services. These payments may create a conflict of interest by influencing the financial intermediary and your salesperson to recommend the fund over another investment. Ask your salesperson or visit your insurance company's Web site for more information.

SUPPLEMENT TO THE CURRENTLY EFFECTIVE SUMMARY PROSPECTUSES

Deutsche Bond VIP

Deutsche Core Plus Income Fund

Effective on or about March 1, 2017, 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.

Gary Russell, CFA, 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 16, 2017
PROSTKR-779

Deutsche
Asset Management

SUPPLEMENT TO THE CURRENTLY EFFECTIVE SUMMARY PROSPECTUSES

Deutsche CROCI® International VIP

The following information replaces similar disclosure contained under the "PRINCIPAL INVESTMENT STRATEGY" section of the fund's summary prospectus(es).

Management process. Portfolio management will select approximately 50 stocks of companies that it believes offer economic value utilizing the Cash Return on Capital Invested (CROCI®) strategy as the primary factor, in addition to other factors. Under the CROCI® strategy, economic value is measured using various metrics such as the CROCI® Economic Price Earnings Ratio (CROCI® Economic P/E Ratio). The CROCI® Economic P/E Ratio is a proprietary measure of company valuation using the same relationship between valuation and return as an accounting P/E ratio (i.e., price/book value divided by return on equity). The CROCI® Economic P/E Ratio and other CROCI® metrics may be adjusted from time to time. The CROCI® strategy may apply other measures of company valuation, as determined by the CROCI® Investment Strategy and Valuation Group. Portfolio management may use criteria other than the CROCI® strategy in selecting investments. At times, the number of stocks held in the fund may be higher or lower than 50 stocks at the discretion of portfolio management or as a result of corporate actions, mergers or other events. Portfolio management will select stocks primarily from a universe consisting of approximately 330 of the largest companies in developed markets outside North America represented in the CROCI® Investment Strategy and Valuation Group's database of companies evaluated using the CROCI® strategy, excluding financial companies and certain stocks from sectors which are not under the CROCI® Investment Strategy and Valuation Group's coverage.

The fund is reviewed periodically and adjusted in accordance with the CROCI® strategy's rules, and the regional weighting in the fund is targeted to match the fund's benchmark. The region-neutral approach attempts to reduce the risk of significant regional over or underweights in the fund relative to the broader international equity market. The CROCI® strategy does not form opinions about relative attractiveness of different regions and targets region neutrality in order to seek to reduce currency risks relative to the fund's benchmark, as well keeping the focus of the strategy on stock selection, rather than regional allocation. During the selection process, certain portfolio selection buffers are applied in an attempt to reduce portfolio turnover. Portfolio management will take additional measures to attempt to reduce portfolio turnover, market impact and transaction costs in connection with implementation of the strategy, by applying liquidity and trading controls and managing the portfolio with tax efficiency in mind.

Portfolio management may utilize forward currency contracts to hedge against changes in value of the non–US currency exposure of the fund's investments. To maintain an approximate hedge against such changes, portfolio management expects to periodically reset the fund's forward currency contracts.

CROCI® Investment Process. The CROCI® Investment Process is based on the belief that the data used in traditional valuations (i.e. accounting data) does not accurately appraise assets, reflect all liabilities or represent the real value of a company. This is because the accounting rules are not always designed specifically for investors and often utilize widely differing standards which can make measuring the real asset value of companies difficult. The CROCI® Investment Process seeks to generate data that will enable valuation comparisons on a consistent basis, resulting in what portfolio management believes is an effective and efficient sector and stock selection process targeting investment in real value.

Please Retain This Supplement for Future Reference

February 16, 2017
PROSTKR-761

Deutsche
Asset Management

SUPPLEMENT TO THE CURRENTLY EFFECTIVE SUMMARY PROSPECTUSES

Deutsche Communications Fund
Deutsche CROCI® International Fund
Deutsche CROCI® International VIP
Deutsche CROCI® Sector Opportunities Fund
Deutsche EAFE® Equity Index Fund
Deutsche Global Equity Fund
Deutsche Global Equity VIP
Deutsche Global Growth Fund
Deutsche Global Growth VIP
Deutsche Global Infrastructure Fund
Deutsche Global Small Cap Fund
Deutsche Global Small Cap VIP
Deutsche Gold & Precious Metals Fund
Deutsche World Dividend Fund

The following disclosure replaces similar disclosure contained under the "MAIN RISKS" of each fund's summary prospectus.

Foreign investment risk. The fund faces the risks inherent in foreign investing. Adverse political, economic or social developments could undermine the value of the fund's investments or prevent the fund from realizing the full value of its investments. In June 2016, citizens of the United Kingdom approved a referendum to leave the European Union (EU), creating economic and political uncertainty. Significant uncertainty exists regarding the timing of the United Kingdom's anticipated withdrawal from the EU and the effects such withdrawal may have on the United Kingdom, other EU countries and the global economy. Financial reporting standards for companies based in foreign markets differ from those in the US. Additionally, foreign securities markets generally are smaller and less liquid than US markets. To the extent that the fund invests in non-US dollar denominated foreign securities, changes in currency exchange rates may affect the US dollar value of foreign securities or the income or gain received on these securities.

Please Retain This Supplement for Future Reference

July 26, 2016
PROSTKR-671

Deutsche
Asset Management

SUPPLEMENT TO THE CURRENTLY EFFECTIVE SUMMARY PROSPECTUSES

Deutsche Global Income Builder Fund

Deutsche Global Income Builder VIP

Deutsche Unconstrained Income Fund

Deutsche Unconstrained Income VIP

Deutsche Enhanced Emerging Markets Fixed Income Fund

Deutsche Enhanced Global Bond Fund

The fund's Board Members have approved (i) the appointment of Deutsche Alternative Asset Management (Global) Limited (DAAM Global), an indirect, wholly-owned subsidiary of Deutsche Bank AG, as a subadvisor to the fund; and (ii) the subadvisory agreement between Deutsche Investment Management Americas Inc. (DIMA), the fund's investment advisor, and DAAM Global, its affiliate, with respect to the fund. DAAM Global will begin providing portfolio management services to the fund on or about March 1, 2017.

DIMA, subject to the approval of the fund's Board, has ultimate responsibility to oversee any subadvisor to the fund and to recommend the hiring, termination and replacement of subadvisors for the fund. The fund and DIMA have received an exemptive order from the Securities and Exchange Commission (SEC) that allows DIMA, subject to the approval of the fund's Board, to appoint DAAM Global as a subadvisor to the fund without obtaining shareholder approval. The fund and DIMA are subject to certain conditions imposed by the SEC order.

Effective on or about March 1, 2017, the following disclosure is added under the "MANAGEMENT" section of the fund's summary prospectus(es):

Subadvisor

Deutsche Alternative Asset Management (Global) Limited.

Please Retain This Supplement for Future Reference

February 16, 2017
PROSTKR-777

Deutsche
Asset Management

Janus Aspen Series

Balanced Portfolio
Enterprise Portfolio
Flexible Bond Portfolio
Forty Portfolio
Global Allocation Portfolio – Moderate
Global Bond Portfolio
Global Research Portfolio
Global Technology Portfolio
Global Unconstrained Bond Portfolio
Janus Aspen INTECH U.S. Low Volatility Portfolio
Janus Aspen Perkins Mid Cap Value Portfolio
Overseas Portfolio
(collectively, the "Portfolios")

Supplement dated December 15, 2016
to Currently Effective Prospectuses

Approval of New Investment Advisory Agreements and Investment Sub-Advisory Agreements
As previously announced, on October 3, 2016, Janus Capital Group Inc. ("JCGI"), the direct parent of Janus Capital Management LLC, the investment adviser to the Portfolios ("Janus Capital"), and Henderson Group plc ("Henderson") announced that they had entered into an Agreement and Plan of Merger ("Merger Agreement") relating to the strategic combination of Henderson and JCGI (the "Transaction"). Pursuant to the Merger Agreement, a newly formed, direct wholly-owned subsidiary of Henderson will merge with and into JCGI, with JCGI as the surviving corporation and a direct wholly-owned subsidiary of Henderson. The Transaction is currently expected to close in the second quarter of 2017, subject to requisite shareholder and regulatory approvals.

The consummation of the Transaction may be deemed to be an "assignment" (as defined in the Investment Company Act of 1940, as amended) of the current advisory agreements between Janus Capital and the Portfolios. In addition, the consummation of the Transaction may be deemed to be an assignment of the current sub-advisory agreements between Janus Capital and each of INTECH Investment Management LLC ("INTECH") and Perkins Investment Management LLC ("Perkins"), the subadvisers to Janus Aspen INTECH U.S. Low Volatility Portfolio ("INTECH U.S. Low Volatility Portfolio") and Janus Aspen Perkins Mid Cap Value Portfolio ("Perkins Mid Cap Value Portfolio"), respectively. As a result, the consummation of the Transaction may cause such investment advisory agreements and investment sub-advisory agreements to terminate automatically in accordance with their respective terms.

On December 8, 2016, the Board of Trustees of the Portfolios (the "Board of Trustees") approved, subject to approval of shareholders, a new investment advisory agreement between each Portfolio and Janus Capital in order to permit Janus Capital to continue to provide advisory services to each Portfolio following the closing of the Transaction. Each new investment advisory agreement will have substantially similar terms as the corresponding current investment advisory agreement.

In addition, each Portfolio's name will change to reflect "Janus Henderson" as part of the Portfolio's name.

INTECH Investment Management LLC
With respect to INTECH U.S. Low Volatility Portfolio, on December 8, 2016, the Board of Trustees approved, subject to approval of shareholders, a new investment sub-advisory agreement between Janus Capital and INTECH in order to permit INTECH to continue to provide sub-advisory services with respect to INTECH U.S. Low Volatility Portfolio following the closing of the Transaction. The new investment sub-advisory agreement will have substantially similar terms as the current investment sub-advisory agreement.

Perkins Investment Management LLC
With respect to Perkins Mid Cap Value Portfolio, on December 8, 2016, the Board of Trustees approved, subject to approval of shareholders, a new investment sub-advisory agreement between Janus Capital and Perkins in order to permit Perkins to continue to provide sub-advisory services with respect to Perkins Mid Cap Value Portfolio following the closing of the Transaction. The new investment sub-advisory agreement will have substantially similar terms as the current investment sub-advisory agreement.

Interim Agreements
On December 8, 2016, the Board of Trustees also approved interim investment advisory agreements between each Portfolio and Janus Capital and interim sub-advisory agreements between Janus Capital and each Portfolio's subadviser, as applicable. In the event shareholders of a Portfolio do not approve the new investment advisory agreement (and, if applicable, the new investment sub-advisory agreement) prior to the closing of the Transaction, an interim investment advisory agreement (and, if applicable, an interim investment sub-advisory agreement) will take effect with respect to such Portfolio upon the closing of the Transaction. Such interim agreements will continue in effect for a term ending on the earlier of 150 days from the closing of the Transaction, or when shareholders of the Portfolio approve the new investment advisory agreement and new investment sub-advisory agreement, if applicable. Compensation earned by Janus Capital and a Portfolio's subadviser, if applicable, under their respective interim investment advisory agreement or interim investment sub-advisory agreement will be held in an interest-bearing escrow account and will be paid to Janus Capital or the subadviser, as applicable, if shareholders approve the corresponding new investment advisory agreement or new investment sub-advisory agreement prior to the end of the interim period. Except for the term and escrow provisions described above, the terms of each interim investment advisory agreement and interim investment subadvisory agreement are substantially similar to those of the corresponding current investment advisory agreement or current investment sub-advisory agreement.

***

The Portfolios are available in connection with investment in and payments under variable life insurance contracts and variable annuity contracts offered by the separate accounts, or subaccounts thereof, of certain life insurance companies ("Participating Insurance Companies"). The Portfolios may also be available to certain qualified retirement plans. Individual contract owners are not the "shareholders" of a Portfolio. Rather, the Participating Insurance Companies and their separate accounts are the shareholders. Each Participating Insurance Company may offer to contract owners the opportunity to instruct it how to vote shares on the proposals described herein. Contract owners will receive a proxy that will enable them to instruct their Participating Insurance Company how to vote on the proposals.

Shareholders and contract owners of record of a Portfolio as of December 29, 2016, are expected to receive a proxy statement, notice of special meeting of shareholders, and proxy card, containing detailed information regarding shareholder proposals with respect to these and certain other matters. The shareholder meeting is expected to be held on or about April 6, 2017.

Please retain this Supplement with your records.

109-31-69638 12-16
109-31-69639 12-16

ALGER

THE ALGER PORTFOLIOS

Alger Balanced Portfolio

ANNUAL REPORT

DECEMBER 31, 2016

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ALGER BALANCED PORTFOLIO

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Dear Shareholders,

The "Bandwagon Effect" Creates Attractive Opportunities

In 1848, circus entertainer Dan Rice used his wagon with a musical band to draw attention to his political campaign. As his campaign grew in success, other political candidates quickly jockeyed for a seat on Rice's "bandwagon" to benefit from the entertainer's growing popularity. Today, the expression "jumping on the bandwagon" refers to individuals following popular trends, such as fashion, entertainment, politics, and even investing. In many instances, as individuals jump on a bandwagon, their decisions appear to be prudent or timely as trends grow in popularity. Yet, a crowded bandwagon doesn't imply success. Rather, it is simply the result of mob psychology.

With investing, the bandwagon effect can create dangerous bubbles as investors shift their focus from corporate fundamentals and instead pursue the hottest performing category of stocks. This problem hasn't escaped the attention of legendary portfolio managers. Indeed, noted investor Warren Buffett is famous for avoiding the bandwagon effect and for advising individuals to be greedy when others are fearful and to be fearful when others are greedy.

Calendar year 2016 was noteworthy due to the prevalence of the bandwagon effect, with two distinct and large momentum shifts occurring. Both involved investors ignoring corporate fundamentals and instead chasing the latest trends. For the year, the S&P 500 Index generated an 11.97% return.

For active portfolio managers such as Alger, who use in-depth, bottom-up research to identify and invest in companies with strong fundamentals and potential for generating earnings growth, 2016 was a double-edged sword. On one hand, the year included a challenging headwind that made it difficult to outperform market benchmarks. On the other hand, we believe that investors' momentum trades and avoidance of stocks with strong fundamentals have resulted in growth companies having attractive valuations at the end of the reporting period. We maintain that low valuations on an aggregate level, such as for an index, style, or sector, have historically been an indicator of future outperformance. With that in mind, we believe that market conditions are highly favorable for investing in growth equities.

The First Bandwagon of 2016: High-Yield Dividends

Unprecedented levels of monetary stimulus across the globe, including asset purchases by central banks to lower interest rates, had a significant impact on bond markets in 2016. Early in the year, an estimated $11 trillion in government fixed-income securities traded with negative yields, and in July, the 10-year U.S. Treasury bond reached a record low yield of 1.36%. The low yields supported an ongoing rotation into stocks with high dividends and a selloff of companies with potential for rewarding shareholders by growing their earnings. The results were dramatic. According to data from research firm Northfield Information Services, dividend yield was the best performing equity characteristic in 2016, while earnings per share growth was one of the worst performing characteristics. The variation among sectors was also significant during the first rotation, which was particularly strong during the first six months of the year. For that period, the Telecommunication Services and Utilities sectors generated 24.85% and 23.57% returns, respectively. In doing so, they were the strongest performing sectors within the S&P 500, which only generated a 3.82% return. Broadly speaking, Telecommunication Services and Utilities stocks are well-known for generating steady income and high dividend yields; however, we maintain that over the long-term, they are unlikely to reward investors by growing their earnings. In contrast, sectors such as Information Technology, Health Care, and Consumer Discretionary are characterized as primarily having companies that can grow their earnings by increasing productivity with innovative products. We believe that in-depth fundamental research can discover companies across sectors with strong potential for generating earnings growth but in many instances, the most attractive long-term investment opportunities occur among Information Technology, Health Care, and Consumer Discretionary sectors. Yet, during the first six months of 2016, those sectors were among the worst performing categories within the S&P 500 with the -3.12% return of Information Technology being the weakest.

The Second Bandwagon: Cyclical and Inflation-Sensitive Stocks

Investors engaged in another significant rotation during the fourth quarter. Initially, an improving outlook for the U.S. and other economies coupled with expectations for higher inflation drove investors to jump on the bandwagon of cyclical stocks and stocks of companies that can benefit from higher interest rates. The election of Donald Trump, who has pledged to cut taxes, increase infrastructure spending, and slash regulations, substantially accelerated the pace of the investor rotation. Expectations of higher interest rates and the potential reform of banking regulations drove the Financials sector to a 21.09% return compared to the 3.84% return of the S&P 500. Rising oil prices, meanwhile, contributed to the Energy sector generating a 7.28% return and being the second-strongest performer in the S&P 500. The cyclical Industrials and Materials sectors were the third- and fourth-strongest performers. In contrast, Health Care underperformed with a -6.50% return. Information Technology and Consumer Discretionary, with 1.20% and 4.78% returns, respectively, also underperformed.

Viewing 2016 in its entirety also illustrates the scope of the bandwagon effect. For the year, the 27.29% return of Energy was more than twice the return of the S&P 500. Telecommunication Services was the second-best performer with a 23.49% return. Financials, Industrials, Materials, and Utilities were also among the top performing sectors. Health Care, however, declined 2.40% and was the only sector to generate a loss. While Information Technology outperformed with a 13.80% return, the 6.13% return of Consumer Discretionary trailed the S&P 500. For our portfolios, investors' strong preference for stocks with high dividends early in the year followed by the rotation into cyclical companies and inflation sensitive stocks resulted in Information Technology and Consumer Discretionary sectors typically providing stiff headwinds to relative performance.

A Difficult Year Creates Attractive Market Conditions

One problem with jumping on a bandwagon is that your ride may take you into troubled areas and away from opportunities. We believe that the bandwagon behavior of investors last year has had that result. While we believe valuations for bond-like sectors and cyclical stocks are high by historical standards, we also believe prices for growth sectors are currently compelling, which could imply that stocks of companies with strong fundamentals are likely to outperform this year. In other words, investors who are enjoying the music of last year's bandwagons may find themselves losing out if growth stocks outperform.

Within the S&P 500, price-to-earnings ratios (P/E) for Information Technology and Health Care were 18% and 17%, respectively, below their 20-year medians as of the end of 2016. Also among growth sectors, the Consumer Discretionary P/E was 3% below its 20-year median. In contrast, P/E ratios for Financials and Utilities were 12% and 11% above each sector's 20-year median. Materials, Real Estate, and Industrials also traded at substantial premiums to their 20-year medians.

We believe growth stocks are also attractively valued relative to their value counterparts. Growth equities typically trade at a substantial premium to value. Since the inception of the Russell style indices in 1978, the Russell 1000 Growth Index has traded at a median P/E premium of approximately 40% to the Russell 1000 Value Index. With investors favoring value stocks and avoiding growth stocks in 2016, the premium has dropped to a near record low of only 12%. The PEG ratio, or the P/E divided by long-term earnings growth rates, for the Russell 1000 Growth Index is also attractive. It was at only 1.3 as of December 31, while the Russell 1000 Value PEG was substantially higher at 2.2.

The Road Ahead

Despite the slow and at times uneven pace of job creation and growth of industrial production following the subprime mortgage crisis, we believe that the U.S. economy is strong. With an unemployment rate of only 4.7%, we maintain that the labor market is at or near full employment. The high level of employment in the U.S. is supporting modestly higher inflation, which should help alleviate investors' concerns over deflation.

Other factors such as consumer balance sheets are also encouraging. During the third quarter of 2016, the ratio of household debt payments to disposal income was 10.1%, which was close to the lowest level in 35 years. With consumer spending representing approximately 75% of U.S. gross domestic product, the low household debt service ratio could imply continuing strength for the economy.

In Washington, Trump's proposals to reduce both personal and corporate tax rates while increasing government spending could result in $4 trillion in fiscal stimulus over a decade and provide additional support for equities. We estimate that a 10% reduction in the corporate tax rate could boost S&P 500 corporate earnings by 8%. The Tax Foundation, which is a nonpartisan research and educational organization, estimates that reduced taxes could result in wages increasing 5% faster than if no cuts were made. Capital stock, or business spending, furthermore, could increase 20% faster than the current growth rate. In at least one example, cutting corporate rates had a big impact on business spending. In the late 1990s, Ireland cut its tax rate by more than half and the ratio of investment to GDP increased by approximately 400 basis points. Trump has also proposed policies that could encourage corporations to repatriate a portion of the $700 billion that is held in cash outside of the U.S. The total amount represents more than half of the cash held by corporations, so repatriation could provide substantial support to business investments and other shareholder friendly programs, such as stock repurchases, dividend payments, and mergers and acquisitions. However, the Trump proposals also present risk. For example, deficit hawks in Congress may seek to limit the scope of Trump's proposed stimulus programs. Economic growth resulting from the potential fiscal stimulus, furthermore, may fall short of investors' expectations and cause volatile market conditions. Trump's plans to renegotiate trade deals are also likely to cause uncertainty among investors.

Rather than making big bets on which companies or sectors may benefit from Trump's proposed policies, we urge our readers to instead employ strategies that use rigorous research to identify and invest in companies with attractive fundamentals, including the potential for generating strong earnings growth. As we have maintained since our founding in 1964, we believe that such companies are likely to outperform over the long term.

Portfolio Matters

The Alger Balanced Portfolio returned 8.51% for the fiscal year ended December 31, 2016. The equity portion of the Portfolio outperformed the 7.08% return of the Russell 1000 Growth Index, and the fixed-income portion outperformed the 3.05% 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 Health Care during the year. The largest sector overweight was Financials and the largest sector underweight was Information Technology. The Financials and Health Care sectors contributed to relative performance while Information Technology and Consumer Discretionary were among sectors that detracted from results.

JPMorgan Chase & Co.; Exxon Mobil Corp.; Morgan Stanley; Microsoft Corp.; and Altria Group, Inc. were top contributors to performance. JPMorgan Chase is a full-service bank with retail, commercial, and investment operations. In the aftermath of the presidential election, the yield curve steepened in response to expectations that fiscal stimulus could increase the U.S. deficit. Investors responded favorably to the development because a steeper yield curve could improve the prospects for financial lenders to realize higher net interest margins. The potential implementation of lower corporate taxes on domestic revenues also supported the performance of JPMorgan shares because the change could be accretive to the company. JPMorgan also announced better-than-anticipated third-quarter earnings with results being driven by merger and acquisition activity and strong trading operations.

Conversely, Delphi Automotive PLC.; Gilead Sciences, Inc.; Seagate Technology PLC.; Royal Caribbean Cruises Ltd.; and CVS Caremark Corp. were top detractors from performance. CVS Caremark operates retail pharmacies and also serves as a third-party administrator for prescription programs offered by employers and other entities. The shares detracted from performance in response to CVS losing two large health-plan clients in the company's retail pharmacy business. As a result, the company lowered its earnings guidance.

The fixed-income portion of the portfolio consisted of 11 corporate bonds at the end of 2016 compared to 14 at the end of 2015. After enduring a brutal six-week stretch following the November election, the Treasury market regained its footing over the final two weeks of 2016. Yields reached their year-to-date highs across the curve on December 15 and then settled into fairly narrow trading ranges through year-end.

Although the Treasury Index lost nearly 300 basis points in total return since the election, it still finished in positive territory for the year and outperformed its 0.83% return from 2015. With the exception of tax-exempt municipals, which lagged due to uncertainty over possible changes to the U.S tax code in 2017, all of the major spread sectors out-gained Treasuries on a duration-adjusted basis.

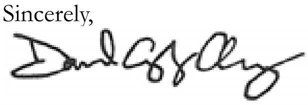
We believe it will be difficult to sustain yields that are significantly above current levels, though negative sentiment may drive rates a bit higher in the near term. From our perspective, current rates provide an attractive hedge against heightened political uncertainty and the associated downside risks that may emerge over the coming months.

The new administration has inherited an economy growing at slightly less than a 2% rate and facing headwinds from a surging dollar and downside geopolitical risks. For Treasury yields to rise significantly from current levels, the new administration's policies (in whatever form they ultimately take) must overcome several formidable obstacles and produce significantly stronger economic growth and higher inflation on a sustained basis.

Despite our fairly optimistic economic outlook, we continue to advocate a neutral duration position relative to portfolio benchmarks. From our perspective, bond yields already reflect reasonable assumptions about the most likely economic outcome over the next two years. We also believe there is more downside risk associated with Trump's positions on trade, immigration, and foreign policy than the financial markets currently appreciate.

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 proceeded 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, 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, 2016. 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 the fixed income securities' sensitivity to interest rate movements; their market values tend to fall when interest rates rise and to rise when interest rates fall. They are also subject to the risk of a decline in the value of the Portfolio's securities in the event of an issuer's falling credit rating or actual default. 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 a 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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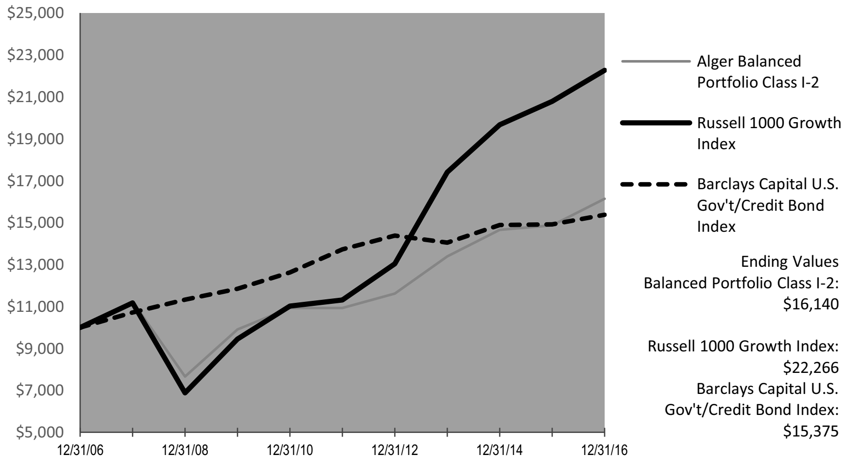
NOT FDIC INSURED. NOT BANK GUARANTEED. MAY LOSE VALUE.

Definitions:

- The S&P 500 Index is an index of large company stocks considered representative of the U.S. stock market.
- The Russell 1000 Growth Index is an unmanaged index designed to measure the performance of the largest 1,000 companies in the Russell 3000 Index with higher price-to-book ratios and higher forecasted growth values.
- The Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.
- The Barclays Capital U.S. Government/Credit Bond Index is an index designed to track performance of government and corporate bonds.

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

— 10 years ended 12/31/16



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, 2016. 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 12/31/16

AVERAGE ANNUAL TOTAL RETURNS

	1 YEAR	5 YEARS	10 YEARS	Since 9/5/1989
Class I-2 (Inception 9/5/89)	8.51%	8.09%	4.90%	7.45%
Russell 1000 Growth Index	7.08%	14.50%	8.33%	8.90%
Barclays Capital U.S. Gov't/Credit Bond Index	3.05%	2.29%	4.40%	6.22%

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, 2016 (Unaudited)

SECTORS/SECURITY TYPES	Alger Balanced Portfolio
Consumer Discretionary	8.6%
Consumer Staples	8.0
Energy	4.6
Financials	11.5
Health Care	10.0
Industrials	8.4
Information Technology	13.9
Materials	1.1
Real Estate	1.6
Telecommunication Services	2.6
Utilities	0.5
Total Equity Securities	70.8
Corporate Bonds	26.3
Total Debt Securities	26.3
Short-Term Investments and Net Other Assets	2.9
	100.0%

† *Based on net assets for the Portfolio.*

COMMON STOCKS—67.0%	SHARES	VALUE
AEROSPACE & DEFENSE—2.0%		
General Dynamics Corp.	3,600	$ 621,576
The Boeing Co.	5,129	798,483
		1,420,059
AIR FREIGHT & LOGISTICS—0.5%		
United Parcel Service, Inc., Cl. B	3,107	**356,187**
AIRPORT SERVICES—0.6%		
Macquarie Infrastructure Corp.	5,100	**416,670**
APPAREL RETAIL—0.6%		
L Brands, Inc.	3,100	204,104
VF Corp.	4,000	213,400
		417,504
ASSET MANAGEMENT & CUSTODY BANKS—1.1%		
BlackRock, Inc.	2,100	**799,134**
AUTO PARTS & EQUIPMENT—0.7%		
Delphi Automotive PLC.	8,000	**538,800**
BIOTECHNOLOGY—0.9%		
Amgen, Inc.	2,000	292,420
Gilead Sciences, Inc.	5,200	372,372
		664,792
BREWERS—0.7%		
Molson Coors Brewing Co., Cl. B	4,900	**476,819**
BUILDING PRODUCTS—0.7%		
Johnson Controls International PLC.	13,179	**542,843**
CABLE & SATELLITE—1.6%		
Comcast Corporation, Cl. A	16,503	**1,139,532**
CASINOS & GAMING—0.3%		
Las Vegas Sands Corp.	3,730	**199,219**
COMMUNICATIONS EQUIPMENT—0.8%		
Cisco Systems, Inc.	20,300	**613,466**
CONSUMER ELECTRONICS—0.4%		
Garmin Ltd.	5,700	**276,393**
CONSUMER FINANCE—0.6%		
Discover Financial Services	6,100	**439,749**
DIVERSIFIED BANKS—3.8%		
JPMorgan Chase & Co.	20,800	1,794,832
Wells Fargo & Co.	16,793	925,462
		2,720,294
DIVERSIFIED CHEMICALS—0.7%		
The Dow Chemical Co.	8,400	**480,648**
DRUG RETAIL—1.2%		
CVS Caremark Corp.	7,700	607,607
Walgreens Boots Alliance, Inc.	3,200	264,832
		872,439
ELECTRICAL COMPONENTS & EQUIPMENT—0.5%		
Eaton Corp., PLC.	4,900	**328,741**
FINANCIAL EXCHANGES & DATA—1.1%		
CME Group, Inc.	6,800	**784,380**

COMMON STOCKS—(CONT.)	SHARES	VALUE
HEALTH CARE EQUIPMENT—0.6%		
Becton Dickinson and Co.	2,600	**$ 430,430**
HOME IMPROVEMENT RETAIL—1.5%		
The Home Depot, Inc.	7,800	**1,045,824**
HOTELS RESORTS & CRUISE LINES—0.5%		
Royal Caribbean Cruises Ltd.	4,300	**352,772**
HOUSEHOLD PRODUCTS—1.1%		
The Procter & Gamble Co.	9,200	**773,536**
HYPERMARKETS & SUPER CENTERS—0.6%		
Wal-Mart Stores, Inc.	5,800	**400,896**
INDUSTRIAL CONGLOMERATES—3.0%		
General Electric Co.	34,907	1,103,061
Honeywell International, Inc.	8,900	1,031,065
		2,134,126
INDUSTRIAL GASES—0.4%		
Air Products & Chemicals, Inc.	1,814	**260,890**
INTEGRATED OIL & GAS—2.8%		
Exxon Mobil Corp.	16,100	1,453,186
TOTAL SA#	11,300	575,961
		2,029,147
INTEGRATED TELECOMMUNICATION SERVICES—2.6%		
AT&T, Inc.	15,000	637,950
Verizon Communications, Inc.	22,808	1,217,491
		1,855,441
INTERNET SOFTWARE & SERVICES—3.0%		
Alphabet, Inc., Cl. A*	1,000	792,450
Alphabet, Inc., Cl. C*	1,003	774,135
Facebook, Inc., Cl. A*	5,400	621,270
		2,187,855
INVESTMENT BANKING & BROKERAGE—1.6%		
Morgan Stanley	26,500	**1,119,625**
LEISURE FACILITIES—0.4%		
Six Flags Entertainment Corp.	5,367	**321,805**
LEISURE PRODUCTS—0.7%		
Coach, Inc.	8,400	294,168
Mattel, Inc.	8,800	242,440
		536,608
MANAGED HEALTH CARE—2.0%		
Aetna, Inc.	5,600	694,456
UnitedHealth Group, Inc.	4,500	720,180
		1,414,636
MOVIES & ENTERTAINMENT—0.7%		
Time Warner, Inc.	5,000	**482,650**
MULTI-LINE INSURANCE—0.6%		
Hartford Financial Services Group, Inc.	8,700	**414,555**
MULTI-UTILITIES—0.5%		
Sempra Energy	3,300	**332,112**
OIL & GAS EQUIPMENT & SERVICES—0.7%		
Halliburton Company	10,000	**540,900**

COMMON STOCKS—(CONT.)	SHARES	VALUE
OIL & GAS EXPLORATION & PRODUCTION—0.8%		
ConocoPhillips	10,900	$ **546,526**
OTHER DIVERSIFIED FINANCIAL SERVICES—1.2%		
Bank of America Corp.	38,015	**840,132**
PACKAGED FOODS & MEATS—0.5%		
The Kraft Heinz Co.	4,400	**384,208**
PHARMACEUTICALS—6.1%		
Bristol-Myers Squibb Co.	14,200	829,848
Eli Lilly & Co.	10,500	772,275
GlaxoSmithKline PLC.#	8,400	323,484
Johnson & Johnson	9,800	1,129,058
Pfizer, Inc.	30,289	983,787
Roche Holding AG#	12,300	350,919
		4,389,371
RAILROADS—1.1%		
CSX Corp.	21,100	**758,123**
RESTAURANTS—1.2%		
Darden Restaurants, Inc.	4,000	290,880
McDonald's Corp.	4,900	596,428
		887,308
SEMICONDUCTOR EQUIPMENT—0.8%		
Kla-Tencor Corp.	6,933	**545,488**
SEMICONDUCTORS—3.0%		
Broadcom Ltd.	5,400	954,558
Intel Corp.	20,800	754,416
QUALCOMM, Inc.	6,300	410,760
		2,119,734
SOFT DRINKS—2.1%		
PepsiCo, Inc.	10,100	1,056,763
The Coca-Cola Co.	10,600	439,476
		1,496,239
SYSTEMS SOFTWARE—2.9%		
Microsoft Corp.	33,500	**2,081,690**
TECHNOLOGY HARDWARE STORAGE & PERIPHERALS—3.4%		
Apple, Inc.	16,700	1,934,194
Western Digital Corp.	7,700	523,215
		2,457,409
TOBACCO—1.8%		
Altria Group, Inc.	19,000	**1,284,780**
TOTAL COMMON STOCKS		
(Cost $34,464,013)		**47,912,485**

CONVERTIBLE PREFERRED STOCKS—0.4%	SHARES	VALUE
PHARMACEUTICALS—0.4%		
Allergan PLC., 5.50%, 3/1/2018	400	**304,984**
(Cost $400,000)		**304,984**

MASTER LIMITED PARTNERSHIP—1.3%	SHARES	VALUE
ASSET MANAGEMENT & CUSTODY BANKS—1.0%		
The Blackstone Group LP.	25,500	**689,265**

MASTER LIMITED PARTNERSHIP—(CONT.)	SHARES	VALUE
OIL & GAS STORAGE & TRANSPORTATION—0.3%		
Cheniere Energy Partners LP.	8,200	$ **236,324**
TOTAL MASTER LIMITED PARTNERSHIP		
(Cost $836,845)		**925,589**

REAL ESTATE INVESTMENT TRUST—2.1%	SHARES	VALUE
HEALTH CARE—0.5%		
Welltower, Inc.	5,500	**368,115**
MORTGAGE—0.5%		
Blackstone Mortgage Trust, Inc., Cl. A	10,900	**327,763**
SPECIALIZED—1.1%		
Crown Castle International Corp.	4,400	381,788
Lamar Advertising Co., Cl. A	6,300	423,612
		805,400
TOTAL REAL ESTATE INVESTMENT TRUST		
(Cost $1,363,906)		**1,501,278**

CORPORATE BONDS—26.3%	PRINCIPAL AMOUNT	VALUE
AGRICULTURAL & FARM MACHINERY—2.5%		
John Deere Capital Corp., 2.75%, 3/15/2022	1,750,000	**1,756,902**
AGRICULTURAL PRODUCTS—1.5%		
Cargill, Inc., 7.35%, 3/6/2019[(a)]	1,000,000	**1,112,661**
DIVERSIFIED BANKS—5.0%		
JPMorgan Chase & Co., 4.35%, 8/15/2021	1,500,000	1,605,701
Wells Fargo & Co., 3.30%, 9/9/2024	2,000,000	1,981,492
		3,587,193
INDUSTRIAL CONGLOMERATES—3.1%		
General Electric Co., 6.00%, 8/7/2019	2,000,000	**2,210,534**
INTEGRATED OIL & GAS—1.5%		
Total Capital SA, 4.45%, 6/24/2020	1,000,000	**1,076,518**
INTEGRATED TELECOMMUNICATION SERVICES—2.0%		
Verizon Communications, Inc., 5.15%, 9/15/2023	1,300,000	**1,439,519**
IT CONSULTING & OTHER SERVICES—2.7%		
International Business Machines Corp., 7.00%, 10/30/2025	1,525,000	**1,964,017**
PACKAGED FOODS & MEATS—2.8%		
Campbell Soup Co., 2.50%, 8/2/2022	2,000,000	**1,979,134**
SEMICONDUCTORS—2.3%		
Altera Corp., 4.10%, 11/15/2023	1,500,000	**1,615,213**
TECHNOLOGY HARDWARE STORAGE & PERIPHERALS—2.9%		
HP, Inc., 4.38%, 9/15/2021	2,000,000	**2,106,238**
TOTAL CORPORATE BONDS		
(Cost $18,683,761)		**18,847,929**
Total Investments		
(Cost $55,748,525)[(b)]	97.1%	**69,492,265**
Other Assets in Excess of Liabilities	2.9%	**2,041,929**
NET ASSETS	100.0%	$ **71,534,194**

\# *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, 2016, the net unrealized appreciation on investments, based on cost for federal income tax purposes of $55,604,650, amounted to $13,887,615 which consisted of aggregate gross unrealized appreciation of $14,739,500 and aggregate gross unrealized depreciation of $851,885.*

Industry classifications are unaudited.
See Notes to Financial Statements.

ALGER BALANCED PORTFOLIO
Statement of Assets and Liabilities December 31, 2016

		Alger Balanced Portfolio
ASSETS:		
Investments in securities, at value (Identified cost below)* see accompanying schedule of investments	$	69,492,265
Cash and cash equivalents		1,893,643
Receivable for shares of beneficial interest sold		10,420
Dividends and interest receivable		324,610
Prepaid expenses		23,543
Total Assets		71,744,481
LIABILITIES:		
Payable for shares of beneficial interest redeemed		121,513
Accrued investment advisory fees		43,315
Accrued transfer agent fees		2,822
Accrued administrative fees		1,678
Accrued shareholder administrative fees		610
Accrued other expenses		40,349
Total Liabilities		210,287
NET ASSETS	**$**	**71,534,194**
NET ASSETS CONSIST OF:		
Paid in capital (par value of $.001 per share)		63,207,366
Undistributed net investment income		1,317,842
Undistributed net realized gain (accumulated realized loss)		(6,734,754)
Net unrealized appreciation on investments		13,743,740
NET ASSETS	**$**	**71,534,194**
* Identified cost	$	55,748,525

See Notes to Financial Statements.

ALGER BALANCED PORTFOLIO
Statement of Assets and Liabilities December 31, 2016 (Continued)

		Alger Balanced Portfolio
NET ASSETS BY CLASS:		
Class I-2	$	71,534,194
SHARES OF BENEFICIAL INTEREST OUTSTANDING — NOTE 6:		
Class I-2		4,670,319
NET ASSET VALUE PER SHARE:		
Class I-2 — Net Asset Value Per Share Class I-2	$	15.32

See Notes to Financial Statements.

ALGER BALANCED PORTFOLIO
Statement of Operations for the year ended December 31, 2016

		Alger Balanced Portfolio
INCOME:		
Dividends (net of foreign withholding taxes*)	$	1,491,802
Interest		584,841
Total Income		2,076,643
EXPENSES:		
Advisory fees — Note 3(a)		503,283
Shareholder administrative fees — Note 3(f)		7,089
Administration fees — Note 3(b)		19,493
Custodian fees		31,826
Interest expenses		366
Transfer agent fees and expenses — Note 3(f)		15,742
Printing fees		29,135
Professional fees		40,716
Registration fees		20,363
Trustee fees — Note 3(g)		2,982
Fund accounting fees		8,758
Miscellaneous		4,142
Total Expenses		683,895
NET INVESTMENT INCOME		1,392,748
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY:		
Net realized gain on investments		533,850
Net change in unrealized appreciation on investments and foreign currency		3,624,189
Net realized and unrealized gain on investments and foreign currency		4,158,039
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$**	**5,550,787**
* Foreign withholding taxes	$	9,713

See Notes to Financial Statements.

ALGER BALANCED PORTFOLIO
Statements of Changes in Net Assets

	Alger Balanced Portfolio	
	For the Year Ended December 31, 2016	For the Year Ended December 31, 2015
Net investment income	$ 1,392,748	$ 1,785,227
Net realized gain on investments and foreign currency	533,850	4,063,646
Net change in unrealized appreciation (depreciation) on investments and foreign currency	3,624,189	(4,357,230)
Net increase in net assets resulting from operations	5,550,787	1,491,643
Dividends and distributions to shareholders from:		
Net investment income:		
Class I-2	(1,359,034)	(1,581,487)
Total dividends and distributions to shareholders	(1,359,034)	(1,581,487)
Increase (decrease) from shares of beneficial interest transactions:		
Class I-2	(8,007,624)	(21,122,958)
Net decrease from shares of beneficial interest transactions — Note 6	(8,007,624)	(21,122,958)
Total decrease	(3,815,871)	(21,212,802)
Net Assets:		
Beginning of period	75,350,065	96,562,867
END OF PERIOD	**$ 71,534,194**	**$ 75,350,065**
Undistributed net investment income	$ 1,317,842	$ 1,376,121

See Notes to Financial Statements.

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

Alger Balanced Portfolio	Class I-2				
	Year ended 12/31/2016	Year ended 12/31/2015	Year ended 12/31/2014	Year ended 12/31/2013	Year ended 12/31/2012
Net asset value, beginning of period	$ 14.39	$ 14.48	$ 13.49	$ 11.84	$ 11.31
INCOME FROM INVESTMENT OPERATIONS:					
Net investment income[(i)]	0.29	0.29	0.29	0.20	0.13
Net realized and unrealized gain (loss) on investments	0.94	(0.08)	0.98	1.61	0.56
Total from investment operations	1.23	0.21	1.27	1.81	0.69
Dividends from net investment income	(0.30)	(0.30)	(0.28)	(0.16)	(0.16)
Net asset value, end of period	$ 15.32	$ 14.39	$ 14.48	$ 13.49	$ 11.84
Total return	8.51%	1.47%	9.43%	15.28%	6.23%
RATIOS/SUPPLEMENTAL DATA:					
Net assets, end of period (000's omitted)	$ 71,534	$ 75,350	$ 96,563	$ 95,577	$ 93,129
Ratio of net expenses to average net assets	0.96%	0.92%	0.92%	0.95%	0.95%
Ratio of net investment income (loss) to average net assets	1.97%	1.97%	2.09%	1.56%	1.13%
Portfolio turnover rate	3.58%	9.64%	24.89%	71.66%	122.50%

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 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.

The industry classifications of the Portfolio's investments, as presented in the accompanying Schedule of Investments, represent management's belief as to the most meaningful presentation of the classification of such investments. For Portfolio compliance purposes, the Portfolio's industry classifications refer to any one or more of the industry sub-classifications used by one or more widely recognized market indexes or rating group indexes, with the primary source being Global Industry Classification Standard (GICS).

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, time to exit 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. Because of the inherent uncertainty and often limited markets for restricted securities, the values may significantly differ from the values if there was an active market.

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 generally 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 reflect 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 2013-2016. 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. All such estimates are of normal recurring nature.

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, 2016, is set forth below under the heading "Actual Rate."

	Tier 1	Tier 2	Actual Rate
Alger Balanced Portfolio[(a)]	0.710%	0.550%	0.71%

(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, 2016, the Portfolio paid Fred Alger & Company, Incorporated, the Fund's distributor (the "Distributor or Alger Inc.") and an affiliate of Alger Management, $1,455, 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, 2016.

During the year ended December 31, 2016, the Portfolio incurred interest expense of $162 in connection with interfund loans which is included in interest expense 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, 2016 through February 29, 2016, each trustee who is not affiliated with Alger Management or its affiliates (each, an "Independent Trustee") received a fee of $25,875 for each board 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 Independent Trustee appointed as Chairman of the Board of Trustees received additional compensation of $24,300 per annum paid pro rata by each fund in the Alger Fund Complex. Additionally, each member of the Audit Committee received

a fee of $2,500 for each Audit Committee meeting attended to a maximum of $10,000 per annum, paid pro rata by each fund in the Alger Fund Complex.

Effective March 1, 2016, each Independent Trustee receives a fee of $27,250 for each board meeting attended, to a maximum of $109,000 per annum, paid pro rata by each fund in the Alger Fund Complex, plus travel expenses incurred for attending the meeting. The Independent Trustee appointed as Chairman of the Board of Trustees receives additional compensation of $26,000 per annum paid pro rata by each fund in the Alger Fund Complex. Additionally, each member of the Audit Committee receives a fee of $2,500 for each Audit Committee meeting attended to a maximum of $10,000 per annum, paid pro rata by each fund in the Alger Fund Complex.

(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, 2016, 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, 2016, were as follows:

	PURCHASES	SALES
Alger Balanced Portfolio	$2,455,690	$9,188,205

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 systems.

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, 2016, the Portfolio had the following borrowings from its custodian and other funds.

	AVERAGE DAILY BORROWING	WEIGHTED AVERAGE INTEREST RATE
Alger Balanced Portfolio	$ 17,879	1.63%

The highest amount borrowed from its custodian and other funds during the year ended December 31, 2016, for the Portfolio was as follows:

	HIGHEST BORROWING
Alger Balanced Portfolio	$ 712,976

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, 2016 and the year ended December 31, 2015, transactions of shares of beneficial interest were as follows:

	FOR THE YEAR ENDED DECEMBER 31, 2016		FOR THE YEAR ENDED DECEMBER 31, 2015	
	SHARES	AMOUNT	SHARES	AMOUNT
Alger Balanced Portfolio				
Class I-2:				
Shares sold	424,213	$ 6,295,605	453,159	$ 6,646,901
Dividends reinvested	88,594	1,359,034	109,219	1,581,486
Shares redeemed	(1,077,316)	(15,662,263)	(1,998,342)	(29,351,345)
Net decrease	**(564,509)**	**$ (8,007,624)**	**(1,435,964)**	**$ (21,122,958)**

NOTE 7 — Income Tax Information:

The tax character of distributions paid during the year ended December 31, 2016 and the year ended December 31, 2015 were as follows:

	FOR THE YEAR ENDED DECEMBER 31, 2016	FOR THE YEAR ENDED DECEMBER 31, 2015
Alger Balanced Portfolio		
Distributions paid from:		
Ordinary Income	$ 1,359,034	$ 1,581,487
Long-term capital gain	—	—
Total distributions paid	**$ 1,359,034**	**$ 1,581,487**

As of December 31, 2016 the components of accumulated gains (losses) on a tax basis were as follows:

Alger Balanced Portfolio	
Undistributed ordinary income	$ 1,317,842
Undistributed long-term gains	—
Net accumulated earnings	$ 1,317,842
Capital loss carryforwards	(6,878,629)
Net unrealized appreciation	13,887,615
Total accumulated earnings	$ 8,326,828

At December 31, 2016, 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	$ 6,878,629
Total	6,878,629

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 (Post Act) 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, 2016, the Portfolio utilized $592,429 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, 2016:

Alger Balanced Portfolio

Accumulated undistributed net investment income (accumulated loss)	$	(91,993)
Accumulated net realized gain (accumulated realized loss)	$	91,992
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, 2016, 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	$ 6,198,415	$ 6,198,415	—	—
Consumer Staples	5,688,917	5,688,917	—	—
Energy	3,116,573	3,116,573	—	—
Financials	7,117,869	7,117,869	—	—
Health Care	6,899,229	6,899,229	—	—
Industrials	5,956,749	5,956,749	—	—
Information Technology	10,005,642	10,005,642	—	—
Materials	741,538	741,538	—	—
Telecommunication Services	1,855,441	1,855,441	—	—
Utilities	332,112	332,112	—	—
TOTAL COMMON STOCKS	**$ 47,912,485**	**$ 47,912,485**	**—**	**—**
CONVERTIBLE PREFERRED STOCKS				
Health Care	304,984	304,984	—	—
CORPORATE BONDS				
Consumer Staples	3,091,795	—	3,091,795	—
Energy	1,076,518	—	1,076,518	—
Financials	3,587,193	—	3,587,193	—
Industrials	3,967,436	—	3,967,436	—
Information Technology	5,685,468	—	5,685,468	—
Telecommunication Services	1,439,519	—	1,439,519	—
TOTAL CORPORATE BONDS	**$ 18,847,929**	**—**	**$ 18,847,929**	**—**
MASTER LIMITED PARTNERSHIP				
Energy	236,324	236,324	—	—
Financials	689,265	689,265	—	—
TOTAL MASTER LIMITED PARTNERSHIP	**$ 925,589**	**$ 925,589**	**—**	**—**
REAL ESTATE INVESTMENT TRUST				
Financials	327,763	327,763	—	—
Real Estate	1,173,515	1,173,515	—	—
TOTAL REAL ESTATE INVESTMENT TRUST	**$ 1,501,278**	**$ 1,501,278**	**—**	**—**
TOTAL INVESTMENTS IN SECURITIES	**$ 69,492,265**	**$ 50,644,336**	**$ 18,847,929**	**—**

On December 31, 2016 there were no transfers of securities between Level 1 and Level 2.

Certain of the Portfolio's assets and liabilities are held at carrying amount or face value, which approximates fair value for financial statement purposes. As of December 31, 2016, such assets are categorized within the disclosure hierarchy as follows:

	TOTAL FUND	LEVEL 1	LEVEL 2	LEVEL 3
Cash and Cash equivalents:	$ 1,893,643	—	$ 1,893,643	—

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 derivative instruments for the year December 31, 2016.

NOTE 10 — 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.

The Portfolio invests in companies that are not yet available in the public markets and that are accessible only through private equity investments. The Portfolio may also invest in venture capital or private equity funds, direct private equity investments and other investments that may have limited liquidity. There may be no trading market for these securities, and their sale or transfer be limited or prohibited by contract or legal requirements, or may be dependent on an exit strategy, such as an initial public offering or the sale of a business, which may not occur, or may be dependent on managerial assistance provided by other investors and their willingness to provide additional financial support. The securities may be able to be liquidated, if at all, at disadvantageous prices. As a result, the Portfolio may be required to hold these positions for several years, if not longer, regardless of adverse price movements. Such positions may cause the Portfolio to be less liquid than would otherwise be the case.

NOTE 11 — Subsequent Events:

Management of the Portfolio has evaluated events that have occurred subsequent to December 31, 2016 through the issuance date of the financial statements. No such events have been identified which require recognition and/or disclosure.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees of The Alger Portfolios and 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 (the "Fund"), one of the portfolios included in The Alger Portfolios as of December 31, 2016, 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, 2016, 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, 2016, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America

Deloitte & Touche LLP
New York, New York
February 23, 2017

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, 2016 and ending December 31, 2016.

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, 2016	Ending Account Value December 31, 2016	Expenses Paid During the Six Months Ended December 31, 2016[(a)]	Annualized Expense Ratio For the Six Months Ended December 31, 2016[(b)]
Alger Balanced Portfolio					
Class I-2	Actual	$ 1,000.00	$ 1,047.97	$ 4.99	0.96%
	Hypothetical[(c)]	1,000.00	1,020.26	4.93	0.96

(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 184/366 (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 (55)	Fundraising Consultant, Schultz & Williams; Trustee, Pennsylvania Ballet; Formerly Director of Development, Pennsylvania Ballet 2004-2013.	2003	25
NON-INTERESTED TRUSTEE			
Charles F. Baird, Jr. (63)	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 (71)	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 (84)	Attorney. Private Investor since 1981. Formerly of Counsel to the law firm of Kohler & Barnes.	1986	25
David Rosenberg (54)	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. (79)	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 (52) 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 (51) 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 (51) Treasurer	Senior Vice President of Alger Management; Assistant Treasurer since 2004.	2005	N/A
Anthony S. Caputo (61) Assistant Treasurer	Employed by Alger Management since 1986, currently serving as Vice President.	2007	N/A
Sergio M. Pavone (55) Assistant Treasurer	Employed by Alger Management since 2002, currently serving as Vice President.	2007	N/A
Patrick J. Murphy (46) 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
Christopher E. Ullman (32) Assistant Secretary	Associate Counsel of Alger Management since 2016. Formerly, Associate, Legal and Compliance, BlackRock from 2015 to 2016; Compliance Associate, Bridgewater Associates, from 2013 to 2014; and full-time student from 2010 to 2013.	2016	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 27, 2016, 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 a Fund 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 Portfolio. 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 6/30/16), second-quarter of 2016, 1-, 3-, and 5-year and longer periods to the extent available (and its year-by-year returns), together with supplemental performance data through 8/31/16, and compared them with benchmark and peer-group data for the same periods. They noted that the Portfolio's performance had surpassed the medians of its peers for all stated periods ending 6/30/16 from the latest quarter to three years while falling short of its benchmark for the 1-, and 3-year periods. Its performance against peers and benchmark measured over 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, placing in the top quartile. Similarly, the expense ratio for the Portfolio's single share class fell in the top quartile; in that regard, the Trustees noted that the class's assets of $72 million at 8/31/16 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, 2016. After discussing with representatives of the Adviser and FUSE the expense-allocation practices, which FUSE reported to be consistent with accepted industry practice, 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, 2016, 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 Fund 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 as (and if) it grew in size 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. 12/20/16**

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 our affiliates' everyday business purposes — information about your creditworthiness	**No**	**We don't share**
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 Portfolio's 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 Portfolio's 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 Portfolio's 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 the Portfolio's 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 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 PORTFOLIOS

Alger Capital Appreciation Portfolio

ANNUAL REPORT

DECEMBER 31, 2016

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ALGER CAPITAL APPRECIATION PORTFOLIO

Go Paperless With Alger Electronic Delivery Service

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

Dear Shareholders,

The "Bandwagon Effect" Creates Attractive Opportunities

In 1848, circus entertainer Dan Rice used his wagon with a musical band to draw attention to his political campaign. As his campaign grew in success, other political candidates quickly jockeyed for a seat on Rice's "bandwagon" to benefit from the entertainer's growing popularity. Today, the expression "jumping on the bandwagon" refers to individuals following popular trends, such as fashion, entertainment, politics, and even investing. In many instances, as individuals jump on a bandwagon, their decisions appear to be prudent or timely as trends grow in popularity. Yet, a crowded bandwagon doesn't imply success. Rather, it is simply the result of mob psychology.

With investing, the bandwagon effect can create dangerous bubbles as investors shift their focus from corporate fundamentals and instead pursue the hottest performing category of stocks. This problem hasn't escaped the attention of legendary portfolio managers. Indeed, noted investor Warren Buffett is famous for avoiding the bandwagon effect and for advising individuals to be greedy when others are fearful and to be fearful when others are greedy.

Calendar year 2016 was noteworthy due to the prevalence of the bandwagon effect, with two distinct and large momentum shifts occurring. Both involved investors ignoring corporate fundamentals and instead chasing the latest trends. For the year, the S&P 500 Index generated an 11.97% return.

For active portfolio managers such as Alger, who use in-depth, bottom-up research to identify and invest in companies with strong fundamentals and potential for generating earnings growth, 2016 was a double-edged sword. On one hand, the year included a challenging headwind that made it difficult to outperform market benchmarks. On the other hand, we believe that investors' momentum trades and avoidance of stocks with strong fundamentals have resulted in growth companies having attractive valuations at the end of the reporting period. We maintain that low valuations on an aggregate level, such as for an index, style, or sector, have historically been an indicator of future outperformance. With that in mind, we believe that market conditions are highly favorable for investing in growth equities.

The First Bandwagon of 2016: High-Yield Dividends

Unprecedented levels of monetary stimulus across the globe, including asset purchases by central banks to lower interest rates, had a significant impact on bond markets in 2016. Early in the year, an estimated $11 trillion in government fixed-income securities traded with negative yields, and in July, the 10-year U.S. Treasury bond reached a record low yield of 1.36%. The low yields supported an ongoing rotation into stocks with high dividends and a selloff of companies with potential for rewarding shareholders by growing their earnings. The results were dramatic. According to data from research firm Northfield Information Services, dividend yield was the best performing equity characteristic in 2016, while earnings per share growth was one of the worst performing characteristics. The variation among sectors was also significant during the first rotation, which was particularly strong during the first six months of the year. For that period, the Telecommunication Services and Utilities sectors generated 24.85% and 23.57% returns, respectively. In doing so, they were the strongest performing sectors within the S&P 500, which only generated a 3.82% return. Broadly speaking, Telecommunication Services and Utilities stocks are well-known for generating steady income and high dividend yields; however, we maintain that over the long-term, they are unlikely to reward investors by growing their earnings. In contrast, sectors such as Information Technology, Health Care, and Consumer Discretionary are characterized as primarily having companies that can grow their earnings by increasing productivity with innovative products. We believe that in-depth fundamental research can discover companies across sectors with strong potential for generating earnings growth but in many instances, the most attractive long-term investment opportunities occur among Information Technology, Health Care, and Consumer Discretionary sectors. Yet, during the first six months of 2016, those sectors were among the worst performing categories within the S&P 500 with the -3.12% return of Information Technology being the weakest.

The Second Bandwagon: Cyclical and Inflation-Sensitive Stocks

Investors engaged in another significant rotation during the fourth quarter. Initially, an improving outlook for the U.S. and other economies coupled with expectations for higher inflation drove investors to jump on the bandwagon of cyclical stocks and stocks of companies that can benefit from higher interest rates. The election of Donald Trump, who has pledged to cut taxes, increase infrastructure spending, and slash regulations, substantially accelerated the pace of the investor rotation. Expectations of higher interest rates and the potential reform of banking regulations drove the Financials sector to a 21.09% return compared to the 3.84% return of the S&P 500. Rising oil prices, meanwhile, contributed to the Energy sector generating a 7.28% return and being the second-strongest performer in the S&P 500. The cyclical Industrials and Materials sectors were the third- and fourth-strongest performers. In contrast, Health Care underperformed with a -6.50% return. Information Technology and Consumer Discretionary, with 1.20% and 4.78% returns, respectively, also underperformed.

Viewing 2016 in its entirety also illustrates the scope of the bandwagon effect. For the year, the 27.29% return of Energy was more than twice the return of the S&P 500. Telecommunication Services was the second-best performer with a 23.49% return. Financials, Industrials, Materials, and Utilities were also among the top performing sectors. Health Care, however, declined 2.40% and was the only sector to generate a loss. While Information Technology outperformed with a 13.80% return, the 6.13% return of Consumer Discretionary trailed the S&P 500. For our portfolios, investors' strong preference for stocks with high dividends early in the year followed by the rotation into cyclical companies and inflation sensitive stocks resulted in Information Technology and Consumer Discretionary sectors typically providing stiff headwinds to relative performance.

A Difficult Year Creates Attractive Market Conditions

One problem with jumping on a bandwagon is that your ride may take you into troubled areas and away from opportunities. We believe that the bandwagon behavior of investors last year has had that result. While we believe valuations for bond-like sectors and cyclical stocks are high by historical standards, we also believe prices for growth sectors are currently compelling, which could imply that stocks of companies with strong fundamentals are likely to outperform this year. In other words, investors who are enjoying the music of last year's bandwagons may find themselves losing out if growth stocks outperform.

Within the S&P 500, price-to-earnings ratios (P/E) for Information Technology and Health Care were 18% and 17%, respectively, below their 20-year medians as of the end of 2016. Also among growth sectors, the Consumer Discretionary P/E was 3% below its 20-year median. In contrast, P/E ratios for Financials and Utilities were 12% and 11% above each sector's 20-year median. Materials, Real Estate, and Industrials also traded at substantial premiums to their 20-year medians.

We believe growth stocks are also attractively valued relative to their value counterparts. Growth equities typically trade at a substantial premium to value. Since the inception of the Russell style indices in 1978, the Russell 1000 Growth Index has traded at a median P/E premium of approximately 40% to the Russell 1000 Value Index. With investors favoring value stocks and avoiding growth stocks in 2016, the premium has dropped to a near record low of only 12%. The PEG ratio, or the P/E divided by long-term earnings growth rates, for the Russell 1000 Growth Index is also attractive. It was at only 1.3 as of December 31, while the Russell 1000 Value PEG was substantially higher at 2.2.

The Road Ahead

Despite the slow and at times uneven pace of job creation and growth of industrial production following the subprime mortgage crisis, we believe that the U.S. economy is strong. With an unemployment rate of only 4.7%, we maintain that the labor market is at or near full employment. The high level of employment in the U.S. is supporting modestly higher inflation, which should help alleviate investors' concerns over deflation.

Other factors such as consumer balance sheets are also encouraging. During the third quarter of 2016, the ratio of household debt payments to disposal income was 10.1%, which was close to the lowest level in 35 years. With consumer spending representing approximately 75% of U.S. gross domestic product, the low household debt service ratio could imply continuing strength for the economy.

In Washington, Trump's proposals to reduce both personal and corporate tax rates while increasing government spending could result in $4 trillion in fiscal stimulus over a decade and provide additional support for equities. We estimate that a 10% reduction in the corporate tax rate could boost S&P 500 corporate earnings by 8%. The Tax Foundation, which is a nonpartisan research and educational organization, estimates that reduced taxes could result in wages increasing 5% faster than if no cuts were made. Capital stock, or business spending, furthermore, could increase 20% faster than the current growth rate. In at least one example, cutting corporate rates had a big impact on business spending. In the late 1990s, Ireland cut its tax rate by more than half and the ratio of investment to GDP increased by approximately 400 basis points. Trump has also proposed policies that could encourage corporations to repatriate a portion of the $700 billion that is held in cash outside of the U.S. The total amount represents more than half of the cash held by corporations, so repatriation could provide substantial support to business investments and other shareholder friendly programs, such as stock repurchases, dividend payments, and mergers and acquisitions. However, the Trump proposals also present risk. For example, deficit hawks in Congress may seek to limit the scope of Trump's proposed stimulus programs. Economic growth resulting from the potential fiscal stimulus, furthermore, may fall short of investors' expectations and cause volatile market conditions. Trump's plans to renegotiate trade deals are also likely to cause uncertainty among investors.

Rather than making big bets on which companies or sectors may benefit from Trump's proposed policies, we urge our readers to instead employ strategies that use rigorous research to identify and invest in companies with attractive fundamentals, including the potential for generating strong earnings growth. As we have maintained since our founding in 1964, we believe that such companies are likely to outperform over the long term.

Portfolio Matters

The Alger Capital Appreciation Portfolio returned 0.50% for the fiscal year ended December 31, 2016 compared to the 7.08% return of its benchmark, the Russell 1000 Growth Index.

During the year, the largest portfolio sector weightings were Information Technology and Health Care. The largest sector overweight was Information Technology and the largest sector underweight was Consumer Staples. The Energy sector contributed to relative performance while Information Technology and Consumer Discretionary were among sectors that detracted from results.

Microsoft Corp.; UnitedHealth Group Inc.; Apple, Inc.; Facebook, Inc., Cl. A; and Honeywell International, Inc. provided the greatest contributions to performance. Shares of Facebook performed strongly in response to the company continuing to aggressively capture advertising dollars from print, radio, and television media.

Conversely, Allergan PLC.; Vertex Pharmaceuticals, Inc.; LinkedIn Corp., Cl. A; Norwegian Cruise Line Holdings Ltd.; and Delphi Automotive PLC. were top detractors from performance. Allergan is a global pharmaceutical firm with a diverse product offering. Its stock underperformed in the fourth quarter after the company lowered its earnings guidance. In doing so, Allergan management said the company's older products are facing stronger competition from generics than previously anticipated. Expenses associated with Allergan's increased commitment to research and development also impacted investors' outlook for the company's earnings. Investors have also been disappointed with actions by U.S. regulators to block Allergan's proposed merger with pharmaceutical company Pfizer, Inc.

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 Portfolio unless proceeded 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, 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, 2016. 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, 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 a 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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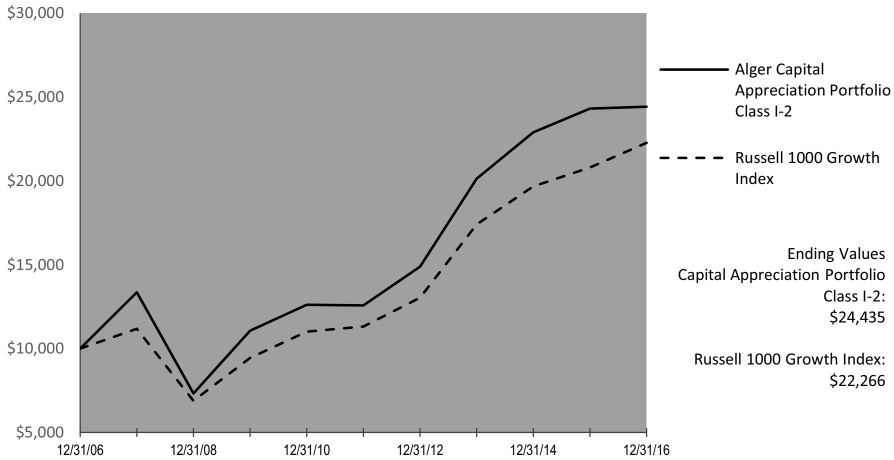
NOT FDIC INSURED. NOT BANK GUARANTEED. MAY LOSE VALUE.

Definitions:

- The S&P 500 Index is an index of large company stocks considered representative of the U.S. stock market.
- The Russell 1000 Growth Index is an unmanaged index designed to measure the performance of the largest 1,000 companies in the Russell 3000 Index with higher price-to-book ratios and higher forecasted growth values.
- The Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

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

— 10 years ended 12/31/16



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, 2016. 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 12/31/16

AVERAGE ANNUAL TOTAL RETURNS

	1 YEAR	5 YEARS	10 YEARS	Since 1/25/1995
Class I-2 (Inception 1/25/95)	0.50%	14.19%	9.35%	12.54%
Class S (Inception 5/1/02)(i)	0.22%	13.86%	9.03%	12.26%
Russell 1000 Growth Index	7.08%	14.50%	8.33%	8.77%

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, 2016 (Unaudited)

SECTORS/SECURITY TYPES	Alger Capital Appreciation Portfolio
Consumer Discretionary	17.0%
Consumer Staples	4.5
Energy	2.2
Financials	5.0
Health Care	16.5
Industrials	8.7
Information Technology	40.4
Materials	2.0
Real Estate	0.9
Telecommunication Services	0.3
Total Equity Securities	97.5
Corporate Bonds	0.0
Total Debt Securities	0.0
Short-Term Investments and Net Other Assets	2.5
	100.0%

† *Based on net assets for the Portfolio.*

COMMON STOCKS—94.6%	SHARES	VALUE
ADVERTISING—0.0%		
Choicestream, Inc.*,@,(a)	23,166	$ –
AEROSPACE & DEFENSE—0.6%		
Lockheed Martin Corp.	11,952	**2,987,283**
AIRLINES—0.5%		
Southwest Airlines Co.	54,645	**2,723,507**
ALTERNATIVE CARRIERS—0.3%		
Level 3 Communications, Inc.*	24,048	**1,355,345**
APPAREL ACCESSORIES & LUXURY GOODS—0.8%		
Hanesbrands, Inc.	43,936	947,699
PVH Corp.	34,841	3,144,052
		4,091,751
APPAREL RETAIL—0.3%		
The TJX Cos., Inc.	23,569	**1,770,739**
APPLICATION SOFTWARE—2.8%		
Adobe Systems, Inc.*	54,585	5,619,526
Autodesk, Inc.*	37,661	2,787,290
salesforce.com, Inc.*	89,352	6,117,038
		14,523,854
AUTO PARTS & EQUIPMENT—0.5%		
Delphi Automotive PLC.	37,973	**2,557,482**
BIOTECHNOLOGY—5.5%		
ACADIA Pharmaceuticals, Inc.*	49,858	1,437,905
Alexion Pharmaceuticals, Inc.*	15,220	1,862,167
Biogen, Inc.*	15,957	4,525,086
BioMarin Pharmaceutical, Inc.*	30,762	2,548,324
Celgene Corp.*	71,710	8,300,433
Gilead Sciences, Inc.	31,753	2,273,832
Incyte Corp.*	43,339	4,345,602
Vertex Pharmaceuticals, Inc.*	43,017	3,169,062
		28,462,411
BREWERS—1.4%		
Molson Coors Brewing Co., Cl. B	73,141	**7,117,351**
BROADCASTING—1.2%		
CBS Corp., Cl. B	99,321	**6,318,802**
BUILDING PRODUCTS—0.7%		
Johnson Controls International PLC.	82,755	**3,408,678**
CABLE & SATELLITE—2.9%		
Comcast Corporation, Cl. A	213,277	**14,726,777**
COMMUNICATIONS EQUIPMENT—0.3%		
Palo Alto Networks, Inc.*	13,391	**1,674,545**
CONSUMER FINANCE—0.3%		
LendingClub Corp.*	302,072	**1,585,878**
DATA PROCESSING & OUTSOURCED SERVICES—3.9%		
Sabre Corp.	93,728	2,338,513
Visa, Inc., Cl. A	228,843	17,854,331
		20,192,844
DIVERSIFIED BANKS—0.5%		
JPMorgan Chase & Co.	3,108	268,189

COMMON STOCKS—(CONT.)	SHARES	VALUE
DIVERSIFIED BANKS—(CONT.)		
Wells Fargo & Co.	43,013	$ 2,370,447
		2,638,636
ELECTRICAL COMPONENTS & EQUIPMENT—0.6%		
AMETEK, Inc.	59,935	**2,912,841**
FERTILIZERS & AGRICULTURAL CHEMICALS—0.3%		
Monsanto Co.	12,633	**1,329,118**
FINANCIAL EXCHANGES & DATA—1.2%		
IntercontinentalExchange Group, Inc.	94,487	5,330,957
S&P Global, Inc.	7,834	842,468
		6,173,425
FOOTWEAR—0.2%		
NIKE, Inc., Cl. B	20,692	**1,051,774**
HEALTH CARE EQUIPMENT—3.4%		
Boston Scientific Corp.*	108,120	2,338,636
Danaher Corp.	44,335	3,451,036
DexCom, Inc.*	62,127	3,708,982
Edwards Lifesciences Corp.*	55,740	5,222,838
Medtronic PLC.	39,034	2,780,392
		17,501,884
HEALTH CARE SERVICES—0.3%		
Envision Healthcare Corp.*	26,863	**1,700,159**
HOME ENTERTAINMENT SOFTWARE—1.9%		
Activision Blizzard, Inc.	43,480	1,570,063
Electronic Arts, Inc.*	101,718	8,011,310
		9,581,373
HOME IMPROVEMENT RETAIL—1.4%		
The Home Depot, Inc.	54,963	**7,369,439**
HOTELS RESORTS & CRUISE LINES—0.6%		
Ctrip.com International Ltd.#*	13,326	533,040
Marriott International, Inc., Cl. A	33,152	2,741,007
		3,274,047
HOUSEWARES & SPECIALTIES—1.9%		
Newell Brands, Inc.	220,825	**9,859,836**
HYPERMARKETS & SUPER CENTERS—0.6%		
Costco Wholesale Corp.	18,782	**3,007,186**
INDUSTRIAL CONGLOMERATES—3.9%		
General Electric Co.	55,446	1,752,094
Honeywell International, Inc.	160,553	18,600,065
		20,352,159
INDUSTRIAL GASES—1.2%		
Air Products & Chemicals, Inc.	44,643	**6,420,556**
INTERNET RETAIL—5.8%		
Amazon.com, Inc.*	38,650	28,982,476
NetFlix, Inc.*	8,999	1,114,076
		30,096,552
INTERNET SOFTWARE & SERVICES—14.5%		
Alibaba Group Holding Ltd.#*	38,997	3,424,327
Alphabet, Inc., Cl. C*	53,581	41,354,887

COMMON STOCKS—(CONT.)	SHARES	VALUE
INTERNET SOFTWARE & SERVICES—(CONT.)		
eBay, Inc.*	91,096	$ 2,704,640
Facebook, Inc., Cl. A*	198,701	22,860,550
Palantir Technologies, Inc., Cl. A*,@	41,286	251,019
Yahoo! Inc.*	113,929	4,405,635
		75,001,058
INVESTMENT BANKING & BROKERAGE—0.8%		
Morgan Stanley	99,561	**4,206,452**
LIFE SCIENCES TOOLS & SERVICES—0.4%		
Thermo Fisher Scientific, Inc.	14,519	**2,048,631**
MANAGED HEALTH CARE—4.0%		
Aetna, Inc.	24,365	3,021,504
Centene Corp.*	34,465	1,947,617
Humana, Inc.	12,828	2,617,297
UnitedHealth Group, Inc.	80,138	12,825,285
		20,411,703
MOVIES & ENTERTAINMENT—0.6%		
Time Warner, Inc.	30,640	**2,957,679**
OIL & GAS EQUIPMENT & SERVICES—0.5%		
Halliburton Company	45,518	**2,462,069**
OIL & GAS EXPLORATION & PRODUCTION—1.7%		
Anadarko Petroleum Corp.	87,576	6,106,674
Pioneer Natural Resources Co.	14,495	2,610,115
		8,716,789
OTHER DIVERSIFIED FINANCIAL SERVICES—0.7%		
Bank of America Corp.	160,959	**3,557,194**
PHARMACEUTICALS—2.7%		
Allergan PLC.*	52,984	11,127,170
Bristol-Myers Squibb Co.	9,257	540,979
Eli Lilly & Co.	33,043	2,430,313
		14,098,462
RAILROADS—1.0%		
Union Pacific Corp.	51,232	**5,311,734**
RESEARCH & CONSULTING SERVICES—0.4%		
Verisk Analytics, Inc., Cl. A*	25,611	**2,078,845**
RESTAURANTS—0.4%		
Starbucks Corp.	38,642	**2,145,404**
SEMICONDUCTORS—4.8%		
Broadcom Ltd.	63,561	11,235,678
Micron Technology, Inc.*	116,094	2,544,780
Microsemi Corp.*	60,688	3,275,331
NXP Semiconductors NV*	55,358	5,425,638
QUALCOMM, Inc.	39,260	2,559,752
		25,041,179
SOFT DRINKS—1.5%		
PepsiCo, Inc.	74,926	**7,839,507**
SPECIALIZED CONSUMER SERVICES—0.3%		
ServiceMaster Global Holdings, Inc.*	43,633	**1,643,655**

COMMON STOCKS—(CONT.)	SHARES	VALUE
SPECIALTY CHEMICALS—0.5%		
The Sherwin-Williams Co.	4,940	$ 1,327,575
WR Grace & Co.	15,631	1,057,281
		2,384,856
SYSTEMS SOFTWARE—6.6%		
Microsoft Corp.	470,320	29,225,685
Red Hat, Inc.*	30,965	2,158,260
ServiceNow, Inc.*	39,399	2,928,922
		34,312,867
TECHNOLOGY HARDWARE STORAGE & PERIPHERALS—5.4%		
Apple, Inc.	215,034	24,905,238
Western Digital Corp.	42,439	2,883,730
		27,788,968
TOBACCO—1.0%		
Philip Morris International, Inc.	57,756	**5,284,096**
TRADING COMPANIES & DISTRIBUTORS—1.0%		
HD Supply Holdings, Inc.*	122,591	**5,211,343**
TOTAL COMMON STOCKS		
(Cost $431,091,055)		**489,268,723**

PREFERRED STOCKS—0.5%	SHARES	VALUE
ADVERTISING—0.1%		
Choicestream, Inc., Cl. A*,@,(a)	199,768	–
Choicestream, Inc., Cl. B*,@,(a)	445,303	262,729
		262,729
INTERNET SOFTWARE & SERVICES—0.2%		
Palantir Technologies, Inc., Cl. B*,@	168,373	1,023,707
Palantir Technologies, Inc., Cl. D*,@	21,936	133,371
		1,157,078
PHARMACEUTICALS—0.2%		
Intarcia Therapeutics, Inc., Series DD*,@	20,889	**1,186,913**
TOTAL PREFERRED STOCKS		
(Cost $2,360,207)		**2,606,720**

WARRANTS—0.0%	SHARES	VALUE
ADVERTISING—0.0%		
Choicestream, Inc., 6/22/26@,(a)	87,152	**85,409**
(Cost $87,065)		**85,409**

MASTER LIMITED PARTNERSHIP—1.0%	SHARES	VALUE
ASSET MANAGEMENT & CUSTODY BANKS—1.0%		
The Blackstone Group LP.	194,889	**5,267,850**
(Cost $5,958,867)		**5,267,850**

REAL ESTATE INVESTMENT TRUST—1.4%	SHARES	VALUE
MORTGAGE—0.5%		
Blackstone Mortgage Trust, Inc., Cl. A	86,705	**2,607,219**
SPECIALIZED—0.9%		
Crown Castle International Corp.	49,684	**4,311,081**
TOTAL REAL ESTATE INVESTMENT TRUST		
(Cost $6,872,961)		**6,918,300**

CORPORATE BONDS—0.0%	PRINCIPAL AMOUNT	VALUE
ADVERTISING—0.0%		
Choicestream, Inc., 11.00%, 8/05/18[@,(a)]	87,152	$ **87,152**
(Cost $17,858)		**87,152**
Total Investments		
(Cost $446,388,013)[(b)]	97.5%	**504,234,154**
Other Assets in Excess of Liabilities	2.5%	**13,106,669**
NET ASSETS	100.0%	$ **517,340,823**

\# *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 Note 11.*

(b) *At December 31, 2016, the net unrealized appreciation on investments, based on cost for federal income tax purposes of $458,373,487, amounted to $45,860,667 which consisted of aggregate gross unrealized appreciation of $67,005,194 and aggregate gross unrealized depreciation of $21,144,527.*

* *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)	Acquisition Cost	% of net assets (Acquisition Date)	Market Value	% of net assets as of 12/31/2016
Choicestream, Inc.	*03/14/14*	*$6,718*	*0.00%*	*0*	*0.00%*
Choicestream, Inc., 11.00%, 8/05/18	*08/04/16*	*87*	*0.00%*	*87,152*	*0.02%*
Choicestream, Inc., 6/22/26	*08/04/16*	*87,065*	*0.02%*	*85,409*	*0.02%*
Choicestream, Inc., Cl. A	*12/17/13*	*159,751*	*0.03%*	*0*	*0.00%*
Choicestream, Inc., Cl. B	*07/10/14*	*267,182*	*0.05%*	*262,729*	*0.05%*
Intarcia Therapeutics, Inc., Series DD	*03/27/14*	*676,595*	*0.14%*	*1,186,913*	*0.23%*
Palantir Technologies, Inc., Cl. A	*10/07/14*	*268,648*	*0.05%*	*251,019*	*0.05%*
Palantir Technologies, Inc., Cl. B	*10/07/14*	*1,111,840*	*0.22%*	*1,023,707*	*0.20%*
Palantir Technologies, Inc., Cl. D	*10/14/14*	*144,839*	*0.03%*	*133,371*	*0.02%*
Total				$3,030,300	0.59%

Industry classifications are unaudited.
See Notes to Financial Statements.

ALGER CAPITAL APPRECIATION PORTFOLIO
Statement of Assets and Liabilities December 31, 2016

		Alger Capital Appreciation Portfolio
ASSETS:		
Investments in securities, at value (Identified cost below)* see accompanying schedule of investments	$	503,798,864
Investments in affiliated securities, at value (Identified cost below)** see accompanying schedule of investments		435,290
Cash and cash equivalents		282
Foreign cash †		21
Receivable for investment securities sold		18,381,760
Receivable for shares of beneficial interest sold		2,815,943
Dividends and interest receivable		403,948
Prepaid expenses		41,506
Total Assets		525,877,614
LIABILITIES:		
Payable for investment securities purchased		4,039,289
Payable for shares of beneficial interest redeemed		2,398,698
Payable for interfund loans		1,599,133
Accrued investment advisory fees		366,653
Accrued transfer agent fees		16,799
Accrued distribution fees		8,422
Accrued administrative fees		12,448
Accrued shareholder administrative fees		4,527
Accrued other expenses		90,822
Total Liabilities		8,536,791
NET ASSETS	**$**	**517,340,823**
NET ASSETS CONSIST OF:		
Paid in capital (par value of $.001 per share)		470,730,875
Undistributed net investment income		554,233
Undistributed net realized gain (accumulated realized loss)		(11,790,426)
Net unrealized appreciation on investments		57,846,141
NET ASSETS	**$**	**517,340,823**
* Identified cost	$	445,849,439
** Identified cost	$	538,574
† Cost of foreign cash	$	21

See Notes to Financial Statements.

		Alger Capital Appreciation Portfolio
NET ASSETS BY CLASS:		
Class I-2	$	477,770,891
Class S	$	39,569,932
SHARES OF BENEFICIAL INTEREST OUTSTANDING — NOTE 6:		
Class I-2		7,119,560
Class S		613,515
NET ASSET VALUE PER SHARE:		
Class I-2 — Net Asset Value Per Share Class I-2	$	67.11
Class S — Net Asset Value Per Share Class S	$	64.50

See Notes to Financial Statements.

ALGER CAPITAL APPRECIATION PORTFOLIO
Statement of Operations for the year ended December 31, 2016

		Alger Capital Appreciation Portfolio
INCOME:		
Dividends (net of foreign withholding taxes*)	$	6,900,996
Interest from affiliated securities - Note 11		3,204
Interest		45,920
Total Income		6,950,120
EXPENSES:		
Advisory fees — Note 3(a)		4,428,874
Distribution fees — Note 3(c)		
Class S		96,606
Shareholder administrative fees — Note 3(f)		54,677
Administration fees — Note 3(b)		150,363
Custodian fees		75,396
Interest expenses		133
Transfer agent fees and expenses — Note 3(f)		98,706
Printing fees		98,640
Professional fees		123,804
Registration fees		21,554
Trustee fees — Note 3(g)		22,892
Fund accounting fees		74,177
Miscellaneous		20,465
Total Expenses		5,266,287
NET INVESTMENT INCOME		1,683,833
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY:		
Net realized (loss) on investments		(1,055,854)
Net realized (loss) on foreign currency transactions		(3,438)
Net change in unrealized (depreciation) on investments and foreign currency		(454,271)
Net realized and unrealized (loss) on investments and foreign currency		(1,513,563)
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$**	**170,270**
* Foreign withholding taxes	$	9,508

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, 2016		For the Year Ended December 31, 2015
Net investment income	$	1,683,833	$	958,173
Net realized gain (loss) on investments and foreign currency		(1,059,292)		52,980,024
Net change in unrealized depreciation on investments and foreign currency		(454,271)		(19,848,292)
Net increase in net assets resulting from operations		170,270		34,089,905
Dividends and distributions to shareholders from:				
Net investment income:				
Class I-2		(928,459)		(468,677)
Net realized gains:				
Class I-2		(3,848,649)		(62,137,185)
Class S		(321,992)		(4,470,628)
Total dividends and distributions to shareholders		(5,099,100)		(67,076,490)
Increase (decrease) from shares of beneficial interest transactions:				
Class I-2		(76,834,423)		90,356,282
Class S		125,342		14,498,723
Net increase (decrease) from shares of beneficial interest transactions — Note 6		(76,709,081)		104,855,005
Total increase (decrease)		(81,637,911)		71,868,420
Net Assets:				
Beginning of period		598,978,734		527,110,314
END OF PERIOD	**$**	**517,340,823**	**$**	**598,978,734**
Undistributed net investment income (accumulated loss)	$	554,233	$	(864)

See Notes to Financial Statements.

Alger Capital Appreciation Portfolio

	Class I-2				
	Year ended 12/31/2016	Year ended 12/31/2015	Year ended 12/31/2014	Year ended 12/31/2013	Year ended 12/31/2012
Net asset value, beginning of period	$ 67.42	$ 71.35	$ 73.41	$ 60.81	$ 51.96
INCOME FROM INVESTMENT OPERATIONS:					
Net investment income(i)	0.22	0.13	0.12	0.24	0.69
Net realized and unrealized gain on investments	0.13	4.37	10.04	20.99	8.80
Total from investment operations	0.35	4.50	10.16	21.23	9.49
Dividends from net investment income	(0.13)	(0.06)	(0.08)	(0.27)	(0.62)
Distributions from net realized gains	(0.53)	(8.37)	(12.14)	(8.36)	(0.02)
Net asset value, end of period	$ 67.11	$ 67.42	$ 71.35	$ 73.41	$ 60.81
Total return	0.50%	6.19%	13.75%	35.19%	18.30%
RATIOS/SUPPLEMENTAL DATA:					
Net assets, end of period (000's omitted)	$ 477,771	$ 559,298	$ 499,123	$ 464,465	$ 348,152
Ratio of net expenses to average net assets	0.94%	0.93%	0.94%	0.96%	0.96%
Ratio of net investment income (loss) to average net assets	0.33%	0.18%	0.16%	0.34%	1.18%
Portfolio turnover rate	89.78%	142.01%	143.20%	117.15%	139.19%

See Notes to Financial Statements.

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

Alger Capital Appreciation Portfolio

	Class S				
	Year ended 12/31/2016	Year ended 12/31/2015	Year ended 12/31/2014	Year ended 12/31/2013	Year ended 12/31/2012
Net asset value, beginning of period	$ 64.87	$ 69.08	$ 71.54	$ 59.46	$ 50.72
INCOME FROM INVESTMENT OPERATIONS:					
Net investment income (loss)[(i)]	0.04	(0.06)	(0.08)	0.03	0.48
Net realized and unrealized gain on investments	0.12	4.22	9.76	20.49	8.60
Total from investment operations	0.16	4.16	9.68	20.52	9.08
Dividends from net investment income	–	–	–	(0.08)	(0.32)
Distributions from net realized gains	(0.53)	(8.37)	(12.14)	(8.36)	(0.02)
Net asset value, end of period	$ 64.50	$ 64.87	$ 69.08	$ 71.54	$ 59.46
Total return	0.22%	5.91%	13.45%	34.79%	17.89%
RATIOS/SUPPLEMENTAL DATA:					
Net assets, end of period (000's omitted)	$ 39,570	$ 39,681	$ 27,987	$ 19,750	$ 13,692
Ratio of net expenses to average net assets	1.21%	1.20%	1.21%	1.26%	1.30%
Ratio of net investment income (loss) to average net assets	0.06%	(0.09)%	(0.11)%	0.04%	0.83%
Portfolio turnover rate	89.78%	142.01%	143.20%	117.15%	139.19%

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 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 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.

The industry classifications of the Portfolio's investments, as presented in the accompanying Schedule of Investments, represent management's belief as to the most meaningful presentation of the classification of such investments. For Portfolio compliance purposes, the Portfolio's industry classifications refer to any one or more of the industry sub-classifications used by one or more widely recognized market indexes or rating group indexes, with the primary source being Global Industry Classification Standard (GICS).

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, time to exit 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. Because of the inherent uncertainty and often limited markets for restricted securities, the values may significantly differ from the values if there was an active market.

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 generally 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 reflect 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 2013-2016. 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. All such estimates are of normal recurring nature.

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, 2016, is set forth below under the heading "Actual Rate."

	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Actual Rate
Alger Capital Appreciation Portfolio[(a)]	0.810%	0.650%	0.600%	0.550%	0.450%	0.81%

[(a)] *Tier 1 rate is paid on assets up to $2 billion, Tier 2 rate is paid on assets between $2 to $3 billion, Tier 3 rate is paid on assets in between $3 to $4 billion, Tier 4 rate is paid on assets between $4 to $5 billion, and Tier 5 rate is paid on assets in excess of $5 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, 2016, the Portfolio paid Alger Inc. $123,014, 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. As of December 31, 2016, the Portfolio borrowed $1,599,133 including interest, from other funds advised by Alger Management at a rate of 1.52%, which was callable within seven calendar days.

During the year ended December 31, 2016, the Portfolio incurred interfund loan interest expense of $133 and earned interfund loan interest income of $31.

(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, 2016 through February 29, 2016, each trustee who is not affiliated with Alger Management or its affiliates (each, an "Independent Trustee") received a fee of $25,875 for each board 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 Independent Trustee appointed as Chairman of the Board of Trustees received additional compensation of $24,300 per annum paid pro rata by each fund in the Alger Fund Complex. Additionally, each member of the Audit Committee received a fee of $2,500 for each Audit Committee meeting attended to a maximum of $10,000 per annum, paid pro rata by each fund in the Alger Fund Complex.

Effective March 1, 2016, each Independent Trustee receives a fee of $27,250 for each board meeting attended, to a maximum of $109,000 per annum, paid pro rata by each fund in the Alger Fund Complex, plus travel expenses incurred for attending the meeting. The Independent Trustee appointed as Chairman of the Board of Trustees receives additional compensation of $26,000 per annum paid pro rata by each fund in the Alger Fund Complex. Additionally, each member of the Audit Committee receives a fee of $2,500 for each Audit Committee meeting attended to a maximum of $10,000 per annum, paid pro rata by each fund in the Alger Fund Complex.

(h) Interfund Trades: During the year ended December 31, 2016, the Portfolio engaged in purchase and sale transactions with funds that have a common investment advisor. For the year ended December 31, 2016, these purchases and sales were as follows:

	PURCHASES	SALES
Alger Capital Appreciation Portfolio	$42,850	—

(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, 2016, were as follows:

	PURCHASES	SALES
Alger Capital Appreciation Portfolio	$475,243,474	$539,526,850

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 systems.

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, 2016, the Portfolio had the following borrowings from its custodian and other funds.

	AVERAGE DAILY BORROWING	WEIGHTED AVERAGE INTEREST RATE
Alger Capital Appreciation Portfolio	$ 8,730	1.52%

	HIGHEST BORROWING
Alger Capital Appreciation Portfolio	$ 1,599,000

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, 2016 and the year ended December 31, 2015, transactions of shares of beneficial interest were as follows:

	FOR THE YEAR ENDED DECEMBER 31, 2016		FOR THE YEAR ENDED DECEMBER 31, 2015*	
	SHARES	AMOUNT	SHARES	AMOUNT
Alger Capital Appreciation Portfolio				
Class I-2:				
Shares sold	1,155,883	$ 75,361,544	2,345,883	$ 173,637,745
Dividends reinvested	67,178	4,576,134	891,975	60,725,663
Shares redeemed	(2,399,340)	(156,772,101)	(1,937,786)	(144,007,126)
Net increase (decrease)	**(1,176,279)**	**$ (76,834,423)**	**1,300,072**	**$ 90,356,282**
Class S:				
Shares sold	92,431	$ 5,817,385	212,326	$ 15,346,976
Dividends reinvested	4,917	321,992	68,243	4,470,628
Shares redeemed	(95,484)	(6,014,035)	(74,074)	(5,318,881)
Net increase	**1,864**	**$ 125,342**	**206,495**	**$ 14,498,723**

*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.

NOTE 7 — Income Tax Information:

The tax character of distributions paid during the year ended December 31, 2016 and the year ended December 31, 2015 were as follows:

		FOR THE YEAR ENDED DECEMBER 31, 2016		FOR THE YEAR ENDED DECEMBER 31, 2015
Alger Capital Appreciation Portfolio				
Distributions paid from:				
Ordinary Income	$	928,459	$	2,777,804
Long-term capital gain		4,170,641		64,298,686
Total distributions paid	**$**	**5,099,100**	**$**	**67,076,490**

As of December 31, 2016 the components of accumulated gains (losses) on a tax basis were as follows:

Alger Capital Appreciation Portfolio		
Undistributed ordinary income	$	554,233
Undistributed long-term gains	$	195,048
Net accumulated earnings		749,281
Capital loss carryforwards		—
Net unrealized appreciation		45,860,667
Total accumulated earnings	$	46,609,948

At December 31, 2016, the Portfolio, for federal income tax purposes, had no capital loss carryforwards and no capital loss carryforwards were utilized in 2016.

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 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, 2016:

Alger Capital Appreciation Portfolio		
Accumulated undistributed net investment income (accumulated loss)	$	(200,277)
Accumulated net realized gain (accumulated realized loss)	$	72,626
Paid-in Capital	$	127,651

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, 2016, 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	$ 87,863,937	$ 87,863,937	—	—*
Consumer Staples	23,248,140	23,248,140	—	—
Energy	11,178,858	11,178,858	—	—
Financials	18,161,585	18,161,585	—	—
Health Care	84,223,250	84,223,250	—	—
Industrials	44,986,390	44,986,390	—	—
Information Technology	208,116,688	207,865,669	—	251,019
Materials	10,134,530	10,134,530	—	—
Telecommunication Services	1,355,345	1,355,345	—	—
TOTAL COMMON STOCKS	**$ 489,268,723**	**$ 489,017,704**	**—**	**$ 251,019**
CORPORATE BONDS				
Consumer Discretionary	87,152	—	—	87,152
MASTER LIMITED PARTNERSHIP				
Financials	5,267,850	5,267,850	—	—
PREFERRED STOCKS				
Consumer Discretionary	262,729	—	—	262,729*
Health Care	1,186,913	—	—	1,186,913
Information Technology	1,157,078	—	—	1,157,078
TOTAL PREFERRED STOCKS	**$ 2,606,720**	**—**	**—**	**$ 2,606,720**
REAL ESTATE INVESTMENT TRUST				
Financials	2,607,219	2,607,219	—	—
Real Estate	4,311,081	4,311,081	—	—
TOTAL REAL ESTATE INVESTMENT TRUST	**$ 6,918,300**	**$ 6,918,300**	**—**	**—**
WARRANTS				
Consumer Discretionary	85,409	—	—	85,409
TOTAL INVESTMENTS IN SECURITIES	**$ 504,234,154**	**$ 501,203,854**	**—**	**$ 3,030,300**

* The Portfolio's shares of Choicestream Inc. common stock and Class A preferred stock are classified as Level 3 investments and are fair valued at zero as of December 31, 2016.

Alger Capital Appreciation Portfolio	FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) Common Stocks
Opening balance at January 1, 2016	$ 426,719
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	(175,700)
Purchases and sales	
Purchases	–
Sales	–
Closing balance at December 31, 2016	251,019
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 12/31/2016	$ (175,700)

Alger Capital Appreciation Portfolio	Preferred Stocks
Opening balance at January 1, 2016	$ 2,980,148
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	(373,428)
Purchases and sales	
Purchases	–
Sales	–
Transfers into Level 3	–
Settlements	–
Closing balance at December 31, 2016	2,606,720
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 12/31/2016	$ (373,428)

Alger Capital Appreciation Portfolio	Corporate Bonds
Opening balance at January 1, 2016	$ —
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	87,065
Purchases and sales	
Purchases	87
Sales	–
Closing balance at December 31, 2016	87,152
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 12/31/2016	$ 87,065

		FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Alger Capital Appreciation Portfolio		**Warrants**
Opening balance at January 1, 2016	$	—
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		(1,656)
Purchases and sales		
Purchases		87,065
Sales		–
Closing balance at December 31, 2016		85,409
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 12/31/2016	$	(1,656)

The following table provides quantitative information about our Level 3 fair value measurements of our investments as of December 31, 2016. 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, 2016	Valuation Methodology	Unobservable Input	Input/ Range	Weighted Average
Alger Capital Appreciation Portfolio					
Common Stocks	$ 251,019	Income Approach	Revenue Multiple	9x-17x	N/A
			Discount Rate	20-40%	20%
			Scenario Probability	10-50%	N/A
			Time to Exit	1.1-3.1 Years	N/A
Preferred Stocks	1,186,913	Market Approach	Scenario Probability	80 to 100%	N/A
			Time to Exit	2.5 Years	N/A
			Volatility	88.3%	N/A
Preferred Stocks	1,419,807	Income Approach	Revenue Multiple	9x-17x	N/A
			Discount Rate	20-40%	23.8%
			Scenario Probability	10-50%	N/A
			Time to Exit	1.1-3.1 Years	N/A
Warrants	85,409	Income Approach	Discount Rate	40%	N/A
Corporate Bonds	87,152	Income Approach	Discount Rate	40%	N/A

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, 2016 there were no transfers of securities between Level 1 and Level 2.

Certain of the Portfolio's assets and liabilities are held at carrying amount or face value, which approximates fair value for financial statement purposes. As of December 31, 2016, such assets are categorized within the disclosure hierarchy as follows:

	TOTAL FUND	LEVEL 1	LEVEL 2	LEVEL 3
Cash, Foreign cash and Cash equivalents:	$ 303	$ 21	$ 282	—

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 derivative instruments for the year ended December 31, 2016.

NOTE 10 — Risks:

As of December 31, 2016, the Portfolio invested a significant portion of its assets in securities in the Information Technology sector. Changes in economic conditions affecting that sector would have a greater impact on the Portfolio and could affect the value, income and/or liquidity of positions in such securities. The Portfolio is a diversified fund, and does not concentrate in any industry. Sector and industry weightings will vary.

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.

The Portfolio invests in companies that are not yet available in the public markets and that are accessible only through private equity investments. The Portfolio may also invest in venture capital or private equity funds, direct private equity investments and other investments that may have limited liquidity. There may be no trading market for these securities, and their sale or transfer be limited or prohibited by contract or legal requirements, or may be dependent on an exit strategy, such as an initial public offering or the sale of a business, which may not occur, or may be dependent on managerial assistance provided by other investors and their willingness to provide additional financial support. The securities may be able to be liquidated, if at all, at disadvantageous prices. As a result, the Portfolio may be required to hold these positions for several years, if not longer, regardless of adverse price movements. Such positions may cause the Portfolio to be less liquid than would otherwise be the case.

NOTE 11 — Affiliated Securities:

The issuers of the securities listed below are deemed to be affiliates of the Portfolio because the Portfolio or its affiliates owned 5% or more of the issuer's voting securities during all or part of the year ended December 31, 2016. Purchase and sale transactions and dividend income earned during the period were as follows:

Security	Shares/Par at December 31, 2015	Purchases/	Sales/	Shares/Par at December 31, 2016	Interest Income	Realized Gain (Loss)	Value at December 31, 2016
Alger Capital Appreciation Portfolio							
Common Stocks							
Choicestream, Inc.	23,166	–	–	23,166	–	–	$0
Preferred Stocks							
Choicestream, Inc. Class A & Class B	645,071	–	–	645,071	–	–	262,729
Corporate Bonds							
Choicestream, Inc., 11.0%, 8/05/18	–	87,152	–	87,152	$3,204	–	87,152
Warrants							
Choicestream, Inc., 6/.22/26	–	87,152	–	87,152	–	–	85,409

NOTE 12 — Subsequent Events:

Management of the Portfolio has evaluated events that have occurred subsequent to December 31, 2016 through the issuance date of the financial statements. No such events have been identified which require recognition and/or disclosure.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees of The Alger Portfolios and 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 (the "Fund"), one of the portfolios included in The Alger Portfolios as of December 31, 2016, 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, 2016, 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 the Alger Capital Appreciation Portfolio of The Alger Portfolios as of December 31, 2016, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP
New York, New York
February 23, 2017

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, 2016 and ending December 31, 2016.

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, 2016	Ending Account Value December 31, 2016	Expenses Paid During the Six Months Ended December 31, 2016[a]	Annualized Expense Ratio For the Six Months Ended December 31, 2016[b]
Alger Capital Appreciation Portfolio					
Class I-2	Actual	$ 1,000.00	$ 1,037.98	$ 4.82	0.94%
	Hypothetical[c]	1,000.00	1,020.41	4.77	0.94
Class S	Actual	1,000.00	1,036.55	6.19	1.21
	Hypothetical[c]	1,000.00	1,019.05	6.14	1.21

(a) *Expenses are equal to the annualized expense ratio of the respective share class, multiplied by the average account value over the period, multiple by 184/366 (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 (55)	Fundraising Consultant, Schultz & Williams; Trustee, Pennsylvania Ballet; Formerly Director of Development, Pennsylvania Ballet 2004-2013.	2003	25
NON-INTERESTED TRUSTEE			
Charles F. Baird, Jr. (63)	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 (71)	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 (84)	Attorney. Private Investor since 1981. Formerly of Counsel to the law firm of Kohler & Barnes.	1986	25
David Rosenberg (54)	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. (79)	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 (52) 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 (51) 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 (51) Treasurer	Senior Vice President of Alger Management; Assistant Treasurer since 2004.	2005	N/A
Anthony S. Caputo (61) Assistant Treasurer	Employed by Alger Management since 1986, currently serving as Vice President.	2007	N/A
Sergio M. Pavone (55) Assistant Treasurer	Employed by Alger Management since 2002, currently serving as Vice President.	2007	N/A
Patrick J. Murphy (46) 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
Christopher E. Ullman (32) Assistant Secretary	Associate Counsel of Alger Management since 2016. Formerly, Associate, Legal and Compliance, BlackRock from 2015 to 2016; Compliance Associate, Bridgewater Associates, from 2013 to 2014; and full-time student from 2010 to 2013.	2016	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 27, 2016, 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. They also noted that during the year Alger Management had continued its ongoing efforts to strengthen its investment management team through strategic hires, realignment of portfolio management responsibilities, and similar measures. 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 a Fund 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 Portfolio. 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 6/30/16), second-quarter of 2016, 1-, 3-, and 5-year and longer periods to the extent available (and its year-by-year returns), together with supplemental performance data through 8/31/16, and compared them with benchmark and peer-group data for the same periods. They noted that while the Portfolio's returns for the three- and five-year periods ended 6/30/16 indicated top-quartile overall long-term performance against its peers and returns at or just below its benchmark, the Portfolio had fallen short of its benchmark and the medians of its peers for all shorter stated periods of one year or less ended 6/30/16. Representatives of Alger Management discussed with the Trustees the recent performance of the Portfolio. Throughout, the Trustees were mindful of the point, alluded to in the discussion, that the current market in equity securities favors dividend-paying equities rather than pure growth stocks, a trend directly contrary to the Alger investment approach and tending to depress the prices of growth stocks as compared with those of dividend stocks. 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 breakpoints. 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, 2016. After discussing with representatives of the Adviser and FUSE the expense-allocation practices, which FUSE reported to be consistent with accepted industry practice, 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"), including additional breakpoints added for the Portfolio on June 1, 2016; 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, 2016, 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 Fund 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 as (and if) it grew in size 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. 12/20/16**

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 our affiliates' everyday business purposes — information about your creditworthiness	**No**	**We don't share**
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 Portfolio's 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 Portfolio's 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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ALGER

Inspired by Change, Driven by Growth.

Deutsche
Asset Management

December 31, 2016

Annual Report

Deutsche Variable Series I

Deutsche Bond VIP

Contents

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

Bond investments are subject to interest-rate, credit, liquidity and market risks to varying degrees. When interest rates rise, bond prices generally fall. Credit risk refers to the ability of an issuer to make timely payments of principal and interest. Investments in lower-quality ("junk bonds") and non-rated securities present greater risk of loss than investments in higher-quality securities. Investing in 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 and less liquid 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.

Deutsche AM 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

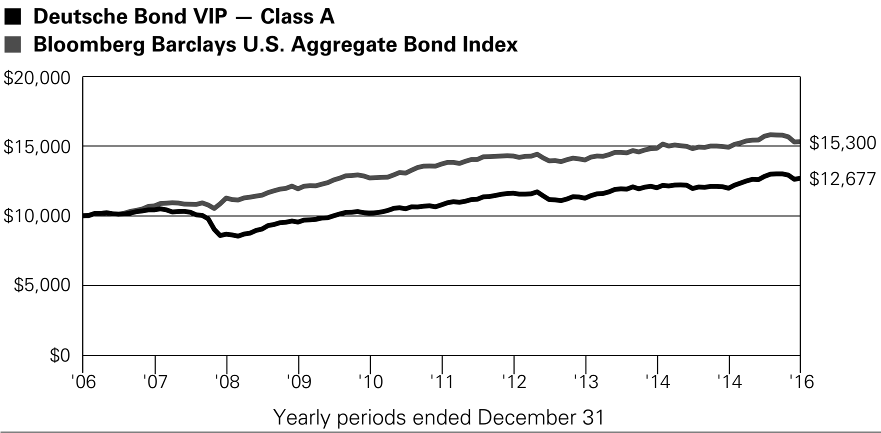
December 31, 2016 (Unaudited)

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, 2016 is 0.69% for Class A shares and may differ from the expense ratio disclosed in the Financial Highlights table in this report.

Generally accepted accounting principles require adjustments to be made to the net assets of the Fund at period end for financial reporting purposes only, and as such, the total return based on the unadjusted net asset value per share may differ from the total return reported in the financial highlights.

Growth of an Assumed $10,000 Investment



The Bloomberg Barclays U.S. Aggregate Bond Index is an unmanaged index representing domestic taxable investment-grade bonds, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities with an average maturity of one year or more.

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

Comparative Results

Deutsche Bond VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,593	$11,262	$11,770	$12,677
	Average annual total return	5.93%	4.04%	3.31%	2.40%
Bloomberg Barclays U.S. Aggregate Bond Index	Growth of $10,000	$10,265	$10,937	$11,167	$15,300
	Average annual total return	2.65%	3.03%	2.23%	4.34%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2016 (Unaudited)

Following the U.S. Federal Reserve Board's (the Fed) rate hike in December of 2015, markets were expecting a series of additional, modest rate increases to be enacted at upcoming Fed meetings. However, this outlook was upended as 2016 opened with a resurgence of concerns around slowing growth in China and weakness in energy prices, sending credit-based assets lower. Credit sentiment would rally from mid-February on, as investors were encouraged by the outlook for even more gradual Fed policy normalization and increased efforts by overseas central banks to stimulate growth, along with a rebound in oil prices off their January lows. In late June, markets were surprised by the results of a U.K. referendum which resulted in a vote to leave the European Union, leading to an investor flight to safety that pushed U.S. Treasury yields down to historical lows. However, credit-sensitive areas of the market would quickly resume their outperformance against a backdrop of supportive central banks and continued strength in commodity prices. Returns for the broad U.S. fixed-income market would turn negative in the wake of the November 8th U.S. election, as interest rates moved up in anticipation of higher growth and inflation under unified Republican control of the government. U.S. Treasury yields trended higher over November and December and economically sensitive segments of the bond market held up better than their more interest-rate-sensitive, higher-quality counterparts.

During the 12-month period ended December 31, 2016, the portfolio provided a total return of 5.93% (Class A shares, unadjusted for contract charges) compared with the 2.65% return of its benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index.[1]

The portfolio's positive performance vs. the benchmark was driven principally by exposure to more credit-sensitive fixed-income sectors. In particular, a significant weighting of investment-grade corporate bonds at the expense of U.S. Treasury securities was a positive contributor to returns during the year.[2,3] In addition, out-of-benchmark exposure to U.S. high-yield corporate bonds worked well in an environment of narrowing credit spreads.[4] Finally, exposure to structured securities in the commercial mortgage-backed and asset-backed sectors added to relative returns, as improving collateral performance and an increasing appetite for high-quality assets with incremental yield supported both sectors. The managers used derivatives as part of implementing the fund's positioning along the yield curve as well to hedge against certain risks, with a modest negative impact on performance. While we remain generally constructive on the outlook for credit fundamentals, spreads have tightened in recent quarters and we closed the annual period with an up-in-quality bias within the credit arena. Concerns over the Fed's resumption of tightening credit conditions are muted, and demand for yield assets continues to be supported by negative interest rates overseas.

John D. Ryan
Gary Russell, CFA
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 Bloomberg Barclays U.S. Aggregate Bond Index is an unmanaged, market-value-weighted measure of Treasury issues, agency issues, corporate bond issues and mortgage securities. Index returns, unlike fund returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

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

3 Contributors and detractors incorporate both a holding's return and its weight. If two holdings have the same return but one has a larger weighting in the fund, it will have a larger contribution to return in the period.

4 Credit spread is the additional yield provided by lower-rated bonds vs. higher-rated bonds with comparable effective maturities.

Portfolio Summary (Unaudited)

Asset Allocation (As a % of Total Net Assets)	12/31/16	12/31/15
Corporate Bonds	49%	22%
Government & Agency Obligations	23%	41%
Mortgage-Backed Securities Pass-Throughs	19%	23%
Asset-Backed	5%	2%
Collateralized Mortgage Obligations	3%	8%
Commercial Mortgage-Backed Securities	2%	4%
Short-Term U.S. Treasury Obligations	1%	1%
Municipal Bonds and Notes	—	1%
Cash Equivalents, Securities Lending Collateral and other Assets and Liabilities, net	–2%	–2%
	100%	100%

Quality (Excludes Cash Equivalents and Securities Lending Collateral)	12/31/16	12/31/15
AAA	47%	65%
AA	5%	3%
A	10%	4%
BBB	22%	15%
BB or Below	15%	9%
Not Rated	1%	4%
	100%	100%

Interest Rate Sensitivity	12/31/16	12/31/15
Effective Maturity	8.7 years	7.4 years
Effective Duration	5.9 years	7.1 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 48.9%		
Consumer Discretionary 6.6%		
AMC Networks, Inc., 5.0%, 4/1/2024	265,000	266,325
Charter Communications Operating LLC:		
3.579%, 7/23/2020	90,000	91,821
4.908%, 7/23/2025	673,000	709,295
6.484%, 10/23/2045	50,000	57,804
Cox Communications, Inc., 144A, 3.35%, 9/15/2026	105,000	100,268
CVS Health Corp., 5.125%, 7/20/2045	110,000	122,589
Ford Motor Co., 5.291%, 12/8/2046	105,000	106,364
General Motors Co.:		
6.6%, 4/1/2036	55,000	62,865
6.75%, 4/1/2046	50,000	58,635
General Motors Financial Co., Inc.:		
2.4%, 5/9/2019	160,000	159,576
3.2%, 7/13/2020	200,000	200,602
3.2%, 7/6/2021	190,000	188,415
Hilton Domestic Operating Co., Inc., 144A, 4.25%, 9/1/2024	310,000	300,700
International Game Technology PLC, 144A, 6.5%, 2/15/2025	300,000	321,750
Lennar Corp., 4.75%, 11/15/2022	300,000	307,500
NCL Corp., Ltd., 144A, 4.75%, 12/15/2021	595,000	594,631
PulteGroup, Inc., 5.0%, 1/15/2027	625,000	593,750
Sabre GLBL, Inc., 144A, 5.375%, 4/15/2023	300,000	306,000
Time Warner, Inc., 3.8%, 2/15/2027	115,000	114,347
Toll Brothers Finance Corp., 4.875%, 11/15/2025	300,000	294,750
Walgreens Boots Alliance, Inc., 4.8%, 11/18/2044	90,000	92,503
		5,050,490
Consumer Staples 1.6%		
Aramark Services, Inc., 144A, 4.75%, 6/1/2026	350,000	346,500
Danone SA, 144A, 2.947%, 11/2/2026	225,000	214,714
Kraft Heinz Foods Co., 4.375%, 6/1/2046	115,000	108,212
Minerva Luxembourg SA, 144A, 6.5%, 9/20/2026	276,000	265,995
Molson Coors Brewing Co.:		
3.0%, 7/15/2026	105,000	99,258
4.2%, 7/15/2046	120,000	111,879
PepsiCo, Inc., 4.45%, 4/14/2046	50,000	53,254
		1,199,812
Energy 6.9%		
Anadarko Petroleum Corp.:		
4.85%, 3/15/2021 (b)	40,000	42,890
5.55%, 3/15/2026 (b)	90,000	100,733
Concho Resources, Inc., 5.5%, 4/1/2023	150,000	155,445
ConocoPhillips Co., 4.15%, 11/15/2034	100,000	97,744
Continental Resources, Inc., 5.0%, 9/15/2022 (b)	150,000	151,409
Enbridge, Inc., 5.5%, 12/1/2046	120,000	128,402
Encana Corp., 5.15%, 11/15/2041	145,000	131,582
Energy Transfer Partners LP, 5.95%, 10/1/2043	90,000	92,756
Ensco PLC, 4.7%, 3/15/2021	90,000	86,573
Halliburton Co., 4.85%, 11/15/2035	195,000	205,652
Kinder Morgan Energy Partners LP:		
4.7%, 11/1/2042	110,000	102,486
6.375%, 3/1/2041	20,000	21,695
Marathon Oil Corp., 5.2%, 6/1/2045	150,000	141,383
Newfield Exploration Co., 5.75%, 1/30/2022	150,000	158,063
Noble Holding International Ltd.:		
5.25%, 3/16/2018	30,000	29,925
7.75%, 1/15/2024	650,000	611,390
ONEOK Partners LP, 3.375%, 10/1/2022	70,000	70,292
Petrobras Global Finance BV, 8.375%, 5/23/2021	575,000	619,563
Petroleos Mexicanos:		
144A, 4.625%, 9/21/2023	135,000	131,328
144A, 5.375%, 3/13/2022	157,000	160,765
Plains All American Pipeline LP:		
2.85%, 1/31/2023	165,000	155,981
4.3%, 1/31/2043	15,000	12,428
4.5%, 12/15/2026	165,000	167,384
Range Resources Corp., 4.875%, 5/15/2025	150,000	145,313
Regency Energy Partners LP, 4.5%, 11/1/2023	130,000	131,914
Rosneft Finance SA, 144A, 7.25%, 2/2/2020	400,000	438,108
Sabine Pass Liquefaction LLC, 144A, 5.0%, 3/15/2027	705,000	711,169
Shell International Finance BV, 4.0%, 5/10/2046	75,000	71,719
Sunoco Logistics Partners Operations LP, 5.3%, 4/1/2044	90,000	86,894
Valero Energy Corp., 3.4%, 9/15/2026	150,000	143,702
		5,304,688
Financials 12.9%		
AerCap Ireland Capital Ltd., 3.95%, 2/1/2022	590,000	595,162
AIA Group Ltd., 144A, 4.5%, 3/16/2046	200,000	199,617
Air Lease Corp., 3.0%, 9/15/2023	130,000	124,200
ANZ New Zealand International Ltd., 144A, 2.125%, 7/28/2021	200,000	194,588
Apollo Investment Corp., 5.25%, 3/3/2025	120,000	116,781
Ares Capital Corp.:		
3.625%, 1/19/2022	180,000	174,498
3.875%, 1/15/2020	200,000	202,795
Banco de Bogota SA, 144A, 6.25%, 5/12/2026	226,000	230,520
Bank of America Corp., 3.5%, 4/19/2026	150,000	148,001
Banque Federative du Credit Mutuel SA, 144A, 2.5%, 4/13/2021	205,000	203,724
Barclays Bank PLC, 144A, 6.05%, 12/4/2017	470,000	485,551
BBVA Bancomer SA, 144A, 6.75%, 9/30/2022	250,000	272,500
Blackstone Holdings Finance Co., LLC, 144A, 5.0%, 6/15/2044	50,000	49,320

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

	Principal Amount ($)(a)	Value ($)
Branch Banking & Trust Co., 1.45%, 5/10/2019	180,000	177,996
Capital One NA, 2.95%, 7/23/2021	510,000	511,890
Credit Agricole SA, 144A, 2.375%, 7/1/2021	250,000	246,166
Credit Suisse Group Funding Guernsey Ltd., 3.8%, 6/9/2023	250,000	249,724
Everest Reinsurance Holdings, Inc., 4.868%, 6/1/2044	100,000	96,991
FS Investment Corp., 4.75%, 5/15/2022	150,000	149,571
GE Capital International Funding Co. Unlimited Co., 4.418%, 11/15/2035	200,000	209,581
HSBC Holdings PLC:		
4.375%, 11/23/2026	200,000	201,485
6.375%, 12/29/2049 (b)	410,000	407,950
Jefferies Group LLC, 5.125%, 4/13/2018	160,000	165,384
JPMorgan Chase & Co., 2.95%, 10/1/2026	215,000	205,215
KKR Group Finance Co. III LLC, 144A, 5.125%, 6/1/2044	70,000	66,091
Legg Mason, Inc., 5.625%, 1/15/2044	100,000	97,380
Loews Corp., 4.125%, 5/15/2043	80,000	76,751
Macquarie Group Ltd., 144A, 6.0%, 1/14/2020	390,000	422,532
Manulife Financial Corp.:		
4.9%, 9/17/2020	80,000	85,819
5.375%, 3/4/2046	110,000	125,492
Massachusetts Mutual Life Insurance Co., 144A, 4.5%, 4/15/2065	30,000	27,516
Morgan Stanley, 3.125%, 7/27/2026	150,000	143,306
Nationwide Building Society, 144A, 2.45%, 7/27/2021	200,000	197,342
Nationwide Financial Services, Inc., 144A, 5.3%, 11/18/2044	90,000	93,721
QBE Insurance Group Ltd., 144A, 2.4%, 5/1/2018	260,000	260,284
Royal Bank of Scotland Group PLC, 3.875%, 9/12/2023	200,000	192,051
Santander Holdings U.S.A., Inc., 2.7%, 5/24/2019	260,000	259,802
Santander UK Group Holdings PLC, 2.875%, 8/5/2021	335,000	327,581
Societe Generale SA, 144A, 7.375%, 12/29/2049	476,000	475,200
Standard Chartered PLC:		
144A, 3.05%, 1/15/2021	200,000	199,760
144A, 4.05%, 4/12/2026	225,000	223,074
Sumitomo Mitsui Financial Group, Inc., 2.058%, 7/14/2021	80,000	77,375
Suncorp-Metway Ltd., 144A, 2.1%, 5/3/2019	95,000	94,384
Swiss Re Treasury U.S. Corp., 144A, 4.25%, 12/6/2042	70,000	68,359
The Goldman Sachs Group, Inc.:		
3.5%, 11/16/2026	65,000	63,504
3.75%, 2/25/2026	150,000	150,441
Voya Financial, Inc., 4.8%, 6/15/2046	120,000	116,646
Wells Fargo & Co., 3.0%, 10/23/2026	250,000	238,099
Woori Bank, 144A, 4.5%, 12/29/2049	250,000	239,941
		9,941,661

	Principal Amount ($)(a)	Value ($)
Health Care 2.8%		
Abbott Laboratories, 2.9%, 11/30/2021	180,000	179,487
Actavis, Inc., 3.25%, 10/1/2022	150,000	149,388
Aetna, Inc., 2.8%, 6/15/2023	85,000	83,726
Amgen, Inc., 2.6%, 8/19/2026	215,000	197,743
Anthem, Inc., 3.3%, 1/15/2023	60,000	59,899
Forest Laboratories LLC, 144A, 4.875%, 2/15/2021	170,000	182,628
HCA, Inc., 5.25%, 6/15/2026	300,000	310,125
Mylan NV, 144A, 5.25%, 6/15/2046	170,000	156,790
Pfizer, Inc.:		
4.0%, 12/15/2036	120,000	122,946
4.125%, 12/15/2046	65,000	66,122
Shire Acquisitions Investments Ireland DAC, 3.2%, 9/23/2026	263,000	245,730
Stryker Corp.:		
3.375%, 11/1/2025	80,000	79,492
4.625%, 3/15/2046	40,000	40,787
Teva Pharmaceutical Finance Netherlands III BV, 2.2%, 7/21/2021	150,000	143,503
UnitedHealth Group, Inc.:		
3.45%, 1/15/2027	50,000	50,791
4.2%, 1/15/2047	80,000	80,920
		2,150,077
Industrials 1.8%		
Artesyn Embedded Technologies, Inc., 144A, 9.75%, 10/15/2020	15,000	13,725
Bombardier, Inc., 144A, 8.75%, 12/1/2021	495,000	525,319
CSX Corp., 4.25%, 11/1/2066	80,000	73,006
FedEx Corp., 4.55%, 4/1/2046	90,000	90,694
Molex Electronic Technologies LLC, 144A, 3.9%, 4/15/2025	70,000	68,859
Northrop Grumman Corp., 3.2%, 2/1/2027	170,000	168,198
Spirit AeroSystems, Inc., 5.25%, 3/15/2022	315,000	329,103
Transurban Finance Co. Pty Ltd., 144A, 3.375%, 3/22/2027	130,000	122,835
		1,391,739
Information Technology 4.5%		
Activision Blizzard, Inc., 144A, 3.4%, 9/15/2026	160,000	151,860
Apple, Inc., 3.45%, 2/9/2045	60,000	52,959
CDW LLC, 6.0%, 8/15/2022	300,000	317,250
Diamond 1 Finance Corp.:		
144A, 3.48%, 6/1/2019	150,000	153,121
144A, 4.42%, 6/15/2021	120,000	124,169
144A, 5.875%, 6/15/2021	1,220,000	1,297,991
144A, 8.1%, 7/15/2036	90,000	107,062
eBay, Inc., 3.8%, 3/9/2022	81,000	83,684
Fidelity National Information Services, Inc., 3.625%, 10/15/2020	140,000	144,938
Hewlett Packard Enterprise Co., 3.6%, 10/15/2020	90,000	91,558
KLA-Tencor Corp., 4.65%, 11/1/2024	50,000	52,931
Microsoft Corp., 3.45%, 8/8/2036	85,000	80,781
NVIDIA Corp.:		
2.2%, 9/16/2021	120,000	117,132
3.2%, 9/16/2026	120,000	115,375

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

	Principal Amount ($)(a)	Value ($)
Quintiles IMS, Inc., 144A, 5.0%, 10/15/2026	250,000	250,625
Seagate HDD Cayman, 5.75%, 12/1/2034	110,000	93,775
Tencent Holdings Ltd., 144A, 3.8%, 2/11/2025 (b)	250,000	253,237
		3,488,448
Materials 5.2%		
AngloGold Ashanti Holdings PLC, 5.125%, 8/1/2022 (b)	250,000	248,525
Cemex SAB de CV, 144A, 7.75%, 4/16/2026	200,000	221,500
CF Industries, Inc.:		
3.45%, 6/1/2023	850,000	764,150
144A, 4.5%, 12/1/2026	70,000	68,802
Equate Petrochemical BV:		
144A, 3.0%, 3/3/2022	365,000	347,648
144A, 4.25%, 11/3/2026	440,000	419,883
Freeport-McMoRan, Inc., 2.375%, 3/15/2018	150,000	148,875
Glencore Funding LLC, 144A, 4.625%, 4/29/2024	40,000	40,900
Mexichem SAB de CV, 144A, 5.875%, 9/17/2044	300,000	267,375
Potash Corp. of Saskatchewan, Inc., 4.0%, 12/15/2026	85,000	85,538
Reynolds Group Issuer, Inc., 5.75%, 10/15/2020	325,000	335,156
Rio Tinto Finance U.S.A. Ltd., 3.75%, 6/15/2025	90,000	92,683
St. Marys Cement, Inc., 144A, 5.75%, 1/28/2027	430,000	412,800
Teck Resources Ltd., 144A, 8.0%, 6/1/2021	135,000	148,500
Yamana Gold, Inc., 4.95%, 7/15/2024	405,000	396,900
		3,999,235
Real Estate 3.5%		
CBL & Associates LP:		
(REIT), 4.6%, 10/15/2024	100,000	93,734
(REIT), 5.25%, 12/1/2023	150,000	147,492
(REIT), 5.95%, 12/15/2026	125,000	125,826
Crown Castle International Corp., (REIT), 5.25%, 1/15/2023	135,000	145,294
Equinix, Inc., (REIT), 5.375%, 4/1/2023	345,000	357,938
Government Properties Income Trust, (REIT), 3.75%, 8/15/2019	110,000	111,208
Hospitality Properties Trust, (REIT), 5.0%, 8/15/2022	220,000	232,256
MGM Growth Properties Operating Partnership LP, 144A, (REIT), 4.5%, 9/1/2026	280,000	268,800
MPT Operating Partnership LP, (REIT), 5.25%, 8/1/2026	50,000	49,000
Omega Healthcare Investors, Inc., (REIT), 4.95%, 4/1/2024	130,000	131,726
Scentre Group Trust 1, 144A, (REIT), 3.5%, 2/12/2025	160,000	157,988
Select Income REIT, (REIT), 4.15%, 2/1/2022	120,000	118,831
Starwood Property Trust, Inc., 144A, 5.0%, 12/15/2021	460,000	466,164
VEREIT Operating Partnership LP, (REIT), 4.125%, 6/1/2021	285,000	289,275
		2,695,532

	Principal Amount ($)(a)	Value ($)
Telecommunication Services 1.4%		
AT&T, Inc.:		
3.4%, 5/15/2025	340,000	327,700
4.5%, 5/15/2035	195,000	188,402
Bharti Airtel International Netherlands BV, 144A, 5.125%, 3/11/2023	300,000	312,673
Verizon Communications, Inc.:		
4.272%, 1/15/2036	150,000	143,569
4.672%, 3/15/2055	115,000	107,998
		1,080,342
Utilities 1.7%		
AmeriGas Partners LP, 5.5%, 5/20/2025	605,000	611,050
Electricite de France SA, 144A, 4.75%, 10/13/2035	150,000	150,494
NRG Energy, Inc., 144A, 6.625%, 1/15/2027	270,000	255,150
Southern Co., 3.25%, 7/1/2026	205,000	199,512
Southern Power Co., Series F, 4.95%, 12/15/2046	87,000	84,776
		1,300,982
Total Corporate Bonds (Cost $37,719,603)		**37,603,006**

Mortgage-Backed Securities Pass-Throughs 19.1%

	Principal Amount ($)(a)	Value ($)
Federal Home Loan Mortgage Corp.:		
4.0%, 8/1/2039	481,644	509,734
5.5%, with various maturities from 10/1/2023 until 6/1/2035	928,973	1,043,589
6.5%, 3/1/2026	133,676	148,971
Federal National Mortgage Association:		
3.0%*, with various maturities from 9/1/2038 until 4/1/2044 (c)	5,243,930	5,211,783
3.5%, 3/1/2046	1,385,907	1,411,085
5.0%, with various maturities from 10/1/2033 until 8/1/2040	908,796	994,624
5.5%, with various maturities from 12/1/2032 until 8/1/2037	960,442	1,073,482
6.0%, with various maturities from 4/1/2024 until 3/1/2025	274,943	311,051
6.5%, with various maturities from 3/1/2017 until 12/1/2037	299,578	344,231
Government National Mortgage Association, 4.0%, with various maturities from 2/15/2041 until 4/15/2041	3,447,082	3,667,458
Total Mortgage-Backed Securities Pass-Throughs (Cost $14,516,499)		**14,716,008**

Asset-Backed 4.8%

Automobile Receivables 0.6%

	Principal Amount ($)(a)	Value ($)
Avis Budget Rental Car Funding AESOP LLC, "C", Series 2015-1A, 144A, 3.96%, 7/20/2021	500,000	**484,947**

Credit Card Receivables 1.3%

	Principal Amount ($)(a)	Value ($)
World Financial Network Credit Card Master Trust, "M", Series 2016-A, 2.33%, 4/15/2025	1,000,000	**979,376**

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

	Principal Amount ($)(a)	Value ($)
Miscellaneous 2.9%		
Hilton Grand Vacations Trust, "B", Series 2014-AA, 144A, 2.07%, 11/25/2026	186,180	183,828
PennyMac LLC, "A1", Series 2015-NPL1, 144A, 4.0%, 3/25/2055	316,915	318,759
Taco Bell Funding LLC, "A2I", Series 2016-1A, 144A, 3.832%, 5/25/2046	743,138	745,831
Telos CLO Ltd., "A1", Series 2014-6A, 144A, 2.179%*, 1/17/2027	500,000	499,517
Voya CLO Ltd., "C", Series 2015-1A, 144A, 4.079%*, 4/18/2027	500,000	480,214
		2,228,149
Total Asset-Backed (Cost $3,721,596)		**3,692,472**

Commercial Mortgage-Backed Securities 2.4%

	Principal Amount ($)(a)	Value ($)
FHLMC Multifamily Structured Pass-Through Certificates:		
"X1", Series K043, Interest Only, 0.548%**, 12/25/2024	4,975,774	182,684
"X1", Series K054, Interest Only, 1.181%**, 1/25/2026	1,846,583	155,915
JPMBB Commercial Mortgage Securities Trust, "A3", Series 2014-C19, 3.669%, 4/15/2047	150,000	156,028
JPMorgan Chase Commercial Mortgage Securities Corp., "A4", Series 2007-C1, 5.716%, 2/15/2051	714,723	730,723
LB-UBS Commercial Mortgage Trust, "A4", Series 2007-C6, 5.858%, 7/15/2040	612,833	617,061
Total Commercial Mortgage-Backed Securities (Cost $1,926,173)		**1,842,411**

Collateralized Mortgage Obligations 3.0%

	Principal Amount ($)(a)	Value ($)
Countrywide Home Loans, "A2", Series 2006-1, 6.0%, 3/25/2036	245,001	207,720
CS First Boston Mortgage Securities Corp., "10A3", Series 2005-10, 6.0%, 11/25/2035	95,399	53,230
Federal Home Loan Mortgage Corp.:		
"PI", Series 4485, Interest Only, 3.5%, 6/15/2045	2,174,280	352,705
"PI", Series 3940, Interest Only, 4.0%, 2/15/2041	356,840	52,648
"C31", Series 303, Interest Only, 4.5%, 12/15/2042	1,636,449	325,455
"JS", Series 3572, Interest Only, 6.096%**, 9/15/2039	350,891	49,897
Federal National Mortgage Association, "SI", Series 2007-23, Interest Only, 6.014%**, 3/25/2037	170,282	25,803
Government National Mortgage Association:		
"PL", Series 2013-19, 2.5%, 2/20/2043	684,500	627,948
"HX", Series 2012-91, 3.0%, 9/20/2040	324,778	330,711
"PI", Series 2015-40, Interest Only, 4.0%, 4/20/2044	430,636	64,739
"PI", Series 2014-108, Interest Only, 4.5%, 12/20/2039	313,859	52,347
"EI", Series 2011-162, Interest Only, 4.5%, 5/20/2040	555,318	32,418
"DI", Series 2011-40, Interest Only, 4.5%, 12/20/2040	768,771	17,615
"IN", Series 2009-69, Interest Only, 5.5%, 8/20/2039	91,185	16,351
"IV", Series 2009-69, Interest Only, 5.5%, 8/20/2039	175,475	34,740
"AI", Series 2007-38, Interest Only, 5.753%**, 6/16/2037	50,144	7,255
"IJ", Series 2009-75, Interest Only, 6.0%, 8/16/2039	78,676	13,546
MASTR Alternative Loans Trust:		
"5A1", Series 2005-1, 5.5%, 1/25/2020	46,002	47,057
"8A1", Series 2004-3, 7.0%, 4/25/2034	7,123	7,585
Total Collateralized Mortgage Obligations (Cost $2,653,440)		**2,319,770**

Government & Agency Obligations 22.9%

Other Government Related (d) 1.6%

		Principal Amount ($)(a)	Value ($)
Novatek OAO, 144A, 6.604%, 2/3/2021		300,000	325,500
Province of New Brunswick Canada, 3.8%, 8/14/2045	CAD	1,000,000	776,807
Vnesheconombank, 144A, 6.902%, 7/9/2020 (b)		150,000	162,045
			1,264,352

Sovereign Bonds 2.1%

	Principal Amount ($)(a)	Value ($)
Japan Bank for International Cooperation, 1.5%, 7/21/2021	700,000	671,145
KazAgro National Management Holding JSC, 144A, 4.625%, 5/24/2023	250,000	234,230
Province of British Columbia Canada, 2.25%, 6/2/2026	500,000	475,630
Republic of Indonesia, 144A, 3.7%, 1/8/2022	265,000	265,596
		1,646,601

U.S. Government Sponsored Agency 0.9%

	Principal Amount ($)(a)	Value ($)
Federal Home Loan Mortgage Corp., 6.25%, 7/15/2032	500,000	**688,070**

U.S. Treasury Obligations 18.3%

	Principal Amount ($)(a)	Value ($)
U.S. Treasury Bond, 2.25%, 8/15/2046 (b)	1,530,000	1,286,455
U.S. Treasury Notes:		
0.75%, 10/31/2017 (e)	4,000,000	3,996,408
1.375%, 5/31/2021	1,260,000	1,234,947
1.75%, 11/30/2021	650,000	645,150
2.0%, 11/15/2026 (b)	7,169,800	6,898,409
		14,061,369
Total Government & Agency Obligations (Cost $17,719,334)		**17,660,392**

Short-Term U.S. Treasury Obligations 1.0%

U.S. Treasury Obligations

	Principal Amount ($)(a)	Value ($)
U.S. Treasury Bills:		
0.4%***, 2/9/2017 (f)	623,000	622,713
0.56%***, 6/1/2017 (f)	181,000	180,533
Total Short-Term U.S. Treasury Obligations (Cost $803,217)		**803,246**

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

	Shares	Value ($)
Securities Lending Collateral 10.9%		
Government & Agency Securities Portfolio "Deutsche Government Cash Institutional Shares", 0.42% (g) (h) (Cost $8,355,835)	8,355,835	**8,355,835**
Cash Equivalents 3.9%		
Deutsche Central Cash Management Government Fund, 0.49% (g) (Cost $2,994,873)	2,994,873	**2,994,873**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $90,410,570)†	116.9	**89,988,013**
Other Assets and Liabilities, Net	(16.9)	**(13,017,235)**
Net Assets	100.0	**76,970,778**

* 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, 2016.

** These securities are shown at their current rate as of December 31, 2016.

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

† The cost for federal income tax purposes was $90,492,875. At December 31, 2016, net unrealized depreciation for all securities based on tax cost was $504,862. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $882,168 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $1,387,030.

(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, 2016 amounted to $8,191,983, which is 10.6% 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, 2016, this security has been pledged, in whole or in part, to cover initial margin requirements for open centrally cleared swap contracts.

(f) At December 31, 2016, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

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

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

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

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.

JSC: Joint Stock Company

REIT: Real Estate Investment Trust

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

At December 31, 2016, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Depreciation ($)
10 Year U.S. Treasury Note	USD	3/22/2017	11	1,367,094	**(8,617)**

At December 31, 2016, open futures contracts sold were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation/ (Depreciation) ($)
Federal Republic of Germany Euro-Bund	EUR	3/8/2017	25	4,319,814	(45,825)
Ultra 10 Year U.S. Treasury Note	USD	3/22/2017	10	1,340,625	10,040
Ultra Long U.S. Treasury Bond	USD	3/22/2017	49	7,852,250	113,226
Total net unrealized appreciation					**77,441**

At December 31, 2016, open interest rate swap contracts were as follows:

Centrally Cleared Swaps

Effective/ Expiration Dates	Notional Amount	Currency	Cash Flows Paid by the Fund	Cash Flows Received by the Fund	Value ($)	Unrealized Appreciation/ (Depreciation) ($)
9/16/2015 9/16/2045	7,195,000	USD	Floating — 3-Month LIBOR	Fixed — 3.0%	650,217	214,545
12/16/2015 9/16/2025	500,000	USD	Floating — 3-Month LIBOR	Fixed — 2.64%	18,078	15,238
12/16/2015 9/17/2035	9,700,000	USD	Floating — 3-Month LIBOR	Fixed — 2.938%	623,796	422,763
12/16/2015 9/18/2045	3,600,000	USD	Floating — 3-Month LIBOR	Fixed — 2.998%	323,584	206,464
9/30/2015 9/30/2045	2,000,000	USD	Fixed — 2.88%	Floating — 3-Month LIBOR	(144,018)	(103,925)

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

Centrally Cleared Swaps

Effective/ Expiration Dates	Notional Amount	Currency	Cash Flows Paid by the Fund	Cash Flows Received by the Fund	Value ($)	Unrealized Appreciation/ (Depreciation) ($)
2/3/2015 2/3/2045	1,800,000	USD	Fixed — 3.035%	Floating — 3-Month LIBOR	(197,172)	(176,358)
12/14/2016 12/14/2046	800,000	CAD	Fixed — 2.386%	Floating — 3-Month CDOR	(6,243)	(6,243)
12/23/2016 12/23/2026	15,200,000	SEK	Fixed — 1.175%	Floating — 3-Month STIBOR	(14,680)	(14,680)
1/28/2015 1/28/2045	2,000,000	USD	Fixed — 3.088%	Floating — 3-Month LIBOR	(242,271)	(222,882)
12/16/2015 9/18/2017	13,600,000	USD	Fixed — 1.557%	Floating — 3-Month LIBOR	(99,765)	(104,128)
12/4/2015 12/4/2045	2,000,000	USD	Fixed — 2.615%	Floating — 3-Month LIBOR	(22,816)	19,024
Total net unrealized appreciation						**249,818**

CDOR: Canadian Dollar Offered Rate; 3-Month CDOR rate at December 31, 2016 is 0.945%.

LIBOR: London Interbank Offered Rate; 3-Month LIBOR rate at December 31, 2016 is 1.00%.

STIBOR: Stockholm Interbank Offered Rates; 3-Month STIBOR rate at December 31, 2016 is –0.59%.

At December 31, 2016, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
CAD	1,068,445	USD	795,519	2/17/2017	**(704)**	Bank of America

Currency Abbreviations

CAD	Canadian Dollar	EUR	Euro	SEK	Swedish Krona	USD	United States Dollar

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

Fair Value Measurements

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

The following is a summary of the inputs used as of December 31, 2016 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Fixed Income Investments (i)				
Corporate Bonds	$ —	$ 37,603,006	$ —	$ 37,603,006
Mortgage-Backed Securities Pass-Throughs	—	14,716,008	—	14,716,008
Asset-Backed	—	3,692,472	—	3,692,472
Commercial Mortgage-Backed Securities	—	1,842,411	—	1,842,411
Collateralized Mortgage Obligations	—	2,319,770	—	2,319,770
Government & Agency Obligations	—	17,660,392	—	17,660,392
Short-Term U.S. Treasury Obligations	—	803,246	—	803,246
Short-Term Investments (i)	11,350,708	—	—	11,350,708
Derivatives (j)				
Futures Contracts	123,266	—	—	123,266
Interest Rate Swap Contracts	—	878,034	—	878,034
Total	**$ 11,473,974**	**$ 79,515,339**	**$ —**	**$ 90,989,313**

Liabilities	Level 1	Level 2	Level 3	Total
Derivatives (j)				
Futures Contracts	$ (54,442)	$ —	$ —	$ (54,442)
Interest Rate Swap Contracts	—	(628,216)	—	(628,216)
Forward Foreign Currency Exchange Contracts	—	(704)	—	(704)
Total	**$ (54,442)**	**$ (628,920)**	**$ —**	**$ (683,362)**

There have been no transfers between fair value measurement levels during the year ended December 31, 2016.

(i) See Investment Portfolio for additional detailed categorizations.

(j) Derivatives include unrealized appreciation (depreciation) on open futures contracts, interest rate swap contracts and forward foreign currency exchange contracts.

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

Statement of Assets and Liabilities

as of December 31, 2016

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $79,059,862) — including $8,191,983 of securities loaned	$	78,637,305
Investment in Government & Agency Securities Portfolio (cost $8,355,835)*		8,355,835
Investment in Deutsche Central Cash Management Government Fund (cost $2,994,873)		2,994,873
Total investments in securities, at value (cost $90,410,570)		89,988,013
Cash		1,119,563
Foreign currency, at value (cost $115,505)		51,243
Receivable for Fund shares sold		28,981
Interest receivable		584,844
Receivable for variation margin on centrally cleared swaps		104,209
Foreign taxes recoverable		1,742
Other assets		1,944
Total assets		91,880,539
Liabilities		
Payable upon return of securities loaned		8,355,835
Payable for investments purchased		1,106,309
Payable for investments purchased — when-issued/delayed delivery securities		5,175,679
Payable for Fund shares redeemed		61,370
Payable for variation margin on futures contracts		52,305
Unrealized depreciation on forward foreign currency exchange contracts		704
Accrued management fee		17,084
Accrued Trustees' fees		1,324
Other accrued expenses and payables		139,151
Total liabilities		14,909,761
Net assets, at value	**$**	**76,970,778**
Net Assets Consist of		
Undistributed net investment income		1,699,560
Net unrealized appreciation (depreciation) on:		
Investments		(422,557)
Swap contracts		249,818
Futures		68,824
Foreign currency		(65,381)
Accumulated net realized gain (loss)		(17,253,292)
Paid-in capital		92,693,806
Net assets, at value	**$**	**76,970,778**
Class A		
Net Asset Value, offering and redemption price per share ($76,970,778 ÷ 13,944,103 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**5.52**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2016

Investment Income		
Income:		
Interest (net of foreign taxes withheld of $399)	$	2,536,470
Dividends		74,159
Income distributions — Deutsche Central Cash Management Government Fund		8,583
Securities lending income, net of borrower rebates		16,545
Other income		37,784
Total income		2,673,541
Expenses:		
Management fee		313,410
Administration fee		80,362
Services to shareholders		1,853
Custodian fee		19,448
Professional fees		92,445
Reports to shareholders		35,037
Trustees' fees and expenses		5,295
Other		81,337
Total expenses before expense reductions		629,187
Expense reductions		(112,296)
Total expenses after expense reductions		516,891
Net investment income		**2,156,650**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		(183,678)
Swap contracts		41,729
Futures		1,303,448
Written options		(12,713)
Foreign currency		153,949
Disposal of investments in violation of restrictions		47,138
		1,349,873
Change in net unrealized appreciation (depreciation) on:		
Investments		1,621,726
Swap contracts		(241,016)
Futures		194,840
Written options		(34,889)
Foreign currency		(511,672)
		1,028,989
Net gain (loss)		**2,378,862**
Net increase (decrease) in net assets resulting from operations	**$**	**4,535,512**

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

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2016	2015
Operations:		
Net investment income	$ 2,156,650	$ 2,448,217
Net realized gain (loss)	1,349,873	(3,320,978)
Change in net unrealized appreciation (depreciation)	1,028,989	782,998
Net increase (decrease) in net assets resulting from operations	4,535,512	(89,763)
Distributions to shareholders from:		
Net investment income:		
Class A	(4,037,321)	(2,926,472)
Fund share transactions:		
Class A		
Proceeds from shares sold	10,928,699	11,060,840
Reinvestment of distributions	4,037,321	2,926,472
Payments for shares redeemed	(18,293,243)	(32,571,389)
Net increase (decrease) in net assets from Class A share transactions	(3,327,223)	(18,584,077)
Increase (decrease) in net assets	(2,829,032)	(21,600,312)
Net assets at beginning of period	79,799,810	101,400,122
Net assets at end of period (including undistributed net investment income of $1,699,560 and $3,494,238, respectively)	**$ 76,970,778**	**$ 79,799,810**

Other Information		
Class A		
Shares outstanding at beginning of period	14,528,974	17,886,425
Shares sold	1,951,337	1,969,516
Shares issued to shareholders in reinvestment of distributions	739,436	520,725
Shares redeemed	(3,275,644)	(5,847,692)
Net increase (decrease) in Class A shares	(584,871)	(3,357,451)
Shares outstanding at end of period	**13,944,103**	**14,528,974**

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

Financial Highlights

Class A	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data					
Net asset value, beginning of period	**$ 5.49**	**$ 5.67**	**$ 5.51**	**$ 5.89**	**$ 5.72**
Income (loss) from investment operations:					
Net investment income[a]	.15	.14	.17	.16	.16
Net realized and unrealized gain (loss)	.17	(.15)	.19	(.33)	.27
Total from investment operations	.32	(.01)	.36	(.17)	.43
Less distributions from:					
Net investment income	(.29)	(.17)	(.20)	(.21)	(.26)
Net asset value, end of period	**$ 5.52**	**$ 5.49**	**$ 5.67**	**$ 5.51**	**$ 5.89**
Total Return (%)	5.93[b]	(.29)[b]	6.63[b]	(3.03)[b]	7.77
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	77	80	101	105	190
Ratio of expenses before expense reductions (%)	.78	.69	.69	.65	.58
Ratio of expenses after expense reductions (%)	.64	.64	.61	.56	.58
Ratio of net investment income (%)	2.68	2.54	2.99	2.88	2.81
Portfolio turnover rate (%)	236	197	273	418	115

[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 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 ("U.S. GAAP") which require the use of management estimates. Actual results could differ from those estimates. The Fund qualifies as an investment company under Topic 946 of Accounting Standards Codification of U.S. GAAP. 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 its securities lending agreement. During the term of the loans, the Fund 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 securities lending agreement. As of period end, any securities on loan were collateralized by cash. During the year ended December 31, 2016, the Fund invested the cash collateral into a joint trading account in affiliated money market funds managed by Deutsche Investment Management Americas Inc. As of December 31, 2016, the Fund invested the cash collateral in Government & Agency Securities Portfolio. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.09% annualized effective rate as of December 31, 2016) on the cash collateral invested in Government & Agency Securities Portfolio. 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 at any time and the borrower, after notice, is required to return borrowed securities within a standard time period. 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, 2016, the Fund had securities on loan, which were classified as corporate bonds, other government related and U.S. Treasury obligations in the Investment Portfolio. The value of the related collateral exceeded the value of the securities loaned at period end.

Remaining Contractual Maturity of the Agreements as of December 31, 2016

	Overnight and Continuous	<30 days	Between 30 & 90 days	>90 days	Total
Securities Lending Transactions					
Corporate Bonds	$ 1,149,350	$ —	$ —	$ —	$ 1,149,350
Other Government Related	56,750	—	—	—	56,750
U.S. Treasury Obligations	7,149,735	—	—	—	7,149,735
Total Borrowings	**$ 8,355,835**	**$ —**	**$ —**	**$ —**	**$ 8,355,835**
Gross amount of recognized liabilities for securities lending transactions					$ 8,355,835

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, 2016, 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 $3,046,000 of post-enactment losses, which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($190,000) and long-term losses ($2,856,000).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2016 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, 2016, the Fund's components of distributable earnings (accumulated losses) on a tax basis are as follows:

Undistributed ordinary income*	$ 1,758,767
Capital loss carryforwards	$ (17,102,000)
Net unrealized appreciation (depreciation) on investments	$ (504,862)

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

	Years Ended December 31, 2016	2015
Distributions from ordinary income*	$ 4,037,321	$ 2,926,472

* 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, 2016, 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, 2016, is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2016, the investment in futures contracts purchased had a total notional value generally indicative of a range from $0 to approximately $20,649,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from approximately $5,237,000 to $13,513,000.

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, 2016, 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 written options contracts as of December 31, 2016. For the year ended December 31, 2016, the investment in written options contracts had a total value generally indicative of a range from $0 to approximately $347,000.

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, 2016, 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.

There are no open credit default swap contract as of December 31, 2016. For the year ended December 31, 2016, the investment in credit default swap contracts sold had a total notional value generally indicative of a range from $0 to $2,500,000.

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, 2016, 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, 2016 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2016, the investment in interest rate swap contracts had a total notional amount generally indicative of a range from $42,395,000 to $58,395,000.

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, 2016, 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, 2016, is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2016, the investment in forward currency contracts U.S. dollars purchased had a total contract value generally indicative of a range from $0 to approximately $18,371,000, and the investment in forward currency contracts U.S. dollars sold had a total contract value generally indicative of a range from $0 to approximately $18,038,000.

The investment in forward currency contracts long vs. other foreign currencies sold had a total contract value generally indicative of a range from $0 to approximately $1,165,000.

The following tables summarize the value of the Fund's derivative instruments held as of December 31, 2016 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivatives	**Swap Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (a)	$ 878,034	$ 123,266	$ 1,001,300

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

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

Liability Derivatives	**Forward Contracts**	**Swap Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (a)	$ —	$ (628,216)	$ (54,442)	$ (682,658)
Foreign Exchange Contracts (b)	(704)	—	—	(704)
	$ (704)	**$ (628,216)**	**$ (54,442)**	**$ (683,362)**

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

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

(b) Unrealized depreciation on forward foreign currency exchange contracts

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the year ended December 31, 2016 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)	$ (12,713)	$ —	$ 166,589	$ 1,303,448	$ 1,457,324
Credit Contracts (b)	—	—	(124,860)	—	(124,860)
Foreign Exchange Contracts (c)	—	114,485	—	—	114,485
	$ (12,713)	**$ 114,485**	**$ 41,729**	**$ 1,303,448**	**$ 1,446,949**

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)	$ (34,889)	$ —	$ (243,196)	$ 194,840	$ (83,245)
Credit Contracts (b)	—	—	2,180	—	2,180
Foreign Exchange Contracts (c)	—	(475,579)	—	—	(475,579)
	$ (34,889)	**$ (475,579)**	**$ (241,016)**	**$ 194,840**	**$ (556,644)**

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 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, 2016, 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 Liabilities Presented in the Statement of Assets and Liabilities	Financial Instruments and Derivatives Available for Offset	Collateral Pledged	Net Amount of Derivative Liabilities
Bank of America	$ 704	$ —	$ —	$ 704

C. Purchases and Sales of Securities

During the year ended December 31, 2016, purchases and sales of investment securities (excluding short-term investments and U.S. Treasury obligations) aggregated $153,968,442 and $144,322,939, respectively. Purchases and sales of U.S. Treasury obligations aggregated $38,762,036 and $51,125,142, respectively.

For the year ended December 31, 2016, transactions for written options on interest rate swap contracts were as follows:

	Contract Amount	Premiums
Outstanding, beginning of period	9,800,000	$ 155,100
Options bought back	(7,800,000)	(132,650)
Options expired	(2,000,000)	(22,450)
Outstanding, end of period	**—**	**$ —**

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, 2016, 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, 2016 through April 30, 2017, 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, 2016, fees waived and/or expenses reimbursed were $112,296.

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, 2016, the Administration Fee was $80,362, of which $6,565 is unpaid.

Service Provider Fees. Deutsche AM 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, 2016, the amounts charged to the Fund by DSC aggregated $568, of which $142 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the year ended December 31, 2016, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $14,764, of which $6,205 is unpaid.

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

Affiliated Cash Management Vehicles. The Fund may invest uninvested cash balances in Deutsche Central Cash Management Government Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. 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. Deutsche Central Cash Management Government 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. Deutsche Central Cash Management Government 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, 2016, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $1,380.

E. Ownership of the Fund

At December 31, 2016, four participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 36%, 25%, 15% 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, 2016.

G. Disposal of Investments in Violation of Restrictions

During the year ended December 31, 2016, the Fund realized a gain of $47,138 due to the disposal of an investment that was in violation of the Fund's investment guidelines. The amount of the gain was 0.06% of the Fund's average net assets.

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, 2016 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, 2016 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 14, 2017

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, 2016 to December 31, 2016).

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, 2016

Actual Fund Return	**Class A**
Beginning Account Value 7/1/16	$1,000.00
Ending Account Value 12/31/16	$ 989.20
Expenses Paid per $1,000*	$ 3.20
Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 7/1/16	$1,000.00
Ending Account Value 12/31/16	$1,021.92
Expenses Paid per $1,000*	$ 3.25

* 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 366.

Annualized Expense Ratio	**Class A**
Deutsche Variable Series I — Deutsche Bond VIP	.64%

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 most recent 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 (hereinafter referred to as the "Board" or "Trustees") approved the renewal of Deutsche Bond VIP's (the "Fund") investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2016.

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

— During the entire process, all of the Fund's Trustees were independent of DIMA and its affiliates (the "Independent Trustees").

— The Board 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 extensive 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 Management ("Deutsche AM") division. Deutsche AM 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 Board 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 invest in Deutsche AM and seek to enhance Deutsche AM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AM 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 and the resources made available to such personnel. 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, 2015, 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 five-year period and has underperformed its benchmark in the one- and three-year periods ended December 31, 2015.

Fees and Expenses. The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Broadridge Financial Solutions, Inc. ("Broadridge") 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 Broadridge peer group (based on Broadridge data provided as of December 31, 2015). 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 Broadridge expense universe (based on Broadridge data provided as of December 31, 2015, and analyzing Broadridge expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Broadridge 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 AM. The Board noted that DIMA indicated that Deutsche AM manages an institutional account comparable to the Fund, but that Deutsche AM 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, seniority and time commitment of the individuals serving as DIMA's and the Fund's chief compliance officers; (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 Independent 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 Keith R. Fox, Deutsche Funds Board Chair, c/o Thomas R. Hiller, Ropes & Gray LLP, Prudential Tower, 800 Boylston Street, Boston, MA 02199-3600. 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
Keith R. Fox, CFA (1954) Chairperson since 2017,[2] and 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)	98	—
Kenneth C. Froewiss (1945) Vice Chairperson since 2017,[2] Board Member since 2001, and Chairperson (2013–December 31, 2016)	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)	98	—
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.[3] (population well-being and wellness services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International	98	Portland General Electric[3] (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); The Pew Charitable Trusts (charitable organization); former Directorships: Becton Dickinson and Company[3] (medical technology company); Belo Corporation[3] (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)	98	—
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: Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: ICI Mutual Insurance Company (2007–2015); Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	98	—
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	98	—

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; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006)	98	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004, and Vice Chairperson (2013–December 31, 2016)	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	98	—
Rebecca W. Rimel (1951) Board Member since 1995	President, Chief Executive Officer and Director, The Pew Charitable Trusts (charitable organization) (1994–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[3] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	98	Director, Becton Dickinson and Company[3] (medical technology company) (2012–present); Director, BioTelemetry Inc.[3] (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[3] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	98	—
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); former Directorships: The William and Flora Hewlett Foundation (charitable organization) (2000–2015); Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	98	—

Officers[5]

Name, Year of Birth, Position with the Fund and Length of Time Served[6]	Business Experience and Directorships During the Past Five Years
Brian E. Binder[9] (1972) President and Chief Executive Officer, 2013–present	Managing Director[4] and Head of US Product and Fund Administration, Deutsche Asset Management (2013–present); Director and President, Deutsche AM Service Company (since 2016); Director and Vice President, Deutsche AM Distributors, Inc. (since 2016); Director and President, DB Investment Managers, Inc. (since 2016); formerly, Head of Business Management and Consulting at Invesco, Ltd. (2010–2012)
John Millette[8] (1962) Vice President and Secretary, 1999–present	Director,[4] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (2015–present); and Director and Vice President, Deutsche AM Trust Company (since 2016)
Hepsen Uzcan[7] (1974) Vice President, since 2016 Assistant Secretary, 2013–present	Director,[4] Deutsche Asset Management
Paul H. Schubert[7] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[4] Deutsche Asset Management, and Chairman, Director and President, Deutsche AM Trust Company (since 2013); Vice President, Deutsche AM Distributors, Inc. (since 2016); formerly, Director, Deutsche AM Trust Company (2004–2013)
Caroline Pearson[8] (1962) Chief Legal Officer, 2010–present	Managing Director,[4] Deutsche Asset Management; Secretary, Deutsche AM Distributors, Inc.; and Secretary, Deutsche AM Service Company

Name, Year of Birth, Position with the Fund and Length of Time Served[6]	Business Experience and Directorships During the Past Five Years
Scott D. Hogan[8] (1970) Chief Compliance Officer, since 2016	Director,[4] Deutsche Asset Management
Wayne Salit[7] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[4] Deutsche Asset Management; AML Compliance Officer, Deutsche AM Distributors, Inc.; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Paul Antosca[8] (1957) Assistant Treasurer, 2007–present	Director,[4] Deutsche Asset Management
Diane Kenneally[8] (1966) Assistant Treasurer, 2007–present	Director,[4] 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 Effective as of January 1, 2017.

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

4 Executive title, not a board directorship.

5 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.

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

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

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

9 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

VS1bond-2 (R-025819-6 2/17)

Deutsche
Asset Management

December 31, 2016

Annual Report

Deutsche Variable Series I

Deutsche Capital Growth VIP

Contents

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

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.

Deutsche AM 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

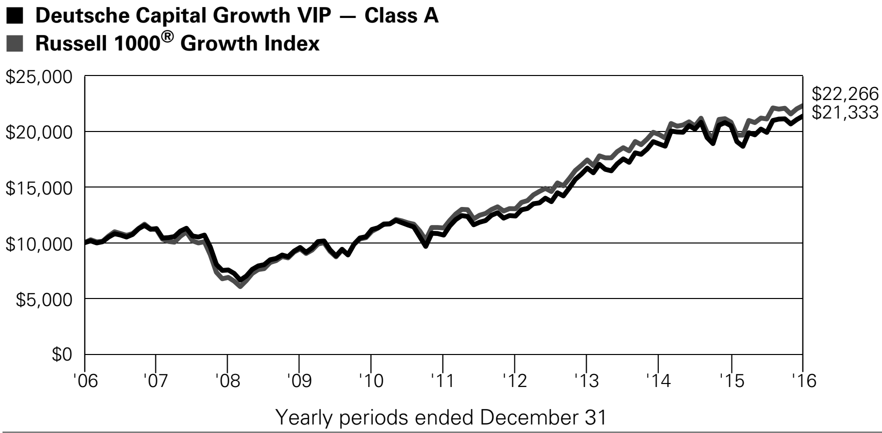
December 31, 2016 (Unaudited)

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, 2016 are 0.49% and 0.76% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

Generally accepted accounting principles require adjustments to be made to the net assets of the Fund at period end for financial reporting purposes only, and as such, the total return based on the unadjusted net asset value per share may differ from the total return reported in the financial highlights.

Growth of an Assumed $10,000 Investment



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.

Comparative Results

Deutsche Capital Growth VIP		**1-Year**	**3-Year**	**5-Year**	**10-Year**
Class A	Growth of $10,000	$10,425	$12,792	$19,988	$21,333
	Average annual total return	4.25%	8.55%	14.86%	7.87%
Russell 1000 Growth Index	Growth of $10,000	$10,708	$12,791	$19,679	$22,266
	Average annual total return	7.08%	8.55%	14.50%	8.33%

Deutsche Capital Growth VIP		**1-Year**	**3-Year**	**5-Year**	**10-Year**
Class B	Growth of $10,000	$10,400	$12,693	$19,692	$20,678
	Average annual total return	4.00%	8.27%	14.51%	7.54%
Russell 1000 Growth Index	Growth of $10,000	$10,708	$12,791	$19,679	$22,266
	Average annual total return	7.08%	8.55%	14.50%	8.33%

The growth of $10,000 is cumulative.

The Fund gained 4.25% (Class A shares, unadjusted for contract charges) during 2016, underperforming the 7.08% return of the Russell 1000® Growth Index.[1]

Consistent with the Fund's bottom-up approach, stock selection was the primary driver of relative performance. Our investments trailed the benchmark components in the consumer discretionary and industrials sectors, which accounted for nearly all of the shortfall.[2] In the former, the deficit was largely the result of two positions. Shares of L Brands, Inc. — the parent of multiple retailers — were hurt by weaker same-store sales of its Victoria's Secret brand, while NIKE, Inc. lagged due to a slowdown in its sales growth rate and rising competitive threats in certain product categories. In the industrials sector, Stericycle, Inc. — which lost ground due to higher business cyclicality and lower growth in its core business — was the leading detractor. Positions in AMETEK, Inc. and Roper Technologies, Inc. also weighed on our performance in industrials.

Although our overall return in health care was on par with the broader sector for the year, certain positions stood out as being notable detractors. Among these were Allergan PLC, which slid after a proposed merger with Pfizer Inc. fell through, as well as Gilead Sciences, Inc. and Shire PLC. The former was hit by pricing pressures, declining sales and a lack of growth catalysts in its product pipeline, while shares of the latter were pressured by concerns about the strategic rationale behind its acquisition of Baxalta.

On the plus side, three portfolio holdings were taken over or bid for in 2016, which provided a healthy boost to relative performance. The natural-foods producer The WhiteWave Foods Co. was bid for by Danone in July, and the biopharmaceutical stock Medivation, Inc. was acquired by Pfizer in August. In addition, BE Aerospace, Inc. received a bid from Rockwell Collins in October. We believe that takeovers of multiple Fund holdings illustrate how our emphasis on companies with robust organic growth can lead us to stocks that are also attractive to corporate buyers.

The semiconductor stock NVIDIA, Inc. was the largest individual contributor to Fund returns.[3] The company benefited not only from the upturn in the graphics-processing chip cycle, but also its exposure to faster-growing market segments such as gaming, automated cars, deep learning and artificial intelligence. Albemarle Corp., a lithium producer that capitalized on the growing use of the commodity in batteries, also made a significant contribution to results.

The Fund's management team changed during the course of the year, but we maintained the same focus on bottom-up security selection that the Fund has employed in the past. Believing a focus on selectivity is likely to become increasingly important following the robust gain for the overall market in 2016, we maintained an emphasis on higher-quality, reasonably valued companies demonstrating above-average organic growth. We believe this approach can help isolate companies with the potential to outperform even if the broader market begins to experience lower returns.

Sebastian P. Werner, PhD
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 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 discretionary represents industries that produce goods and services that are not necessities in everyday life.

3 Contribution and detraction incorporate both a stock's total return and its weighting in the fund.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/16**	**12/31/15**
Common Stocks	99%	98%
Cash Equivalents	1%	2%
Convertible Preferred Stocks	0%	0%
	100%	100%

Sector Diversification (As a % of Common Stocks and Convertible Preferred Stocks)	**12/31/16**	**12/31/15**
Information Technology	31%	28%
Consumer Discretionary	18%	22%
Health Care	17%	18%
Industrials	10%	11%
Consumer Staples	10%	10%
Financials	5%	5%
Materials	4%	3%
Real Estate	2%	—
Telecommunication Services	2%	1%
Energy	1%	1%
Utilities	—	1%
	100%	100%

Portfolio holdings and characteristics are subject to change.

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

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330. The Fund's portfolio holdings are also posted on deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

Investment Portfolio

December 31, 2016

	Shares	Value ($)
Common Stocks 99.3%		
Consumer Discretionary 17.9%		
Hotels, Restaurants & Leisure 0.7%		
Las Vegas Sands Corp.	95,835	**5,118,547**
Household Durables 1.2%		
Newell Brands, Inc.	194,358	**8,678,085**
Internet & Direct Marketing Retail 3.0%		
Amazon.com, Inc.*	29,910	**22,428,612**
Media 5.7%		
Comcast Corp. "A"	199,392	13,768,018
Time Warner, Inc.	118,195	11,409,363
Walt Disney Co.	169,164	17,630,272
		42,807,653
Multiline Retail 0.6%		
Dollar General Corp.	58,377	**4,323,984**
Specialty Retail 5.5%		
Burlington Stores, Inc.*	51,211	4,340,132
Home Depot, Inc.	145,705	19,536,127
L Brands, Inc.	128,338	8,449,774
O'Reilly Automotive, Inc.*	33,500	9,326,735
		41,652,768
Textiles, Apparel & Luxury Goods 1.2%		
NIKE, Inc. "B"	176,903	**8,991,979**
Consumer Staples 9.6%		
Beverages 1.8%		
PepsiCo, Inc.	130,369	**13,640,509**
Food & Staples Retailing 3.4%		
Costco Wholesale Corp.	52,109	8,343,172
CVS Health Corp.	161,343	12,731,576
Rite Aid Corp.*	504,384	4,156,124
		25,230,872
Food Products 3.8%		
Conagra Brands, Inc.	106,265	4,202,781
Mead Johnson Nutrition Co.	142,186	10,061,081
Pinnacle Foods, Inc.	157,609	8,424,201
The WhiteWave Foods Co.*	110,608	6,149,805
		28,837,868
Personal Products 0.6%		
Estee Lauder Companies, Inc. "A"	57,820	**4,422,652**
Energy 1.0%		
Oil, Gas & Consumable Fuels		
Concho Resources, Inc.*	54,087	**7,171,936**
Financials 4.6%		
Banks 1.1%		
SVB Financial Group*	46,692	**8,015,149**
Capital Markets 2.2%		
Intercontinental Exchange, Inc.	140,175	7,908,674
The Charles Schwab Corp.	220,567	8,705,779
		16,614,453
Insurance 1.3%		
Progressive Corp.	280,884	**9,971,382**

	Shares	Value ($)
Health Care 17.1%		
Biotechnology 7.4%		
Alexion Pharmaceuticals, Inc.*	32,934	4,029,475
Biogen, Inc.*	19,956	5,659,123
BioMarin Pharmaceutical, Inc.*	61,410	5,087,204
Celgene Corp.*	173,422	20,073,597
Gilead Sciences, Inc.	185,281	13,267,972
Shire PLC (ADR)	44,935	7,656,025
		55,773,396
Health Care Equipment & Supplies 2.9%		
Becton, Dickinson & Co.	45,462	7,526,234
Danaher Corp.	92,848	7,227,288
The Cooper Companies, Inc.	37,718	6,598,010
		21,351,532
Health Care Providers & Services 2.4%		
Cigna Corp.	89,028	11,875,445
McKesson Corp.	41,534	5,833,450
		17,708,895
Life Sciences Tools & Services 2.2%		
Patheon NV*	138,177	3,967,062
Thermo Fisher Scientific, Inc.	89,607	12,643,548
		16,610,610
Pharmaceuticals 2.2%		
Allergan PLC*	57,286	12,030,633
Bristol-Myers Squibb Co.	78,169	4,568,196
		16,598,829
Industrials 9.8%		
Aerospace & Defense 3.1%		
BE Aerospace, Inc.	73,991	4,453,518
Boeing Co.	94,701	14,743,052
TransDigm Group, Inc.	15,216	3,788,175
		22,984,745
Commercial Services & Supplies 0.5%		
Stericycle, Inc.*	49,966	**3,849,381**
Electrical Equipment 2.3%		
Acuity Brands, Inc.	22,989	5,307,240
AMETEK, Inc.	246,248	11,967,653
		17,274,893
Industrial Conglomerates 1.4%		
Roper Technologies, Inc.	58,054	**10,628,526**
Machinery 0.7%		
Parker-Hannifin Corp.	36,776	**5,148,640**
Professional Services 0.6%		
Equifax, Inc.	38,611	**4,564,979**
Road & Rail 1.2%		
Norfolk Southern Corp.	83,072	**8,977,591**
Information Technology 31.0%		
Internet Software & Services 6.5%		
Alphabet, Inc. "A"*	23,145	18,341,255
Alphabet, Inc. "C"*	21,269	16,415,840
Facebook, Inc. "A"*	124,943	14,374,692
		49,131,787

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

	Shares	Value ($)
IT Services 6.8%		
Cognizant Technology Solutions Corp. "A"*	149,687	8,386,963
Fidelity National Information Services, Inc.	120,745	9,133,152
Fiserv, Inc.*	75,254	7,997,995
Global Payments, Inc.	72,067	5,002,170
Visa, Inc. "A"	262,350	20,468,547
		50,988,827
Semiconductors & Semiconductor Equipment 4.7%		
Broadcom Ltd.	77,291	13,662,730
Intel Corp.	141,779	5,142,324
NVIDIA Corp.	106,891	11,409,546
NXP Semiconductors NV*	51,984	5,094,952
		35,309,552
Software 6.7%		
Adobe Systems, Inc.*	84,272	8,675,802
Microsoft Corp.	584,912	36,346,432
Oracle Corp.	135,652	5,215,819
		50,238,053
Technology Hardware, Storage & Peripherals 6.3%		
Apple, Inc.	407,405	**47,185,647**
Materials 4.2%		
Chemicals 2.2%		
Albemarle Corp.	87,435	7,526,405
PPG Industries, Inc.	97,261	9,216,452
		16,742,857
Construction Materials 1.0%		
Vulcan Materials Co.	61,260	**7,666,689**
Containers & Packaging 1.0%		
Sealed Air Corp.	161,088	**7,303,730**
Real Estate 2.3%		
Equity Real Estate Investment Trusts (REITs)		
Digital Realty Trust, Inc.	98,973	9,725,087
Prologis, Inc.	149,505	7,892,369
		17,617,456
Telecommunication Services 1.8%		
Diversified Telecommunication Services		
Level 3 Communications, Inc.*	108,091	6,092,009
Zayo Group Holdings, Inc.*	227,675	7,481,400
		13,573,409
Total Common Stocks (Cost $471,267,644)		**745,136,473**

Convertible Preferred Stocks 0.1%

	Shares	Value ($)
Health Care 0.1%		
Allergan PLC, Series A, 5.5%	1,100	**838,706**
Industrials 0.0%		
Stericycle, Inc. Series A, 5.25%	3,000	**189,810**
Total Convertible Preferred Stocks (Cost $1,400,000)		**1,028,516**

Cash Equivalents 0.6%

	Shares	Value ($)
Deutsche Central Cash Management Government Fund, 0.49% (a) (Cost $4,250,917)	4,250,917	**4,250,917**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $476,918,561)†	100.0	**750,415,906**
Other Assets and Liabilities, Net	(0.0)	**(311,130)**
Net Assets	100.0	**750,104,776**

* Non-income producing security.

† The cost for federal income tax purposes was $477,571,842. At December 31, 2016, net unrealized appreciation for all securities based on tax cost was $272,844,064. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $290,881,405 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $18,037,341.

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

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, 2016 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Common Stocks (b)	$ 745,136,473	$ —	$ —	$ 745,136,473
Convertible Preferred Stocks (b)	1,028,516	—	—	1,028,516
Short-Term Investments	4,250,917	—	—	4,250,917
Total	**$ 750,415,906**	**$ —**	**$ —**	**$ 750,415,906**

There have been no transfers between fair value measurement levels during the year ended December 31, 2016.

(b) See Investment Portfolio for additional detailed categorizations.

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

Statement of Assets and Liabilities

as of December 31, 2016

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $472,667,644)	$	746,164,989
Investment in Deutsche Central Cash Management Government Fund (cost $4,250,917)		4,250,917
Total investments in securities, at value (cost $476,918,561)		750,415,906
Receivable for Fund shares sold		46,848
Dividends receivable		598,491
Interest receivable		3,289
Other assets		11,945
Total assets		751,076,479
Liabilities		
Payable for investments purchased		75,765
Payable for Fund shares redeemed		484,912
Accrued management fee		239,016
Accrued Trustees' fees		8,436
Other accrued expenses and payables		163,574
Total liabilities		971,703
Net assets, at value	**$**	**750,104,776**
Net Assets Consist of		
Undistributed net investment income		6,098,298
Net unrealized appreciation (depreciation) on Investments		273,497,345
Accumulated net realized gain (loss)		63,073,395
Paid-in capital		407,435,738
Net assets, at value	**$**	**750,104,776**
Class A		
Net Asset Value, offering and redemption price per share ($744,845,540 ÷ 27,895,381 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**26.70**
Class B		
Net Asset Value, offering and redemption price per share ($5,259,236 ÷ 197,662 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**26.61**

Statement of Operations

for the year ended December 31, 2016

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $10,026)	$	9,982,407
Interest		2,119
Income distributions — Deutsche Central Cash Management Government Fund		28,719
Securities lending income, net of borrower rebates		39,376
Other income		121,253
Total income		10,173,874
Expenses:		
Management fee		2,867,050
Administration fee		768,370
Services to shareholders		3,176
Record keeping fee (Class B)		177
Distribution and service fees (Class B)		11,393
Custodian fee		17,132
Professional fees		75,902
Reports to shareholders		52,715
Trustees' fees and expenses		33,870
Other		35,984
Total expenses		3,865,769
Net investment income (loss)		**6,308,105**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from Investments		70,814,016
Change in net unrealized appreciation (depreciation) on investments		(49,459,182)
Net gain (loss)		**21,354,834**
Net increase (decrease) in net assets resulting from operations	**$**	**27,662,939**

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

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2016	2015
Operations:		
Net investment income (loss)	$ 6,308,105	$ 6,307,809
Net realized gain (loss)	70,814,016	73,261,776
Change in net unrealized appreciation (depreciation)	(49,459,182)	(4,793,723)
Net increase (decrease) in net assets resulting from operations	27,662,939	74,775,862
Distributions to shareholders from:		
Net investment income:		
Class A	(6,231,720)	(6,323,352)
Class B	(20,032)	(12,995)
Net realized gains:		
Class A	(66,067,535)	(117,055,763)
Class B	(322,737)	(434,436)
Total distributions	(72,642,024)	(123,826,546)
Fund share transactions:		
Class A		
Proceeds from shares sold	15,616,714	45,298,331
Reinvestment of distributions	72,299,255	123,379,115
Payments for shares redeemed	(147,165,346)	(161,179,658)
Net increase (decrease) in net assets from Class A share transactions	(59,249,377)	7,497,788
Class B		
Proceeds from shares sold	2,848,370	1,114,466
Reinvestment of distributions	342,769	447,431
Payments for shares redeemed	(1,421,396)	(1,187,018)
Net increase (decrease) in net assets from Class B share transactions	1,769,743	374,879
Increase (decrease) in net assets	(102,458,719)	(41,178,017)
Net assets at beginning of period	852,563,495	893,741,512
Net assets at end of period (including undistributed net investment income of $6,098,298 and $6,293,047, respectively)	**$ 750,104,776**	**$ 852,563,495**

Other Information	2016	2015
Class A		
Shares outstanding at beginning of period	30,084,968	29,731,475
Shares sold	591,265	1,580,052
Shares issued to shareholders in reinvestment of distributions	2,877,010	4,417,441
Shares redeemed	(5,657,862)	(5,644,000)
Net increase (decrease) in Class A shares	(2,189,587)	353,493
Shares outstanding at end of period	**27,895,381**	**30,084,968**
Class B		
Shares outstanding at beginning of period	127,214	113,396
Shares sold	111,807	38,768
Shares issued to shareholders in reinvestment of distributions	13,667	16,048
Shares redeemed	(55,026)	(40,998)
Net increase (decrease) in Class B shares	70,448	13,818
Shares outstanding at end of period	**197,662**	**127,214**

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

Financial Highlights

Class A	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data					
Net asset value, beginning of period	**$28.22**	**$29.95**	**$28.41**	**$21.38**	**$18.58**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.21	.20	.21	.21	.28
Net realized and unrealized gain (loss)	.83	2.34	3.18	7.12	2.70
Total from investment operations	1.04	2.54	3.39	7.33	2.98
Less distributions from:					
Net investment income	(.22)	(.22)	(.18)	(.30)	(.18)
Net realized gains	(2.34)	(4.05)	(1.67)	—	—
Total distributions	(2.56)	(4.27)	(1.85)	(.30)	(.18)
Net asset value, end of period	**$26.70**	**$28.22**	**$29.95**	**$28.41**	**$21.38**
Total Return (%)	4.25	8.62	12.97	34.65	16.05
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	745	849	890	837	701
Ratio of expenses (%)	.50	.49	.50	.50	.50
Ratio of net investment income (loss) (%)	.82	.70	.76	.85	1.32
Portfolio turnover rate (%)	35	35	47	37	25

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

Class B	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data					
Net asset value, beginning of period	**$28.12**	**$29.84**	**$28.29**	**$21.29**	**$18.51**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.15	.13	.09	.13	.20
Net realized and unrealized gain (loss)	.83	2.32	3.22	7.10	2.69
Total from investment operations	.98	2.45	3.31	7.23	2.89
Less distributions from:					
Net investment income	(.15)	(.12)	(.09)	(.23)	(.11)
Net realized gains	(2.34)	(4.05)	(1.67)	—	—
Total distributions	(2.49)	(4.17)	(1.76)	(.23)	(.11)
Net asset value, end of period	**$26.61**	**$28.12**	**$29.84**	**$28.29**	**$21.29**
Total Return (%)	4.00	8.33	12.67	34.19	15.61
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	5	4	3	14	13
Ratio of expenses (%)	.76	.76	.80	.83	.83
Ratio of net investment income (loss) (%)	.58	.44	.33	.52	.97
Portfolio turnover rate (%)	35	35	47	37	25

[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 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 ("U.S. GAAP") which require the use of management estimates. Actual results could differ from those estimates. The Fund qualifies as an investment company under Topic 946 of Accounting Standards Codification of U.S. GAAP. 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. Deutsche Bank AG, as lending agent, lends securities of the Fund to certain financial institutions under the terms of its securities lending agreement. During the term of the loans, the Fund 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 securities lending agreement. During the year ended December 31, 2016, the Fund invested the cash collateral into a joint trading account in affiliated money market funds including Government & Agency Securities Portfolio managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.09% annualized effective rate as of December 31, 2016) on the cash collateral invested in Government & Agency Securities Portfolio. 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 at any time and the borrower, after notice, is required to return borrowed securities within a standard time period. 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, 2016, the Fund had no securities on loan.

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, 2016 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, 2016, the Fund's components of distributable earnings (accumulated losses) on a tax basis are as follows:

Undistributed ordinary income*	$ 6,098,298
Undistributed net long-term capital gains	$ 63,742,265
Net unrealized appreciation (depreciation) on investments	$ 272,844,064

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

	Years Ended December 31, 2016	2015
Distributions from ordinary income*	$ 6,765,789	$ 6,336,347
Distributions from long-term capital gains	$ 65,876,235	$117,490,199

* 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, 2016, purchases and sales of investment securities (excluding short-term investments) aggregated $268,736,624 and $381,341,898, 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, 2016, 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, 2016 through September 30, 2016, 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	.79%
Class B	1.05%

Effective October 1, 2016 through September 30, 2017, the Advisor has contractually agreed to waive all or a portion of its fees and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of each class as follows:

Class A	.80%
Class B	1.05%

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, 2016, the Administration Fee was $768,370, of which $64,033 is unpaid.

Service Provider Fees. Deutsche AM 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, 2016, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at December 31, 2016
Class A	$ 788	$ 197
Class B	200	53
	$ 988	**$ 250**

Distribution Service Agreement. Deutsche AM Distributors, Inc. ("DDI"), also an affiliate of the Advisor, is the Trust's 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, 2016, the Distribution Service Fee aggregated $11,393, of which $1,122 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, 2016, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $11,695, of which $4,274 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 Deutsche Central Cash Management Government Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. 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. Deutsche Central Cash Management Government 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. Deutsche Central Cash Management Government 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 lending agent for the Fund. For the year ended December 31, 2016, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $3,404.

D. Ownership of the Fund

At December 31, 2016, three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 48%, 28% 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 47% and 45%, 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, 2016.

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, 2016 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, 2016 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 14, 2017

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, 2016 to December 31, 2016).

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, 2016

Actual Fund Return	Class A	Class B
Beginning Account Value 7/1/16	$1,000.00	$1,000.00
Ending Account Value 12/31/16	$1,073.20	$1,072.10
Expenses Paid per $1,000*	$ 2.61	$ 3.96
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/16	$1,000.00	$1,000.00
Ending Account Value 12/31/16	$1,022.62	$1,021.32
Expenses Paid per $1,000*	$ 2.54	$ 3.86

* 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 366.

Annualized Expense Ratios	Class A	Class B
Deutsche Variable Series I — Deutsche Capital Growth VIP	.50%	.76%

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

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option.

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

Tax Information

(Unaudited)

The Fund paid distributions of $2.32 per share from net long-term capital gains during its year ended December 31, 2016.

Pursuant to Section 852 of the Internal Revenue Code, the Fund designates $70,208,000 as capital gain dividends for its year ended December 31, 2016.

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, 2016 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 most recent 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 (hereinafter referred to as the "Board" or "Trustees") approved the renewal of Deutsche Capital Growth VIP's (the "Fund") investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2016.

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

— During the entire process, all of the Fund's Trustees were independent of DIMA and its affiliates (the "Independent Trustees").

— The Board 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 extensive 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 Management ("Deutsche AM") division. Deutsche AM 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 Board 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 invest in Deutsche AM and seek to enhance Deutsche AM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AM 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 and the resources made available to such personnel. 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, 2015, the Fund's performance (Class A shares) was in the 2nd 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- and three-year periods and has underperformed its benchmark in the five-year period ended December 31, 2015.

Fees and Expenses. The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Broadridge Financial Solutions, Inc. ("Broadridge") 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 Broadridge peer group (based on Broadridge data provided as of December 31, 2015). 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 Broadridge expense universe (based on Broadridge data provided as of December 31, 2015, and analyzing Broadridge expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Broadridge Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Broadridge 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 AM. The Board noted that DIMA indicated that Deutsche AM 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, seniority and time commitment of the individuals serving as DIMA's and the Fund's chief compliance officers; (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 Independent 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 Keith R. Fox, Deutsche Funds Board Chair, c/o Thomas R. Hiller, Ropes & Gray LLP, Prudential Tower, 800 Boylston Street, Boston, MA 02199-3600. 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
Keith R. Fox, CFA (1954) Chairperson since 2017,[2] and 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)	98	—
Kenneth C. Froewiss (1945) Vice Chairperson since 2017,[2] Board Member since 2001, and Chairperson (2013–December 31, 2016)	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)	98	—
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.[3] (population well-being and wellness services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International	98	Portland General Electric[3] (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); The Pew Charitable Trusts (charitable organization); former Directorships: Becton Dickinson and Company[3] (medical technology company); Belo Corporation[3] (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)	98	—
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: Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: ICI Mutual Insurance Company (2007–2015); Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	98	—
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	98	—

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; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006)	98	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004, and Vice Chairperson (2013–December 31, 2016)	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	98	—
Rebecca W. Rimel (1951) Board Member since 1995	President, Chief Executive Officer and Director, The Pew Charitable Trusts (charitable organization) (1994–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[3] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	98	Director, Becton Dickinson and Company[3] (medical technology company) (2012–present); Director, BioTelemetry Inc.[3] (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[3] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	98	—
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); former Directorships: The William and Flora Hewlett Foundation (charitable organization) (2000–2015); Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	98	—

Officers[5]

Name, Year of Birth, Position with the Fund and Length of Time Served[6]	Business Experience and Directorships During the Past Five Years
Brian E. Binder[9] (1972) President and Chief Executive Officer, 2013–present	Managing Director[4] and Head of US Product and Fund Administration, Deutsche Asset Management (2013–present); Director and President, Deutsche AM Service Company (since 2016); Director and Vice President, Deutsche AM Distributors, Inc. (since 2016); Director and President, DB Investment Managers, Inc. (since 2016); formerly, Head of Business Management and Consulting at Invesco, Ltd. (2010–2012)
John Millette[8] (1962) Vice President and Secretary, 1999–present	Director,[4] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (2015–present); and Director and Vice President, Deutsche AM Trust Company (since 2016)
Hepsen Uzcan[7] (1974) Vice President, since 2016 Assistant Secretary, 2013–present	Director,[4] Deutsche Asset Management
Paul H. Schubert[7] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[4] Deutsche Asset Management, and Chairman, Director and President, Deutsche AM Trust Company (since 2013); Vice President, Deutsche AM Distributors, Inc. (since 2016); formerly, Director, Deutsche AM Trust Company (2004–2013)
Caroline Pearson[8] (1962) Chief Legal Officer, 2010–present	Managing Director,[4] Deutsche Asset Management; Secretary, Deutsche AM Distributors, Inc.; and Secretary, Deutsche AM Service Company

Name, Year of Birth, Position with the Fund and Length of Time Served[6]	Business Experience and Directorships During the Past Five Years
Scott D. Hogan[8] (1970) Chief Compliance Officer, since 2016	Director,[4] Deutsche Asset Management
Wayne Salit[7] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[4] Deutsche Asset Management; AML Compliance Officer, Deutsche AM Distributors, Inc.; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Paul Antosca[8] (1957) Assistant Treasurer, 2007–present	Director,[4] Deutsche Asset Management
Diane Kenneally[8] (1966) Assistant Treasurer, 2007–present	Director,[4] 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 Effective as of January 1, 2017.

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

4 Executive title, not a board directorship.

5 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.

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

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

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

9 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-025820-6 2/17)

Deutsche
Asset Management

December 31, 2016

Annual Report

Deutsche Variable Series I

Deutsche Core Equity VIP

Contents

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

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.

Deutsche AM 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

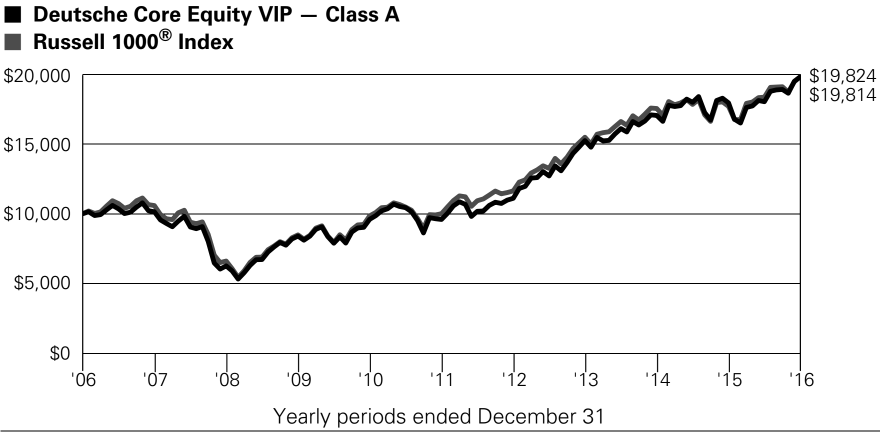
December 31, 2016 (Unaudited)

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, 2016 are 0.56% and 0.83% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

Generally accepted accounting principles require adjustments to be made to the net assets of the Fund at period end for financial reporting purposes only, and as such, the total return based on the unadjusted net asset value per share may differ from the total return reported in the financial highlights.

Growth of an Assumed $10,000 Investment



The Russell 1000® Index is an unmanaged index that measures the performance of the 1,000 largest companies in the Russell 3000® Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index.

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

Comparative Results

Deutsche Core Equity VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$11,048	$13,003	$20,680	$19,814
	Average annual total return	10.48%	9.15%	15.64%	7.08%
Russell 1000® Index	Growth of $10,000	$11,205	$12,805	$19,844	$19,824
	Average annual total return	12.05%	8.59%	14.69%	7.08%

Deutsche Core Equity VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$11,025	$12,899	$20,409	$19,322
	Average annual total return	10.25%	8.85%	15.34%	6.81%
Russell 1000® Index	Growth of $10,000	$11,205	$12,805	$19,844	$19,824
	Average annual total return	12.05%	8.59%	14.69%	7.08%

The growth of $10,000 is cumulative.

Large-cap U.S. equities produced a healthy gain of 12.05% in 2016, based on the Fund's benchmark, the Russell 1000® Index.[1] The Fund returned 10.48% (Class A shares, unadjusted for contract charges), underperforming the index.

Individual stock selection was the primary reason for the Fund's shortfall in the 12-month period ended December 31, 2016. While we added value in the information technology and real estate sectors, this was outweighed by weaker selection in consumer discretionary, financials, industrials and health care.[2]

Our underperformance in the consumer discretionary sector was partially the result of a position in the retailer L Brands, Inc., which was hurt by weaker same-store sales at its Victoria's Secret brand, and NIKE, Inc., which reported lower-than-expected revenues. In financials, we lost some relative performance through certain holdings that generated positive returns but that failed to keep up with the broader sector in the final two months of the year, including Capital One Financial Corp.* and Ameriprise Financial, Inc. However, our investments in bank stocks such as JPMorgan Chase & Co. and U.S. Bancorp performed very well in the late rally and closed the year as strong overall contributors.[3]

In industrials, our deficit was largely the result of our positions in two stocks whose high degree of economic sensitivity caused them to lag in the "growth scare" early in the year: AMETEK, Inc. and Roper Technologies, Inc. Allergan PLC was the Fund's leading detractor in health care. After performing well in late 2015 on the news of a bid from Pfizer, Inc., the stock subsequently plunged in April after the deal was nixed by regulators. Gilead Sciences, Inc. also lagged due to the broader concerns about regulations on pricing in the biotechnology industry. Both Allergan and Gilead remained in the portfolio at the close of the period. On the positive side, the biopharmaceutical stock Medivation, Inc. made a strong contribution after the company was bid for by Pfizer in August.

NVIDIA Corp. — a maker of advanced-processing computer chips being employed in fast-growing applications such automated cars and virtual reality, among other uses — was one of the best-performing stocks in the index in 2016 and a top contributor to Fund performance. The WhiteWave Foods Co., which specializes in natural and organic products, also delivered market-beating returns thanks to a takeover offer from the French company Danone.

The Fund's management team changed during the fourth calendar quarter, leading to a shift in the stock-picking methodology. In managing the portfolio, we use proprietary quantitative models that seek to identify the most attractive stocks in the index based on fundamental factors that have been effective sources of return over time, such as valuation, momentum, profitability, earnings and sales growth. The models are dynamic, using specific factor weights for each industry group. The goal of this process is to maximize returns while maintaining a risk profile similar to that of the benchmark. We made only a handful of changes to the portfolio after we took over, reflecting our desire to minimize turnover while weeding out positions that we expected would underperform or adversely affect the Fund's risk profile.

Pankaj Bhatnagar, PhD
Arno V. Puskar
Di Kumble, 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 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 Consumer discretionary represents industries that produce goods and services that are not necessities in everyday life.

3 Contribution incorporates both a stock's total return and its weighting in the Fund.

* Not held in the portfolio as of December 31, 2016.

Portfolio Summary (Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/16**	**12/31/15**
Common Stocks	99%	99%
Cash Equivalents	1%	1%
Convertible Preferred Stock	0%	0%
Convertible Bond	—	0%
	100%	100%

Sector Diversification (As a % of Common Stocks, Convertible Bond and Convertible Preferred Stocks)	**12/31/16**	**12/31/15**
Information Technology	21%	20%
Financials	17%	13%
Health Care	12%	16%
Consumer Discretionary	11%	14%
Industrials	11%	11%
Consumer Staples	9%	10%
Energy	8%	6%
Real Estate	3%	2%
Utilities	3%	3%
Materials	3%	4%
Telecommunication Services	2%	1%
	100%	100%

Portfolio holdings and characteristics are subject to change.

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

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330. The Fund's portfolio holdings are also posted on deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

Investment Portfolio

December 31, 2016

	Shares	Value ($)
Common Stocks 98.7%		
Consumer Discretionary 11.3%		
Auto Components 0.6%		
BorgWarner, Inc.	25,863	**1,020,037**
Automobiles 0.4%		
Ferrari NV	11,175	**649,714**
Hotels, Restaurants & Leisure 1.4%		
Brinker International, Inc. (a)	29,983	1,485,058
Las Vegas Sands Corp.	14,217	759,330
		2,244,388
Household Durables 0.5%		
Newell Brands, Inc.	17,489	**780,884**
Internet & Direct Marketing Retail 1.6%		
Amazon.com, Inc.*	3,575	**2,680,785**
Media 2.8%		
Comcast Corp. "A"	24,536	1,694,211
Time Warner, Inc.	19,725	1,904,054
Walt Disney Co.	9,694	1,010,309
		4,608,574
Specialty Retail 2.6%		
Advance Auto Parts, Inc.	12,149	2,054,639
Home Depot, Inc.	4,731	634,332
L Brands, Inc.	25,753	1,695,578
		4,384,549
Textiles, Apparel & Luxury Goods 1.4%		
NIKE, Inc. "B"	30,117	1,530,847
VF Corp.	14,113	752,928
		2,283,775
Consumer Staples 9.0%		
Beverages 1.3%		
PepsiCo, Inc.	20,196	**2,113,108**
Food & Staples Retailing 3.9%		
Sysco Corp.	56,631	3,135,658
Wal-Mart Stores, Inc.	22,842	1,578,839
Walgreens Boots Alliance, Inc.	20,434	1,691,118
		6,405,615
Food Products 3.5%		
Conagra Brands, Inc.	34,791	1,375,984
Lamb Weston Holdings, Inc.*	11,597	438,946
Mead Johnson Nutrition Co.	17,635	1,247,853
Pinnacle Foods, Inc.	24,820	1,326,629
The JM Smucker Co.	11,645	1,491,259
		5,880,671
Personal Products 0.3%		
Coty, Inc. "A"	14,041	257,091
Estee Lauder Companies, Inc. "A"	3,270	250,122
		507,213
Energy 7.6%		
Oil, Gas & Consumable Fuels		
Antero Resources Corp.*	15,200	359,480
Chevron Corp.	16,281	1,916,274
Concho Resources, Inc.*	10,676	1,415,638
EOG Resources, Inc.	15,176	1,534,294
EQT Corp.	32,080	2,098,032
Occidental Petroleum Corp.	15,327	1,091,742
Parsley Energy, Inc. "A"*	27,822	980,447
Pioneer Natural Resources Co.	17,731	3,192,821
		12,588,728
Financials 16.4%		
Banks 7.9%		
Citigroup, Inc.	63,498	3,773,686
JPMorgan Chase & Co.	69,986	6,039,092
U.S. Bancorp.	61,431	3,155,710
		12,968,488
Capital Markets 5.7%		
Ameriprise Financial, Inc.	25,266	2,803,010
Bank of New York Mellon Corp.	91,141	4,318,261
Northern Trust Corp.	25,310	2,253,855
		9,375,126
Insurance 2.8%		
Chubb Ltd.	15,035	1,986,424
MetLife, Inc.	49,896	2,688,896
		4,675,320
Health Care 12.0%		
Biotechnology 2.4%		
Celgene Corp.*	3,471	401,768
Gilead Sciences, Inc.	30,764	2,203,010
Shire PLC (ADR)	8,228	1,401,887
		4,006,665
Health Care Equipment & Supplies 1.8%		
Becton, Dickinson & Co.	15,436	2,555,430
Boston Scientific Corp.*	14,640	316,663
		2,872,093
Health Care Providers & Services 1.5%		
Cardinal Health, Inc.	5,088	366,183
Cigna Corp.	9,824	1,310,424
McKesson Corp.	5,634	791,295
		2,467,902
Life Sciences Tools & Services 1.8%		
Patheon NV*	17,089	490,625
Thermo Fisher Scientific, Inc.	17,956	2,533,592
		3,024,217
Pharmaceuticals 4.5%		
Allergan PLC*	8,354	1,754,423
Bristol-Myers Squibb Co.	16,791	981,266
Merck & Co., Inc.	29,400	1,730,778
Pfizer, Inc.	91,431	2,969,679
		7,436,146
Industrials 10.5%		
Aerospace & Defense 1.7%		
Boeing Co.	18,018	**2,805,042**
Electrical Equipment 2.0%		
AMETEK, Inc.	46,649	2,267,141
Regal Beloit Corp.	15,210	1,053,293
		3,320,434
Industrial Conglomerates 3.6%		
General Electric Co.	63,648	2,011,277
Honeywell International, Inc.	13,485	1,562,237
Roper Technologies, Inc.	12,986	2,377,477
		5,950,991

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

	Shares	Value ($)
Machinery 1.6%		
Ingersoll-Rand PLC	15,416	1,156,817
Parker-Hannifin Corp.	10,189	1,426,460
		2,583,277
Road & Rail 1.6%		
Norfolk Southern Corp.	24,746	**2,674,300**
Information Technology 20.4%		
Communications Equipment 1.1%		
Cisco Systems, Inc.	61,881	**1,870,044**
Internet Software & Services 3.3%		
Alphabet, Inc. "A"*	3,367	2,668,179
Alphabet, Inc. "C"*	2,959	2,283,815
Pandora Media, Inc.* (a)	31,840	415,194
		5,367,188
IT Services 3.9%		
Cognizant Technology Solutions Corp. "A"*	17,915	1,003,777
Fidelity National Information Services, Inc.	17,808	1,346,997
Visa, Inc. "A"	51,484	4,016,782
		6,367,556
Semiconductors & Semiconductor Equipment 5.2%		
Analog Devices, Inc.	4,430	321,707
Broadcom Ltd.	4,250	751,272
Intel Corp.	45,685	1,656,995
NVIDIA Corp.	20,457	2,183,580
QUALCOMM, Inc.	9,746	635,439
Texas Instruments, Inc.	16,549	1,207,581
Xilinx, Inc.	28,718	1,733,706
		8,490,280
Software 3.5%		
Microsoft Corp.	92,926	**5,774,422**
Technology Hardware, Storage & Peripherals 3.4%		
Apple, Inc.	48,982	**5,673,095**
Materials 2.9%		
Chemicals 1.4%		
AdvanSix, Inc.*	539	11,934
Albemarle Corp.	16,003	1,377,538
Ecolab, Inc.	7,242	848,907
		2,238,379
Construction Materials 0.9%		
Vulcan Materials Co.	11,844	**1,482,277**
Containers & Packaging 0.3%		
Sealed Air Corp.	12,710	**576,271**
Metals & Mining 0.3%		
Steel Dynamics, Inc.	11,945	**425,003**

	Shares	Value ($)
Real Estate 3.3%		
Equity Real Estate Investment Trusts (REITs)		
Digital Realty Trust, Inc.	30,025	2,950,257
Kimco Realty Corp.	41,071	1,033,346
Prologis, Inc.	27,608	1,457,426
		5,441,029
Telecommunication Services 2.4%		
Diversified Telecommunication Services 0.8%		
Frontier Communications Corp. (a)	416,400	**1,407,432**
Wireless Telecommunication Services 1.6%		
T-Mobile U.S., Inc.*	44,874	**2,580,704**
Utilities 2.9%		
Electric Utilities 0.9%		
NextEra Energy, Inc.	12,464	**1,488,950**
Multi-Utilities 0.6%		
CenterPoint Energy, Inc.	17,865	440,194
MDU Resources Group, Inc.	20,150	579,715
		1,019,909
Water Utilities 1.4%		
American Water Works Co., Inc.	30,765	**2,226,155**
Total Common Stocks (Cost $128,868,346)		**162,736,736**

Convertible Preferred Stock 0.1%

	Shares	Value ($)
Health Care		
Teva Pharmaceutical Industries Ltd., 7.0% (Cost $212,000)	212	**136,740**

Securities Lending Collateral 1.8%

	Shares	Value ($)
Government & Agency Securities Portfolio "Deutsche Government Cash Institutional Shares", 0.42% (b) (c) (Cost $2,983,447)	2,983,447	**2,983,447**

Cash Equivalents 1.1%

	Shares	Value ($)
Deutsche Central Cash Management Government Fund, 0.49% (b) (Cost $1,840,759)	1,840,759	**1,840,759**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $133,904,552)†	101.7	**167,697,682**
Other Assets and Liabilities, Net	(1.7)	**(2,834,195)**
Net Assets	100.0	**164,863,487**

* Non-income producing security.

† The cost for federal income tax purposes was $134,107,991. At December 31, 2016, net unrealized appreciation for all securities based on tax cost was $33,589,691. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $36,135,417 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $2,545,726.

(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, 2016 amounted to $2,882,043, which is 1.7% 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

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, 2016 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)	$162,736,736	$ —	$ —	$162,736,736
Convertible Preferred Stock	136,740	—	—	136,740
Short-Term Investments (d)	4,824,206	—	—	4,824,206
Total	**$167,697,682**	**$ —**	**$ —**	**$167,697,682**

There have been no transfers between fair value measurement levels during the year ended December 31, 2016.

(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, 2016

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $129,080,346) — including $2,882,043 of securities loaned	$	162,873,476
Investment in Government & Agency Securities Portfolio (cost $2,983,447)*		2,983,447
Investment in Deutsche Central Cash Management Government Fund (cost $1,840,759)		1,840,759
Total investments in securities, at value (cost $133,904,552)		167,697,682
Cash		16,166
Receivable for Fund shares sold		174,455
Dividends receivable		198,550
Interest receivable		1,550
Other assets		3,360
Total assets		168,091,763
Liabilities		
Payable upon return of securities loaned		2,983,447
Payable for Fund shares redeemed		82,679
Accrued management fee		54,972
Accrued Trustees' fees		2,369
Other accrued expenses and payables		104,809
Total liabilities		3,228,276
Net assets, at value	**$**	**164,863,487**
Net Assets Consist of		
Undistributed net investment income		2,050,752
Net unrealized appreciation (depreciation) on investments		33,793,130
Accumulated net realized gain (loss)		11,322,543
Paid-in capital		117,697,062
Net assets, at value	**$**	**164,863,487**
Class A		
Net Asset Value, offering and redemption price per share ($162,819,241 ÷ 12,373,665 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**13.16**
Class B		
Net Asset Value, offering and redemption price per share ($2,044,246 ÷ 155,615 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**13.14**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2016

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $2,532)	$	3,004,811
Interest		435
Income distributions — Deutsche Central Cash Management Government Fund		5,629
Securities lending income, net of borrower rebates		7,882
Other Income		73,424
Total income		3,092,181
Expenses:		
Management fee		629,360
Administration fee		161,374
Services to shareholders		1,929
Record keeping fee (Class B)		616
Distribution service fee (Class B)		4,997
Custodian fee		11,882
Professional fees		71,197
Reports to shareholders		32,241
Trustees' fees and expenses		9,533
Other		9,881
Total expenses		933,010
Net investment income		**2,159,171**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from investments		11,458,572
Change in net unrealized appreciation (depreciation) on investments		1,593,775
Net gain (loss)		**13,052,347**
Net increase (decrease) in net assets resulting from operations	**$**	**15,211,518**

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

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2016	2015
Operations:		
Net investment income	$ 2,159,171	$ 2,369,333
Net realized gain (loss)	11,458,572	14,502,719
Change in net unrealized appreciation (depreciation)	1,593,775	(5,598,072)
Net increase (decrease) in net assets resulting from operations	15,211,518	11,273,980
Distributions to shareholders from:		
Net investment income:		
Class A	(2,276,718)	(1,815,630)
Class B	(23,854)	(11,196)
Net realized gains:		
Class A	(14,473,682)	(491,871)
Class B	(187,911)	(4,384)
Total distributions	(16,962,165)	(2,323,081)
Fund share transactions:		
Class A		
Proceeds from shares sold	5,821,528	9,787,413
Reinvestment of distributions	16,750,400	2,307,501
Payments for shares redeemed	(34,089,364)	(65,202,089)
Net increase (decrease) in net assets from Class A share transactions	(11,517,436)	(53,107,175)
Class B		
Proceeds from shares sold	189,791	435,534
Reinvestment of distributions	211,765	15,580
Payments for shares redeemed	(396,205)	(285,169)
Net increase (decrease) in net assets from Class B share transactions	5,351	165,945
Increase (decrease) in net assets	(13,262,732)	(43,990,331)
Net assets at beginning of period	178,126,219	222,116,550
Net assets at end of period (including undistributed net investment income of $2,050,752 and $2,321,097, respectively)	**$ 164,863,487**	**$ 178,126,219**

Other Information		
Class A		
Shares outstanding at beginning of period	13,252,114	17,268,971
Shares sold	461,980	745,068
Shares issued to shareholders in reinvestment of distributions	1,400,535	173,366
Shares redeemed	(2,740,964)	(4,935,291)
Net increase (decrease) in Class A shares	(878,449)	(4,016,857)
Shares outstanding at end of period	**12,373,665**	**13,252,114**
Class B		
Shares outstanding at beginning of period	154,548	142,262
Shares sold	15,369	32,766
Shares issued to shareholders in reinvestment of distributions	17,691	1,171
Shares redeemed	(31,993)	(21,651)
Net increase (decrease) in Class B shares	1,067	12,286
Shares outstanding at end of period	**155,615**	**154,548**

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

Financial Highlights

Class A	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data					
Net asset value, beginning of period	**$13.29**	**$12.76**	**$11.54**	**$ 8.53**	**$ 7.46**
Income (loss) from investment operations:					
Net investment income[a]	.17	.15	.10	.12	.15
Net realized and unrealized gain (loss)	1.09	.52	1.25	3.03	1.03
Total from investment operations	1.26	.67	1.35	3.15	1.18
Less distributions from:					
Net investment income	(.19)	(.11)	(.13)	(.14)	(.11)
Net realized gains	(1.20)	(.03)	—	—	—
Total distributions	(1.39)	(.14)	(.13)	(.14)	(.11)
Net asset value, end of period	**$13.16**	**$13.29**	**$12.76**	**$11.54**	**$ 8.53**
Total Return (%)	10.48	5.25	11.82	37.33	15.81
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	163	176	220	223	180
Ratio of expenses (%)	.57	.56	.57	.56	.59
Ratio of net investment income (%)	1.34	1.11	.86	1.20	1.90
Portfolio turnover rate (%)	43	27	48	238	307

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

Class B	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data					
Net asset value, beginning of period	**$13.26**	**$12.74**	**$11.53**	**$ 8.51**	**$ 7.45**
Income (loss) from investment operations:					
Net investment income[a]	.13	.11	.07	.10	.11
Net realized and unrealized gain (loss)	1.10	.52	1.24	3.03	1.03
Total from investment operations	1.23	.63	1.31	3.13	1.14
Less distributions from:					
Net investment income	(.15)	(.08)	(.10)	(.11)	(.08)
Net realized gains	(1.20)	(.03)	—	—	—
Total distributions	(1.35)	(.11)	(.10)	(.11)	(.08)
Net asset value, end of period	**$13.14**	**$13.26**	**$12.74**	**$11.53**	**$ 8.51**
Total Return (%)	10.25	4.91	11.52	37.10	15.41
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	2	2	2	2	2
Ratio of expenses (%)	.86	.83	.82	.76	.90
Ratio of net investment income (%)	1.06	.84	.60	1.00	1.41
Portfolio turnover rate (%)	43	27	48	238	307

[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 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 ("U.S. GAAP") which require the use of management estimates. Actual results could differ from those estimates. The Fund qualifies as an investment company under Topic 946 of Accounting Standards Codification of U.S. GAAP. 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 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. Prior to October 24, 2016, Brown Brothers Harriman & Co. served as security lending agent for the Fund. Effective October 24, 2016, 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 its securities lending agreement. During the term of the loans, the Fund 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 securities lending agreement. As of period end, any securities on loan were collateralized by cash. During the year ended December 31, 2016, the Fund invested the cash collateral into a joint trading account in affiliated money market funds managed by Deutsche Investment Management Americas Inc. As of December 31, 2016, the Fund invested the cash collateral in Government & Agency Securities Portfolio. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.09% annualized effective rate as of December 31, 2016) on the cash collateral invested in Government & Agency Securities Portfolio. 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 at any time and the borrower, after notice, is required to return borrowed securities within a standard time period. 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, 2016, the Fund had securities on loan, which were classified as common stock in the Investment Portfolio. The value of the related collateral exceeded the value of the securities loaned at period end. As of period end, the remaining contractual maturity of the collateral agreements were overnight and continuous.

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, 2016 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, 2016, the Fund's components of distributable earnings (accumulated losses) on a tax basis are as follows:

Undistributed ordinary income*	$ 3,343,129
Undistributed net long-term capital gains	$ 10,233,600
Net unrealized appreciation (depreciation) on investments	$ 33,589,691

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

	Years Ended December 31,	
	2016	**2015**
Distributions from ordinary income*	$ 4,942,798	$ 1,826,826
Distributions from long-term capital gains	$ 12,019,367	$ 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, 2016, purchases and sales of investment securities (excluding short-term investments) aggregated $69,088,880 and $96,587,834, 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, 2016, 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, 2016 through September 30, 2016, 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	.81%
Class B	1.06%

Effective October 1, 2016 through September 30, 2017, 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	.80%
Class B	1.08%

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, 2016, the Administration Fee was $161,374, of which $14,095 is unpaid.

Service Provider Fees. Deutsche AM 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, 2016, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	**Total Aggregated**	**Unpaid at December 31, 2016**
Class A	$ 609	$ 152
Class B	109	30
	$ 718	**$ 182**

Distribution Service Agreement. Deutsche AM Distributors, Inc. ("DDI"), also an affiliate of the Advisor, is the Trust's 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, 2016, the Distribution Service Fee aggregated $4,997, 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, 2016, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $11,500, of which $4,263 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 Deutsche Central Cash Management Government Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. 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. Deutsche Central Cash Management Government 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. Deutsche Central Cash Management Government 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. Effective October 24, 2016, Deutsche Bank AG serves as lending agent for the Fund. For the year ended December 31, 2016, the Fund incurred lending agent fees to Deutsche Bank AG for the amount of $110.

D. Ownership of the Fund

At December 31, 2016, three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 37%, 34% and 10%, 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 64% and 12%, 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, 2016.

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, 2016 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, 2016 by correspondence with the custodian, brokers and transfer agent, provide a reasonable basis for our opinion.

Boston, Massachusetts
February 14, 2017

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, 2016 to December 31, 2016).

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, 2016

Actual Fund Return	Class A	Class B
Beginning Account Value 7/1/16	$1,000.00	$1,000.00
Ending Account Value 12/31/16	$1,099.40	$1,097.70
Expenses Paid per $1,000*	$ 3.01	$ 4.53

Hypothetical 5% Fund Return	Class A	Class B
Beginning Account Value 7/1/16	$1,000.00	$1,000.00
Ending Account Value 12/31/16	$1,022.27	$1,020.81
Expenses Paid per $1,000*	$ 2.90	$ 4.37

* 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 366.

Annualized Expense Ratios	Class A	Class B
Deutsche Variable Series I — Deutsche Core Equity VIP	.57%	.86%

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 $0.98 per share from net long-term capital gains during its year ended December 31, 2016.

Pursuant to Section 852 of the Internal Revenue Code, the Fund designates $11,285,000 as capital gain dividends for its year ended December 31, 2016.

For corporate shareholders, 66% of the ordinary dividends (i.e., income dividends plus short-term capital gains) paid during the Fund's fiscal year ended December 31, 2016 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 most recent 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 (hereinafter referred to as the "Board" or "Trustees") approved the renewal of Deutsche Core Equity VIP's (the "Fund") investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2016.

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

— During the entire process, all of the Fund's Trustees were independent of DIMA and its affiliates (the "Independent Trustees").

— The Board 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 extensive 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 Management ("Deutsche AM") division. Deutsche AM 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 Board 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 invest in Deutsche AM and seek to enhance Deutsche AM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AM 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 and the resources made available to such personnel. 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, 2015, the Fund's performance (Class A shares) was in the 1st quartile of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in the one-, three- and five-year periods ended December 31, 2015.

Fees and Expenses. The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Broadridge Financial Solutions, Inc. ("Broadridge") 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 Broadridge peer group (based on Broadridge data provided as of December 31, 2015). 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 Broadridge expense universe (based on Broadridge data provided as of December 31, 2015, and analyzing Broadridge expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Broadridge Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Broadridge 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 AM. The Board noted that DIMA indicated that Deutsche AM 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, seniority and time commitment of the individuals serving as DIMA's and the Fund's chief compliance officers; (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 Independent 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 Keith R. Fox, Deutsche Funds Board Chair, c/o Thomas R. Hiller, Ropes & Gray LLP, Prudential Tower, 800 Boylston Street, Boston, MA 02199-3600. 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
Keith R. Fox, CFA (1954) Chairperson since 2017,[2] and 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)	98	—
Kenneth C. Froewiss (1945) Vice Chairperson since 2017,[2] Board Member since 2001, and Chairperson (2013–December 31, 2016)	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)	98	—
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.[3] (population well-being and wellness services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International	98	Portland General Electric[3] (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); The Pew Charitable Trusts (charitable organization); former Directorships: Becton Dickinson and Company[3] (medical technology company); Belo Corporation[3] (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)	98	—
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: Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: ICI Mutual Insurance Company (2007–2015); Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	98	—
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	98	—

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; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006)	98	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004, and Vice Chairperson (2013–December 31, 2016)	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	98	—
Rebecca W. Rimel (1951) Board Member since 1995	President, Chief Executive Officer and Director, The Pew Charitable Trusts (charitable organization) (1994–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[3] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	98	Director, Becton Dickinson and Company[3] (medical technology company) (2012–present); Director, BioTelemetry Inc.[3] (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[3] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	98	—
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); former Directorships: The William and Flora Hewlett Foundation (charitable organization) (2000–2015); Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	98	—

Officers[5]

Name, Year of Birth, Position with the Fund and Length of Time Served[6]	Business Experience and Directorships During the Past Five Years
Brian E. Binder[9] (1972) President and Chief Executive Officer, 2013–present	Managing Director[4] and Head of US Product and Fund Administration, Deutsche Asset Management (2013–present); Director and President, Deutsche AM Service Company (since 2016); Director and Vice President, Deutsche AM Distributors, Inc. (since 2016); Director and President, DB Investment Managers, Inc. (since 2016); formerly, Head of Business Management and Consulting at Invesco, Ltd. (2010–2012)
John Millette[8] (1962) Vice President and Secretary, 1999–present	Director,[4] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (2015–present); and Director and Vice President, Deutsche AM Trust Company (since 2016)
Hepsen Uzcan[7] (1974) Vice President, since 2016 Assistant Secretary, 2013–present	Director,[4] Deutsche Asset Management
Paul H. Schubert[7] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[4] Deutsche Asset Management, and Chairman, Director and President, Deutsche AM Trust Company (since 2013); Vice President, Deutsche AM Distributors, Inc. (since 2016); formerly, Director, Deutsche AM Trust Company (2004–2013)
Caroline Pearson[8] (1962) Chief Legal Officer, 2010–present	Managing Director,[4] Deutsche Asset Management; Secretary, Deutsche AM Distributors, Inc.; and Secretary, Deutsche AM Service Company

Name, Year of Birth, Position with the Fund and Length of Time Served[6]	Business Experience and Directorships During the Past Five Years
Scott D. Hogan[8] (1970) Chief Compliance Officer, since 2016	Director,[4] Deutsche Asset Management
Wayne Salit[7] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[4] Deutsche Asset Management; AML Compliance Officer, Deutsche AM Distributors, Inc.; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Paul Antosca[8] (1957) Assistant Treasurer, 2007–present	Director,[4] Deutsche Asset Management
Diane Kenneally[8] (1966) Assistant Treasurer, 2007–present	Director,[4] 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 Effective as of January 1, 2017.

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

4 Executive title, not a board directorship.

5 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.

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

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

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

9 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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Notes

Deutsche
Asset Management

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Deutsche
Asset Management

December 31, 2016

Annual Report

Deutsche Variable Series I

Deutsche CROCI® International VIP

Contents

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

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 and less liquid 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.

In June 2016, citizens of the United Kingdom approved a referendum to leave the European Union, creating economic and political uncertainty. Significant uncertainty exists regarding the timing of the United Kingdom's anticipated withdrawal from the European Union and the effects such withdrawal may have on the United Kingdom, other European Union countries and the global economy, which could be significant, potentially resulting in increased volatility and illiquidity and lower economic growth.

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

Deutsche AM 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, 2016 (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, 2016 are 1.05% and 1.33% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

Generally accepted accounting principles require adjustments to be made to the net assets of the Fund at period end for financial reporting purposes only, and as such, the total return based on the unadjusted net asset value per share may differ from the total return reported in the financial highlights.

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	$10,074	$8,401	$12,186	$8,176
	Average annual total return	0.74%	–5.64%	4.03%	–1.99%
MSCI EAFE® Index	Growth of $10,000	$10,100	$9,527	$13,722	$10,775
	Average annual total return	1.00%	–1.60%	6.53%	0.75%

Deutsche CROCI® International VIP		**1-Year**	**3-Year**	**5-Year**	**10-Year**
Class B	Growth of $10,000	$10,048	$8,339	$12,022	$7,966
	Average annual total return	0.48%	–5.87%	3.75%	–2.25%
MSCI EAFE® Index	Growth of $10,000	$10,100	$9,527	$13,722	$10,775
	Average annual total return	1.00%	–1.60%	6.53%	0.75%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2016 (Unaudited)

The Fund returned 0.74% (Class A, unadjusted for contract charges) during 2016, underperforming the 1.00% return of its benchmark, the MSCI EAFE Index.[1] International stocks, experienced flat returns in U.S. dollar terms in the past year, with weakness in Europe offsetting a somewhat stronger showing in the Asia-Pacific region.

Three factors typically drive the Fund's results: sector allocations, stock selection and the impact of currencies. Both allocations and stock selection detracted in 2016, while currency hedging was positive.

Looking first at allocations, the Fund's underweight in the energy and materials sectors, both of which delivered market-beating returns behind the recovery in oil and other commodities, was the most significant headwind.[2] Overweight positions in the utilities and consumer discretionary sectors also detracted from returns.[3] On the positive side, the Fund benefited from being overweight in the strong-performing industrials sector.

With regard to stock selection, a significant amount of the shortfall stemmed from our underperformance in the consumer discretionary group. All of the major detractors in the sector were U.K.-based companies that weakened on concerns about the potential economic fallout from the United Kingdom's vote to leave the European Union, including the retailer Next PLC* and the homebuilding companies Barratt Developments PLC and Taylor Wimpey PLC. Similarly, holdings in British companies caused the Fund to underperform in industrials. The airline operator easyJet PLC, which issued a profit warning late in the period, was the primary detractor from performance, followed by the home-improvement retailer Travis Perkins PLC.* Information technology also proved to be a challenging area for the Fund due to the weakness in LM Ericsson Telefon AB,* which reported disappointing earnings results.

On the plus side, we added value in health care by limiting the downside in what proved to be the worst-performing sector of 2016. Actelion Pharmaceuticals Ltd., a Swiss pharmaceuticals and biotechnology company, surged in the final two months of the year on news that U.S.-based Johnson & Johnson was in talks to acquire the company and break it up in order to recognize value. The Swiss materials company Sika AG — which rose on the strength of robust earnings and improving profit margins — also contributed to performance, as did the Japanese industrials stocks Mitsubishi Electric Corp.* and JGC Corp.

The Fund's currency hedging strategy had a favorable effect on results. The purpose of hedging is not to make active currency "bets," but rather to maximize the influence of stock selection by shifting the portfolio's currency exposure into U.S. dollars through the use of derivatives. Foreign currencies declined against the dollar as a group, so this aspect of our strategy made a positive contribution to returns.

The markets offer a mixed picture at the close of the year. Global economic growth remains below the long-term trend, and the valuation of the broader market is somewhat extended given the shaky outlook for corporate earnings. At the same time, however, the combination of stimulative global central bank policy and low bond yields has acted as an ongoing source of support for stocks. In this uncertain environment, our strategy is to maintain an emphasis on our disciplined, systematic approach to stock selection, rather than trying to construct a portfolio on the basis of economic developments or short-term market movements.

Di Kumble, CFA
John Moody
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 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 in a given sector or security than the benchmark. "Underweight" means it holds a lower weighting.

3 Consumer discretionary represents industries that produce goods and services that are not necessities in everyday life.

* Not held in the portfolio as of December 31, 2016.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/16**	**12/31/15**
Common Stocks	94%	99%
Cash Equivalents	6%	1%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/16**	**12/31/15**
United Kingdom	27%	29%
Japan	23%	23%
Switzerland	19%	14%
Germany	8%	4%
Hong Kong	7%	6%
France	6%	8%
Singapore	4%	4%
Spain	4%	4%
Netherlands	2%	2%
Sweden	—	2%
Denmark	—	2%
Australia	—	2%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/16**	**12/31/15**
Industrials	28%	30%
Consumer Discretionary	23%	30%
Health Care	17%	8%
Utilities	17%	16%
Consumer Staples	11%	2%
Materials	4%	10%
Information Technology	—	4%
	100%	100%

Portfolio holdings and characteristics are subject to change.

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

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330. The Fund's portfolio holdings are also posted on deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

Investment Portfolio

December 31, 2016

	Shares	Value ($)
Common Stocks 94.0%		
France 5.6%		
Cie Generale des Etablissements Michelin	16,379	1,824,788
Danone SA	25,265	1,602,743
Sanofi	23,299	1,887,183
(Cost $5,702,339)		**5,314,714**
Germany 7.7%		
Bayer AG (Registered)	17,745	1,851,825
Beiersdorf AG	20,054	1,701,245
Continental AG	9,161	1,765,209
Siemens AG (Registered)	15,418	1,897,147
(Cost $7,320,335)		**7,215,426**
Hong Kong 6.6%		
CLP Holdings Ltd.	173,649	1,596,930
HK Electric Investments & HK Electric Investments Ltd. "SS", 144A, (Units)	1,790,000	1,477,166
Hong Kong & China Gas Co., Ltd.	906,757	1,607,895
MTR Corp., Ltd.	317,231	1,543,190
(Cost $5,921,362)		**6,225,181**
Japan 21.8%		
Astellas Pharma, Inc.	118,000	1,640,952
Bridgestone Corp.	45,808	1,651,756
Central Japan Railway Co.	10,200	1,678,906
Daiichi Sankyo Co., Ltd.	75,300	1,540,169
Fuji Heavy Industries Ltd.	45,300	1,849,804
Isuzu Motors Ltd.	143,200	1,813,523
JGC Corp.	97,793	1,777,779
Osaka Gas Co., Ltd.	417,000	1,602,986
Secom Co., Ltd.	23,800	1,741,039
Tokyo Gas Co., Ltd.	378,000	1,709,779
Toyota Industries Corp.	37,335	1,778,240
Toyota Motor Corp.	30,500	1,793,561
(Cost $20,026,273)		**20,578,494**
Netherlands 1.8%		
Koninklijke DSM NV (Cost $1,829,163)	27,614	**1,657,169**
Singapore 3.6%		
Keppel Corp., Ltd.	460,816	1,842,836
Singapore Airlines Ltd.	239,041	1,596,828
(Cost $4,608,833)		**3,439,664**
Spain 3.6%		
Gas Natural SDG SA	89,304	1,685,777
Iberdrola SA	258,349	1,696,425
(Cost $3,970,310)		**3,382,202**
Switzerland 18.3%		
ABB Ltd. (Registered)*	84,641	1,785,360
Actelion Ltd. (Registered)*	12,138	2,625,489
Adecco Group AG (Registered)	29,431	1,927,625
Kuehne + Nagel International AG (Registered)	12,932	1,711,207
Nestle SA (Registered)	23,762	1,705,083
Novartis AG (Registered)	24,361	1,770,935
Roche Holding AG (Genusschein)	7,553	1,725,087
Sika AG (Bearer)	392	1,882,894
Wolseley PLC	33,999	2,080,040
(Cost $16,060,993)		**17,213,720**
United Kingdom 25.0%		
BAE Systems PLC	263,116	1,919,652
Barratt Developments PLC	326,122	1,860,806
British American Tobacco PLC	31,042	1,768,903
Bunzl PLC	65,478	1,703,891
Diageo PLC	65,388	1,701,592
easyJet PLC	155,413	1,927,646
Imperial Brands PLC	36,347	1,588,305
ITV PLC	831,697	2,121,943
National Grid PLC	135,288	1,587,651
Persimmon PLC	85,658	1,878,408
Rolls-Royce Holdings PLC "C" (Entitlement Shares)*	16,295,991	20,083
Severn Trent PLC	62,044	1,700,165
Smith & Nephew PLC	119,979	1,805,932
Taylor Wimpey PLC	1,030,490	1,952,216
(Cost $28,533,694)		**23,537,193**
Total Common Stocks (Cost $93,973,302)		**88,563,763**
Cash Equivalents 6.4%		
Deutsche Central Cash Management Government Fund, 0.49% (a) (Cost $5,968,478)	5,968,478	**5,968,478**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $99,941,780)†	100.4	**94,532,241**
Other Assets and Liabilities, Net	(0.4)	**(351,620)**
Net Assets	100.0	**94,180,621**

* Non-income producing security.

† The cost for federal income tax purposes was $100,863,979. At December 31, 2016, net unrealized depreciation for all securities based on tax cost was $6,331,738. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $3,689,056 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $10,020,794.

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

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

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

As of December 31, 2016, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
USD	62,581	HKD	485,477	2/1/2017	**37**	Merrill Lynch & Co., Inc.

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
USD	364,297	JPY	42,498,648	1/31/2017	(20)	Merrill Lynch & Co., Inc.
AUD	14,452	USD	10,388	1/31/2017	(33)	Merrill Lynch & Co., Inc.
CHF	15,346,334	USD	14,955,968	1/31/2017	(149,435)	Merrill Lynch & Co., Inc.
EUR	16,516,054	USD	17,298,948	1/31/2017	(115,421)	Merrill Lynch & Co., Inc.
GBP	20,781,183	USD	25,532,821	1/31/2017	(100,348)	Merrill Lynch & Co., Inc.
JPY	2,457,077,502	USD	20,990,293	1/31/2017	(70,573)	Merrill Lynch & Co., Inc.
SEK	90,229	USD	9,798	1/31/2017	(126)	Merrill Lynch & Co., Inc.
SGD	5,025,655	USD	3,468,390	1/31/2017	(1,144)	Merrill Lynch & Co., Inc.
HKD	48,660,491	USD	6,272,636	2/1/2017	(3,646)	Merrill Lynch & Co., Inc.
Total unrealized depreciation					**(440,746)**	

Currency Abbreviations

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

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, 2016 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				
France	$ —	$ 5,314,714	$ —	$ 5,314,714
Germany	—	7,215,426	—	7,215,426
Hong Kong	—	6,225,181	—	6,225,181
Japan	—	20,578,494	—	20,578,494
Netherlands	—	1,657,169	—	1,657,169
Singapore	—	3,439,664	—	3,439,664
Spain	—	3,382,202	—	3,382,202
Switzerland	—	17,213,720	—	17,213,720
United Kingdom	20,083	23,517,110	—	23,537,193
Short-Term Investments	5,968,478	—	—	5,968,478
Derivatives (b)				
Forward Foreign Currency Exchange Contracts	—	37	—	37
Total	**$ 5,988,561**	**$ 88,543,717**	**$ —**	**$ 94,532,278**

Liabilities	Level 1	Level 2	Level 3	Level 2
Derivatives (b)				
Forward Foreign Currency Exchange Contracts	$ —	$ (440,746)	$ —	$ (440,746)
Total	**$ —**	**$ (440,746)**	**$ —**	**$ (440,746)**

There have been no transfers between fair value measurement levels during the year ended December 31, 2016.

(b) 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, 2016

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $93,973,302)	$	88,563,763
Investment in Deutsche Central Cash Management Government Fund (cost $5,968,478)		5,968,478
Total investments, at value (cost $99,941,780)		94,532,241
Foreign currency, at value (cost $155,237)		154,191
Receivable for Fund shares sold		5,808
Dividends receivable		83,945
Interest receivable		1,733
Unrealized appreciation on forward foreign currency exchange contracts		37
Foreign taxes recoverable		126,007
Other assets		3,809
Total assets		94,907,771
Liabilities		
Payable for Fund shares redeemed		109,430
Unrealized depreciation on forward foreign currency exchange contracts		440,746
Accrued management fee		62,376
Accrued Trustees' fees		2,079
Other accrued expenses and payables		112,519
Total liabilities		727,150
Net assets, at value	**$**	**94,180,621**
Net Assets Consist of		
Undistributed net investment income		7,413,324
Net unrealized appreciation (depreciation) on:		
Investments		(5,409,539)
Foreign currency		(451,374)
Accumulated net realized gain (loss)		(134,213,886)
Paid-in capital		226,842,096
Net assets, at value	**$**	**94,180,621**
Class A		
Net Asset Value, offering and redemption price per share ($93,906,790 ÷ 14,512,126 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**6.47**
Class B		
Net Asset Value, offering and redemption price per share ($273,831 ÷ 42,251 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**6.48**

Statement of Operations

for the year ended December 31, 2016

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $365,998)	$	3,065,162
Income distributions — Deutsche Central Cash Management Government Fund		5,676
Securities lending income, net of borrower rebates		17,223
Total income		3,088,061
Expenses:		
Management fee		739,201
Administration fee		93,570
Services to shareholders		2,779
Distribution service fee (Class B)		648
Custodian fee		96,792
Professional fees		67,673
Reports to shareholders		34,704
Trustees' fees and expenses		6,752
Other		6,550
Total expenses before expense reductions		1,048,669
Expense reductions		(263,048)
Total expenses after expense reductions		785,621
Net investment income (loss)		**2,302,440**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		(14,426,179)
Foreign currency		5,945,618
		(8,480,561)
Change in net unrealized appreciation (depreciation) on:		
Investments		7,258,016
Foreign currency		(917,060)
		6,340,956
Net gain (loss)		**(2,139,605)**
Net increase (decrease) in net assets resulting from operations	**$**	**162,835**

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

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2016	2015
Operations:		
Net investment income (loss)	$ 2,302,440	$ 3,454,193
Net realized gain (loss)	(8,480,561)	(15,028,592)
Change in net unrealized appreciation (depreciation)	6,340,956	4,889,649
Net increase (decrease) in net assets resulting from operations	162,835	(6,684,750)
Distributions to shareholders from:		
Net investment income:		
Class A	(9,803,744)	(5,221,184)
Class B	(26,284)	(11,210)
Total distributions	(9,830,028)	(5,232,394)
Fund share transactions:		
Class A		
Proceeds from shares sold	4,349,614	11,121,280
Reinvestment of distributions	9,803,744	5,221,184
Payments for shares redeemed	(15,723,948)	(24,895,883)
Net increase (decrease) in net assets from Class A share transactions	(1,570,590)	(8,553,419)
Class B		
Proceeds from shares sold	16,738	46,566
Reinvestment of distributions	26,284	11,210
Payments for shares redeemed	(15,735)	(23,403)
Net increase (decrease) in net assets from Class B share transactions	27,287	34,373
Increase (decrease) in net assets	(11,210,496)	(20,436,190)
Net assets at beginning of period	105,391,117	125,827,307
Net assets at end of period (including undistributed net investment income of $7,413,324 and $8,993,057, respectively)	**$ 94,180,621**	**$ 105,391,117**

Other Information		
Class A		
Shares outstanding at beginning of period	14,702,326	15,973,456
Shares sold	690,002	1,384,894
Shares issued to shareholders in reinvestment of distributions	1,563,596	624,543
Shares redeemed	(2,443,798)	(3,280,567)
Net increase (decrease) in Class A shares	(190,200)	(1,271,130)
Shares outstanding at end of period	**14,512,126**	**14,702,326**
Class B		
Shares outstanding at beginning of period	37,903	33,566
Shares sold	2,658	5,973
Shares issued to shareholders in reinvestment of distributions	4,179	1,336
Shares redeemed	(2,489)	(2,972)
Net increase (decrease) in Class B shares	4,348	4,337
Shares outstanding at end of period	**42,251**	**37,903**

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

Financial Highlights

Class A	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data					
Net asset value, beginning of period	**$ 7.15**	**$ 7.86**	**$ 9.06**	**$ 7.96**	**$ 6.74**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.16	.21	.31[b]	.14	.22
Net realized and unrealized gain (loss)	(.13)	(.59)	(1.36)	1.41	1.16
Total from investment operations	.03	(.38)	(1.05)	1.55	1.38
Less distributions from:					
Net investment income	(.71)	(.33)	(.15)	(.45)	(.16)
Net asset value, end of period	**$ 6.47**	**$ 7.15**	**$ 7.86**	**$ 9.06**	**$ 7.96**
Total Return (%)	.74[c]	(5.48)[c]	(11.76)[c]	20.23[c]	20.65
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	94	105	126	151	230
Ratio of expenses before expense reductions (%)	1.12	1.05	1.04	1.02	.98
Ratio of expenses after expense reductions (%)	.84	.98	.98	1.01	.98
Ratio of net investment income (loss) (%)	2.46	2.74	3.55[b]	1.64	2.99
Portfolio turnover rate (%)	67	99	135	97	85

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	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data					
Net asset value, beginning of period	**$ 7.16**	**$ 7.87**	**$ 9.07**	**$ 7.96**	**$ 6.75**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.14	.19	.28[b]	.13	.20
Net realized and unrealized gain (loss)	(.13)	(.59)	(1.35)	1.41	1.15
Total from investment operations	.01	(.40)	(1.07)	1.54	1.35
Less distributions from:					
Net investment income	(.69)	(.31)	(.13)	(.43)	(.14)
Net asset value, end of period	**$ 6.48**	**$ 7.16**	**$ 7.87**	**$ 9.07**	**$ 7.96**
Total Return (%)	.48[c]	(5.71)[c]	(11.98)[c]	20.01[c]	20.13
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	.27	.27	.26	.31	.28
Ratio of expenses before expense reductions (%)	1.40	1.33	1.31	1.30	1.26
Ratio of expenses after expense reductions (%)	1.10	1.23	1.23	1.27	1.26
Ratio of net investment income (loss) (%)	2.18	2.47	3.26[b]	1.62	2.73
Portfolio turnover rate (%)	67	99	135	97	85

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 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 ("U.S. GAAP") which require the use of management estimates. Actual results could differ from those estimates. The Fund qualifies as an investment company under Topic 946 of Accounting Standards Codification of U.S. GAAP. 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 its securities lending agreement. During the term of the loans, the Fund 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 securities lending agreement. During the year ended December 31, 2016, the Fund invested the cash collateral into a joint trading account in affiliated money market funds including Government & Agency Securities Portfolio managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.09% annualized effective rate as of December 31, 2016) on the cash collateral invested in Government & Agency Securities Portfolio. 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 at any time, and the borrower, after notice, is required to return borrowed securities within a standard time period. 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, 2016, the Fund had no securities on loan.

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, 2016, the Fund had a net tax basis capital loss carryforward of approximately $98,822,000 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 $34,525,000 of post-enactment losses, which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($11,496,000) and long-term losses ($23,029,000).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2016 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, 2016, the Fund's components of distributable earnings (accumulated losses) on a tax basis are as follows:

Undistributed ordinary income*	$ 7,031,901
Capital loss carryforwards	$ (133,347,000)
Net unrealized appreciation (depreciation) on investments	$ (6,331,738)

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

	Years Ended December 31,	
	2016	**2015**
Distributions from ordinary income*	$ 9,830,028	$ 5,232,394

* 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, 2016, 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, 2016 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2016, the investment in forward currency contracts short vs. U.S. dollars had a total contract value generally indicative of a range from $88,539,000 to approximately $106,775,000, and the investment in forward currency contracts long vs. U.S. dollars had a total contract value generally indicative of a range from $21,000 to approximately $2,831,000.

The following tables summarize the value of the Fund's derivative instruments held as of December 31, 2016 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivative	**Forward Contracts**
Foreign Exchange Contracts (a)	$ 37

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

(a) Unrealized appreciation on forward foreign currency exchange contracts

Liability Derivative	**Forward Contracts**
Foreign Exchange Contracts (a)	$ (440,746)

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, 2016 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)	$ 5,905,923

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)	$ (935,247)

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, 2016, 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.	$ 37	$ (37)	$ —	$ —

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**
Merrill Lynch & Co., Inc.	$ 440,746	$ (37)	$ —	$ 440,709

C. Purchases and Sales of Securities

During the year ended December 31, 2016, purchases and sales of investment securities (excluding short-term investments) aggregated $61,921,468 and $67,480,010, 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, 2016, 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, 2016 through September 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	.93%
Class B	1.18%

Effective October 1, 2016 through September 30, 2017, 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	.84%
Class B	1.09%

For the year ended December 31, 2016, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 262,264
Class B	784
	$ 263,048

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, 2016, the Administration Fee was $93,570, of which $7,896 is unpaid.

Service Provider Fees. Deutsche AM 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, 2016, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	**Total Aggregated**	**Unpaid at December 31, 2016**
Class A	$ 629	$ 157
Class B	81	20
	$ 710	**$ 177**

Distribution Service Agreement. Deutsche AM 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, 2016, the Distribution Service Fee aggregated $648, of which $57 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing typesetting and certain regulatory filing services to the Fund. For the year ended December 31, 2016, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $11,839, of which $4,764 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 Deutsche Central Cash Management Government Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. 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. Deutsche Central Cash Management Government 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. Deutsche Central Cash Management Government 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, 2016, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $1,574.

E. Ownership of the Fund

At December 31, 2016, four participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 21%, 15%, 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, each 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, 2016.

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 (the "Fund") at December 31, 2016 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, 2016 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 14, 2017

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, 2016 to December 31, 2016).

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, 2016

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/16	$1,000.00	$1,000.00
Ending Account Value 12/31/16	$1,092.90	$1,092.70
Expenses Paid per $1,000*	$ 3.95	$ 5.37
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/16	$1,000.00	$1,000.00
Ending Account Value 12/31/16	$1,021.37	$1,020.01
Expenses Paid per $1,000*	$ 3.81	$ 5.18

* Expenses are equal to the Fund's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by 184 (the number of days in the most recent six-month period), then divided by 366.

Annualized Expense Ratios	**Class A**	**Class B**
Deutsche Variable Series I — Deutsche CROCI® International VIP	.75%	1.02%

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 $315,550 and earned $2,804,019 of foreign source income during the year ended December 31, 2016. Pursuant to Section 853 of the Internal Revenue Code, the Fund designates $0.02 per share as foreign taxes paid and $0.19 per share as income earned from foreign sources for the year ended December 31, 2016.

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 most recent 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 (hereinafter referred to as the "Board" or "Trustees") approved the renewal of Deutsche CROCI® International VIP's (the "Fund") investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2016.

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

— During the entire process, all of the Fund's Trustees were independent of DIMA and its affiliates (the "Independent Trustees").

— The Board 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 extensive 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 Management ("Deutsche AM") division. Deutsche AM 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 Board 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 invest in Deutsche AM and seek to enhance Deutsche AM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AM 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 and the resources made available to such personnel. 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, 2015, 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, 2015. 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 Broadridge Financial Solutions, Inc. ("Broadridge") 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 Broadridge peer group (based on Broadridge data provided as of December 31, 2015). 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 Broadridge expense universe (based on Broadridge data provided as of December 31, 2015, and analyzing Broadridge expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Broadridge Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Broadridge 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 AM. The Board noted that DIMA indicated that Deutsche AM 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 noted that DIMA pays a licensing fee to an affiliate related to the Fund's use of the CROCI® strategy. 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, seniority and time commitment of the individuals serving as DIMA's and the Fund's chief compliance officers; (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 Independent 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 Keith R. Fox, Deutsche Funds Board Chair, c/o Thomas R. Hiller, Ropes & Gray LLP, Prudential Tower, 800 Boylston Street, Boston, MA 02199-3600. 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
Keith R. Fox, CFA (1954) Chairperson since 2017,[2] and 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)	98	—
Kenneth C. Froewiss (1945) Vice Chairperson since 2017,[2] Board Member since 2001, and Chairperson (2013–December 31, 2016)	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)	98	—
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.[3] (population well-being and wellness services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International	98	Portland General Electric[3] (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); The Pew Charitable Trusts (charitable organization); former Directorships: Becton Dickinson and Company[3] (medical technology company); Belo Corporation[3] (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)	98	—
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: Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: ICI Mutual Insurance Company (2007–2015); Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	98	—
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	98	—

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; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006)	98	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004, and Vice Chairperson (2013–December 31, 2016)	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	98	—
Rebecca W. Rimel (1951) Board Member since 1995	President, Chief Executive Officer and Director, The Pew Charitable Trusts (charitable organization) (1994–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[3] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	98	Director, Becton Dickinson and Company[3] (medical technology company) (2012–present); Director, BioTelemetry Inc.[3] (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[3] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	98	—
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); former Directorships: The William and Flora Hewlett Foundation (charitable organization) (2000–2015); Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	98	—

Officers[5]

Name, Year of Birth, Position with the Fund and Length of Time Served[6]	Business Experience and Directorships During the Past Five Years
Brian E. Binder[9] (1972) President and Chief Executive Officer, 2013–present	Managing Director[4] and Head of US Product and Fund Administration, Deutsche Asset Management (2013–present); Director and President, Deutsche AM Service Company (since 2016); Director and Vice President, Deutsche AM Distributors, Inc. (since 2016); Director and President, DB Investment Managers, Inc. (since 2016); formerly, Head of Business Management and Consulting at Invesco, Ltd. (2010–2012)
John Millette[8] (1962) Vice President and Secretary, 1999–present	Director,[4] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (2015–present); and Director and Vice President, Deutsche AM Trust Company (since 2016)
Hepsen Uzcan[7] (1974) Vice President, since 2016 Assistant Secretary, 2013–present	Director,[4] Deutsche Asset Management
Paul H. Schubert[7] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[4] Deutsche Asset Management, and Chairman, Director and President, Deutsche AM Trust Company (since 2013); Vice President, Deutsche AM Distributors, Inc. (since 2016); formerly, Director, Deutsche AM Trust Company (2004–2013)
Caroline Pearson[8] (1962) Chief Legal Officer, 2010–present	Managing Director,[4] Deutsche Asset Management; Secretary, Deutsche AM Distributors, Inc.; and Secretary, Deutsche AM Service Company

Name, Year of Birth, Position with the Fund and Length of Time Served[6]	Business Experience and Directorships During the Past Five Years
Scott D. Hogan[8] (1970) Chief Compliance Officer, since 2016	Director,[4] Deutsche Asset Management
Wayne Salit[7] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[4] Deutsche Asset Management; AML Compliance Officer, Deutsche AM Distributors, Inc.; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Paul Antosca[8] (1957) Assistant Treasurer, 2007–present	Director,[4] Deutsche Asset Management
Diane Kenneally[8] (1966) Assistant Treasurer, 2007–present	Director,[4] 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 Effective as of January 1, 2017.

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

4 Executive title, not a board directorship.

5 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.

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

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

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

9 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

Notes

Deutsche
Asset Management

VS1cint-2 (R-025823-6 2/17)

Deutsche
Asset Management

December 31, 2016

Annual Report

Deutsche Investments VIT Funds

Deutsche Equity 500 Index VIP

Contents

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

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.

Deutsche AM 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

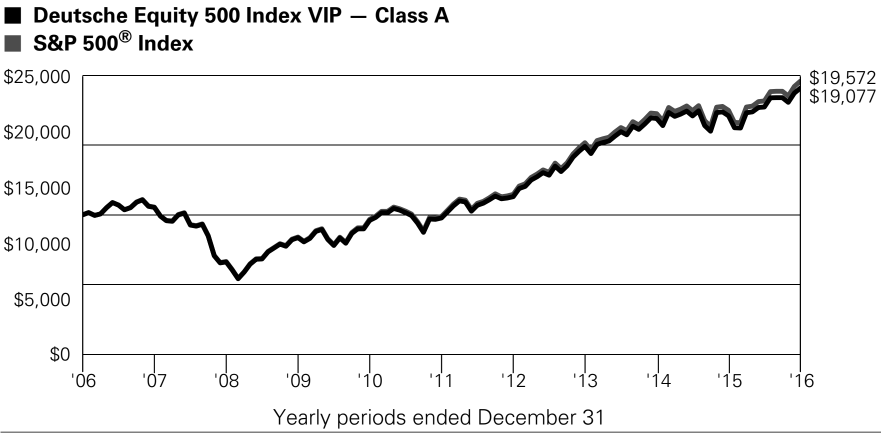
December 31, 2016 (Unaudited)

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, 2016 are 0.34%, 0.67% 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.

Generally accepted accounting principles require adjustments to be made to the net assets of the Fund at period end for financial reporting purposes only, and as such, the total return based on the unadjusted net asset value per share may differ from the total return reported in the financial highlights.

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, 2016)

Deutsche Equity 500 Index VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$11,161	$12,799	$19,536	$19,077
	Average annual total return	11.61%	8.57%	14.33%	6.67%
S&P 500 Index	Growth of $10,000	$11,196	$12,905	$19,818	$19,572
	Average annual total return	11.96%	8.87%	14.66%	6.95%

Deutsche Equity 500 Index VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$11,132	$12,700	$19,301	$18,608
	Average annual total return	11.32%	8.29%	14.05%	6.41%
S&P 500 Index	Growth of $10,000	$11,196	$12,905	$19,818	$19,572
	Average annual total return	11.96%	8.87%	14.66%	6.95%

Deutsche Equity 500 Index VIP		1-Year	3-Year	5-Year	10-Year
Class B2	Growth of $10,000	$11,120	$12,661	$19,181	$18,369
	Average annual total return	11.20%	8.18%	13.91%	6.27%
S&P 500 Index	Growth of $10,000	$11,196	$12,905	$19,818	$19,572
	Average annual total return	11.96%	8.87%	14.66%	6.95%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2016 (Unaudited)

The Fund returned 11.61% in 2016 (Class A shares, unadjusted for contract charges), which compares with a return of 11.96% for the Standard & Poor's 500® (S&P 500) Index.[1] This marked the eighth consecutive year of positive performance for the index, as well as the thirteenth year of positive returns out of the past 14. 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 that of the index.

U.S. large-cap stocks recovered from a difficult start to post a robust, double-digit gain in 2016. The initial weakness in market performance, which encompassed the first six weeks of the year, represented a continuation of the concerns about slowing global growth and falling commodity prices that had weighed on returns late in 2015. This challenging environment abruptly changed for the better in mid-February, however, thanks to the aggressive actions of the world's central banks. The Bank of Japan and the European Central Bank each cut interest rates into negative territory, while the U.S. Federal Reserve Board (the Fed) issued a series of statements indicating it would maintain its gradual, data-dependent approach to monetary policy.

These developments fueled a swift improvement in investor sentiment, touching off a powerful rebound in U.S. equities. The rally subsequently gained steam through the spring and summer, as commodity prices recovered and market participants became more optimistic about the economic outlook. While the bull market temporarily lost momentum in September and October amid the elevated uncertainty that characterized the run-up to the U.S. election, the surprising result of the vote led to improving expectations regarding economic growth. Stocks surged in the final two months of the year as a result, gaining 3.70% and 1.98% in November and December, respectively.

The index gained a significant boost from the energy sector, which staged a substantial recovery from its poor showing in 2015. The price of oil rose approximately 50% from its February low to its high in June, leading to upward revisions to energy companies' earnings estimates. The gain in the price of oil was accompanied by similar recoveries in other commodities, including gold and industrial metals. This favorable trend led to strong performance for the materials sector, particularly companies in the steel and diversified mining industries.

Financial stocks generated market-beating results in 2016, with broad-based gains that included the stocks of banks, insurance companies, asset managers and exchange operators. Financials delivered the bulk of their returns in the post-election rally, enabling the sector to close as the second-best performer in the S&P 500 Index. The technology sector also produced a market-beating return thanks to the strong gains for semiconductor stocks and several mega-cap technology stalwarts. The industrials sector, for its part, was helped by the combination of a favorable economic backdrop and the recovery and oil prices, with the transportation, aerospace/defense and energy-related segments leading the way.

Although the year ended with the markets anticipating multiple rate hikes in 2017, the outlook was quite different in the first half. The highly accommodative policies of the world's central banks led to a sharp downturn in bond yields across the globe and prompted income-oriented investors to look to higher-risk market segments as a way to earn more meaningful yields. Dividend stocks were a prime beneficiary of this shift, leading to first-half outperformance for the utilities and telecommunications sectors. While both groups subsequently lost ground once investors began to anticipate a more active Fed in 2017, they nonetheless closed 2016 ahead of the index.

The consumer staples, consumer discretionary, real estate and health care sectors all finished behind the S&P 500 Index in 2016, with health care the only group to register a loss.[2,3]

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, 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)	**12/31/16**	**12/31/15**
Common Stocks	100%	100%
Cash Equivalents	0%	0%
Government & Agency Obligations	0%	0%
	100%	100%

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

Ten Largest Equity Holdings (19.2% of Net Assets)

1.	**Apple, Inc.** Designs, manufactures and markets personal computers and related computing and mobile communications devices	**3.2%**
2.	**Microsoft Corp.** Develops, manufactures, licenses, sells and supports software products	**2.5%**
3.	**Alphabet, Inc.** Holding company with subsidiaries that provide Web-based search, maps, hardware products and various software applications	**2.4%**
4.	**Exxon Mobil Corp.** Explorer and producer of oil and gas	**1.9%**
5.	**Johnson & Johnson** Provider of health care products	**1.6%**
6.	**Berkshire Hathaway, Inc.** Holding company of insurance business and a variety of other businesses	**1.6%**
7.	**JPMorgan Chase & Co.** Provider of global financial services	**1.6%**
8.	**Amazon.com, Inc.** An online retailer; sells books, music and videotapes	**1.5%**
9.	**General Electric Co.** Diversified technology, media and financial services company	**1.5%**
10.	**Facebook, Inc.** Operates a social networking Web site	**1.4%**

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, 2016

	Shares	Value ($)
Common Stocks 99.6%		
Consumer Discretionary 12.0%		
Auto Components 0.2%		
BorgWarner, Inc.	5,768	227,490
Delphi Automotive PLC	7,680	517,248
Goodyear Tire & Rubber Co.	7,392	228,191
		972,929
Automobiles 0.5%		
Ford Motor Co.	112,084	1,359,579
General Motors Co.	39,698	1,383,078
Harley-Davidson, Inc.	5,065	295,492
		3,038,149
Distributors 0.1%		
Genuine Parts Co.	4,232	404,325
LKQ Corp.*	8,673	265,828
		670,153
Diversified Consumer Services 0.0%		
H&R Block, Inc.	6,228	**143,182**
Hotels, Restaurants & Leisure 1.6%		
Carnival Corp.	12,021	625,813
Chipotle Mexican Grill, Inc.*	819	309,025
Darden Restaurants, Inc.	3,466	252,048
Marriott International, Inc. "A"	9,140	755,695
McDonald's Corp.	23,819	2,899,249
Royal Caribbean Cruises Ltd.	4,770	391,331
Starbucks Corp.	41,685	2,314,351
Wyndham Worldwide Corp.	3,082	235,372
Wynn Resorts Ltd.	2,255	195,080
Yum! Brands, Inc.	9,952	630,260
		8,608,224
Household Durables 0.5%		
D.R. Horton, Inc.	9,564	261,384
Garmin Ltd.	3,278	158,950
Harman International Industries, Inc.	2,037	226,433
Leggett & Platt, Inc.	3,844	187,895
Lennar Corp. "A"	5,699	244,658
Mohawk Industries, Inc.*	1,796	358,625
Newell Brands, Inc.	13,709	612,107
PulteGroup, Inc.	8,651	159,006
Whirlpool Corp.	2,181	396,440
		2,605,498
Internet & Direct Marketing Retail 2.3%		
Amazon.com, Inc.*	11,300	8,473,531
Expedia, Inc.	3,435	389,117
Netflix, Inc.*	12,324	1,525,711
The Priceline Group, Inc.*	1,413	2,071,543
TripAdvisor, Inc.*	3,298	152,928
		12,612,830
Leisure Products 0.1%		
Hasbro, Inc.	3,184	247,683
Mattel, Inc.	9,728	268,007
		515,690
Media 3.1%		
CBS Corp. "B"	11,233	714,643
Charter Communications, Inc. "A"*	6,192	1,782,801
Comcast Corp. "A"	68,286	4,715,148
Discovery Communications, Inc. "A"*	4,359	119,480
Discovery Communications, Inc. "C"*	6,267	167,830
Interpublic Group of Companies, Inc.	11,268	263,784
News Corp. "A"	10,954	125,533
News Corp. "B"	3,545	41,831
Omnicom Group, Inc.	6,786	577,556
Scripps Networks Interactive, Inc. "A"	2,677	191,058
TEGNA, Inc.	6,368	136,212
Time Warner, Inc.	22,085	2,131,865
Twenty-First Century Fox, Inc. "A"	30,399	852,388
Twenty-First Century Fox, Inc. "B"	13,932	379,647
Viacom, Inc. "B"	10,048	352,685
Walt Disney Co.	41,932	4,370,153
		16,922,614
Multiline Retail 0.5%		
Dollar General Corp.	7,247	536,785
Dollar Tree, Inc.*	6,774	522,817
Kohl's Corp.	5,095	251,591
Macy's, Inc.	8,731	312,657
Nordstrom, Inc.	3,319	159,080
Target Corp.	16,095	1,162,542
		2,945,472
Specialty Retail 2.4%		
Advance Auto Parts, Inc.	2,119	358,365
AutoNation, Inc.*	1,903	92,581
AutoZone, Inc.*	827	653,156
Bed Bath & Beyond, Inc.	4,292	174,427
Best Buy Co., Inc.	7,851	335,002
CarMax, Inc.*	5,406	348,092
Foot Locker, Inc.	3,937	279,094
Home Depot, Inc.	34,896	4,678,856
L Brands, Inc.	6,860	451,662
Lowe's Companies, Inc.	24,958	1,775,013
O'Reilly Automotive, Inc.*	2,708	753,934
Ross Stores, Inc.	11,294	740,886
Signet Jewelers Ltd.	1,986	187,200
Staples, Inc.	19,180	173,579
The Gap, Inc.	6,181	138,702
Tiffany & Co.	3,006	232,755
TJX Companies, Inc.	18,661	1,402,001
Tractor Supply Co.	3,834	290,656
Ulta Salon, Cosmetics & Fragrance, Inc.*	1,671	426,005
Urban Outfitters, Inc.*	2,644	75,301
		13,567,267
Textiles, Apparel & Luxury Goods 0.7%		
Coach, Inc.	8,095	283,487
Hanesbrands, Inc.	10,991	237,076
Michael Kors Holdings Ltd.*	4,684	201,318
NIKE, Inc. "B"	38,222	1,942,824
PVH Corp.	2,321	209,447
Ralph Lauren Corp.	1,666	150,473
Under Armour, Inc. "A"* (a)	5,253	152,600
Under Armour, Inc. "C"*	5,290	133,149
VF Corp.	9,410	502,024
		3,812,398

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

	Shares	Value ($)
Consumer Staples 9.3%		
Beverages 2.1%		
Brown-Forman Corp. "B"	5,247	235,695
Coca-Cola Co.	111,159	4,608,652
Constellation Brands, Inc. "A"	5,066	776,669
Dr. Pepper Snapple Group, Inc.	5,314	481,821
Molson Coors Brewing Co. "B"	5,325	518,176
Monster Beverage Corp.*	11,583	513,590
PepsiCo, Inc.	41,137	4,304,164
		11,438,767
Food & Staples Retailing 2.1%		
Costco Wholesale Corp.	12,532	2,006,498
CVS Health Corp.	30,569	2,412,200
Kroger Co.	27,142	936,670
Sysco Corp.	14,363	795,279
Wal-Mart Stores, Inc.	43,097	2,978,865
Walgreens Boots Alliance, Inc.	24,534	2,030,434
Whole Foods Market, Inc.	9,071	279,024
		11,438,970
Food Products 1.6%		
Archer-Daniels-Midland Co.	16,381	747,793
Campbell Soup Co.	5,550	335,608
Conagra Brands, Inc.	11,923	471,555
General Mills, Inc.	16,863	1,041,628
Hormel Foods Corp.	7,797	271,414
Kellogg Co.	7,299	538,009
Kraft Heinz Co.	17,112	1,494,220
McCormick & Co., Inc.	3,234	301,829
Mead Johnson Nutrition Co.	5,270	372,905
Mondelez International, Inc. "A"	44,156	1,957,435
The Hershey Co.	4,042	418,064
The JM Smucker Co.	3,304	423,110
Tyson Foods, Inc. "A"	8,340	514,411
		8,887,981
Household Products 1.8%		
Church & Dwight Co., Inc.	7,470	330,099
Clorox Co.	3,670	440,474
Colgate-Palmolive Co.	25,466	1,666,495
Kimberly-Clark Corp.	10,221	1,166,421
Procter & Gamble Co.	76,654	6,445,068
		10,048,557
Personal Products 0.1%		
Coty, Inc. "A"	13,463	246,507
Estee Lauder Companies, Inc. "A"	6,428	491,678
		738,185
Tobacco 1.6%		
Altria Group, Inc.	55,948	3,783,204
Philip Morris International, Inc.	44,441	4,065,907
Reynolds American, Inc.	23,653	1,325,514
		9,174,625
Energy 7.5%		
Energy Equipment & Services 1.2%		
Baker Hughes, Inc.	12,162	790,165
FMC Technologies, Inc.*	6,558	233,006
Halliburton Co.	24,762	1,339,376
Helmerich & Payne, Inc.	3,071	237,695
National Oilwell Varco, Inc.	10,777	403,491
Schlumberger Ltd.	39,847	3,345,156
Transocean Ltd.* (a)	11,073	163,216
		6,512,105
Oil, Gas & Consumable Fuels 6.3%		
Anadarko Petroleum Corp.	16,018	1,116,935
Apache Corp.	10,904	692,077
Cabot Oil & Gas Corp.	13,253	309,590
Chesapeake Energy Corp.*	21,271	149,322
Chevron Corp.	54,084	6,365,687
Cimarex Energy Co.	2,691	365,707
Concho Resources, Inc.*	4,189	555,461
ConocoPhillips	35,490	1,779,469
Devon Energy Corp.	14,926	681,670
EOG Resources, Inc.	16,522	1,670,374
EQT Corp.	4,922	321,899
Exxon Mobil Corp.	118,799	10,722,798
Hess Corp.	7,700	479,633
Kinder Morgan, Inc.	54,828	1,135,488
Marathon Oil Corp.	24,231	419,439
Marathon Petroleum Corp.	15,221	766,377
Murphy Oil Corp.	4,796	149,300
Newfield Exploration Co.*	5,678	229,959
Noble Energy, Inc.	12,389	471,525
Occidental Petroleum Corp.	21,819	1,554,167
ONEOK, Inc.	6,062	348,019
Phillips 66	12,693	1,096,802
Pioneer Natural Resources Co.	4,843	872,079
Range Resources Corp.	5,374	184,651
Southwestern Energy Co.*	14,101	152,573
Spectra Energy Corp.	20,016	822,458
Tesoro Corp.	3,336	291,733
Valero Energy Corp.	12,968	885,974
Williams Companies, Inc.	19,556	608,974
		35,200,140
Financials 14.8%		
Banks 6.7%		
Bank of America Corp.	289,497	6,397,884
BB&T Corp.	23,343	1,097,588
Citigroup, Inc.	81,578	4,848,180
Citizens Financial Group, Inc.	14,826	528,250
Comerica, Inc.	4,927	335,578
Fifth Third Bancorp.	21,674	584,548
Huntington Bancshares, Inc.	30,854	407,890
JPMorgan Chase & Co.	102,526	8,846,968
KeyCorp	30,787	562,478
M&T Bank Corp.	4,440	694,549
People's United Financial, Inc.	8,846	171,259
PNC Financial Services Group, Inc.	13,919	1,627,966
Regions Financial Corp.	35,222	505,788
SunTrust Banks, Inc.	14,089	772,782
U.S. Bancorp.	45,780	2,351,719
Wells Fargo & Co.	129,392	7,130,793
Zions Bancorp.	5,877	252,946
		37,117,166
Capital Markets 2.8%		
Affiliated Managers Group, Inc.*	1,538	223,471
Ameriprise Financial, Inc.	4,506	499,896
Bank of New York Mellon Corp.	30,248	1,433,150
BlackRock, Inc.	3,475	1,322,376
Charles Schwab Corp.	34,683	1,368,938
CME Group, Inc.	9,691	1,117,857
E*TRADE Financial Corp.*	7,976	276,368
Franklin Resources, Inc.	10,013	396,315
Intercontinental Exchange, Inc.	17,030	960,833
Invesco Ltd.	11,673	354,159
Moody's Corp.	4,792	451,742

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

	Shares	Value ($)
Morgan Stanley	41,296	1,744,756
Nasdaq, Inc.	3,318	222,704
Northern Trust Corp.	6,217	553,624
S&P Global, Inc.	7,423	798,269
State Street Corp.	10,321	802,148
T. Rowe Price Group, Inc.	6,979	525,240
The Goldman Sachs Group, Inc.	10,593	2,536,494
		15,588,340
Consumer Finance 0.8%		
American Express Co.	22,029	1,631,908
Capital One Financial Corp.	13,800	1,203,912
Discover Financial Services	11,328	816,636
Navient Corp.	8,753	143,812
Synchrony Financial	22,320	809,546
		4,605,814
Diversified Financial Services 1.7%		
Berkshire Hathaway, Inc. "B"*	54,390	8,864,482
Leucadia National Corp.	9,340	217,155
		9,081,637
Insurance 2.8%		
Aflac, Inc.	11,769	819,122
Allstate Corp.	10,583	784,412
American International Group, Inc.	27,939	1,824,696
Aon PLC	7,552	842,275
Arthur J. Gallagher & Co.	5,013	260,475
Assurant, Inc.	1,678	155,819
Chubb Ltd.	13,295	1,756,535
Cincinnati Financial Corp.	4,230	320,423
Hartford Financial Services Group, Inc.	10,752	512,333
Lincoln National Corp.	6,543	433,605
Loews Corp.	7,927	371,221
Marsh & McLennan Companies, Inc.	14,798	1,000,197
MetLife, Inc.	31,504	1,697,751
Principal Financial Group, Inc.	7,582	438,695
Progressive Corp.	16,549	587,489
Prudential Financial, Inc.	12,315	1,281,499
The Travelers Companies, Inc.	8,138	996,254
Torchmark Corp.	3,108	229,246
Unum Group	6,755	296,747
Willis Towers Watson PLC	3,707	453,292
XL Group Ltd.	7,830	291,746
		15,353,832
Health Care 13.6%		
Biotechnology 2.8%		
AbbVie, Inc.	46,639	2,920,534
Alexion Pharmaceuticals, Inc.*	6,381	780,715
Amgen, Inc.	21,295	3,113,542
Biogen, Inc.*	6,232	1,767,271
Celgene Corp.*	22,234	2,573,585
Gilead Sciences, Inc.	37,805	2,707,216
Regeneron Pharmaceuticals, Inc.*	2,152	789,978
Vertex Pharmaceuticals, Inc.*	7,095	522,689
		15,175,530
Health Care Equipment & Supplies 2.4%		
Abbott Laboratories	42,265	1,623,399
Baxter International, Inc.	13,977	619,740
Becton, Dickinson & Co.	6,063	1,003,730
Boston Scientific Corp.*	39,179	847,442
C.R. Bard, Inc.	2,083	467,967
Danaher Corp.	17,487	1,361,188

	Shares	Value ($)
DENTSPLY SIRONA, Inc.	6,641	383,385
Edwards Lifesciences Corp.*	6,077	569,415
Hologic, Inc.*	7,937	318,432
Intuitive Surgical, Inc.*	1,119	709,636
Medtronic PLC	39,296	2,799,054
St. Jude Medical, Inc.	8,167	654,912
Stryker Corp.	8,872	1,062,954
The Cooper Companies, Inc.	1,391	243,327
Varian Medical Systems, Inc.*	2,678	240,431
Zimmer Biomet Holdings, Inc.	5,749	593,297
		13,498,309
Health Care Providers & Services 2.6%		
Aetna, Inc.	10,081	1,250,145
AmerisourceBergen Corp.	4,774	373,279
Anthem, Inc.	7,563	1,087,332
Cardinal Health, Inc.	9,213	663,060
Centene Corp.*	4,901	276,955
Cigna Corp.	7,329	977,615
DaVita, Inc.*	4,493	288,451
Envision Healthcare Corp.*	3,349	211,958
Express Scripts Holding Co.*	17,668	1,215,382
HCA Holdings, Inc.*	8,389	620,954
Henry Schein, Inc.*	2,307	349,995
Humana, Inc.	4,259	868,964
Laboratory Corp. of America Holdings*	2,943	377,822
McKesson Corp.	6,466	908,150
Patterson Companies, Inc.	2,431	99,744
Quest Diagnostics, Inc.	3,977	365,486
UnitedHealth Group, Inc.	27,280	4,365,891
Universal Health Services, Inc. "B"	2,540	270,205
		14,571,388
Health Care Technology 0.1%		
Cerner Corp.*	8,573	**406,103**
Life Sciences Tools & Services 0.6%		
Agilent Technologies, Inc.	9,238	420,883
Illumina, Inc.*	4,165	533,286
Mettler-Toledo International, Inc.*	760	318,106
PerkinElmer, Inc.	3,098	161,561
Thermo Fisher Scientific, Inc.	11,347	1,601,062
Waters Corp.*	2,277	306,006
		3,340,904
Pharmaceuticals 5.1%		
Allergan PLC*	10,764	2,260,548
Bristol-Myers Squibb Co.	47,882	2,798,224
Eli Lilly & Co.	27,878	2,050,427
Endo International PLC*	5,837	96,135
Johnson & Johnson	77,948	8,980,389
Mallinckrodt PLC*	3,065	152,698
Merck & Co., Inc.	78,948	4,647,669
Mylan NV*	13,125	500,719
Perrigo Co. PLC	4,135	344,156
Pfizer, Inc.	173,861	5,647,005
Zoetis, Inc.	14,114	755,523
		28,233,493
Industrials 10.2%		
Aerospace & Defense 2.2%		
Arconic, Inc.	12,644	234,420
Boeing Co.	16,447	2,560,469
General Dynamics Corp.	8,178	1,412,013
L3 Technologies, Inc.	2,242	341,031
Lockheed Martin Corp.	7,213	1,802,817

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

	Shares	Value ($)
Northrop Grumman Corp.	5,037	1,171,505
Raytheon Co.	8,402	1,193,084
Rockwell Collins, Inc.	3,684	341,728
Textron, Inc.	7,816	379,545
TransDigm Group, Inc.	1,435	357,258
United Technologies Corp.	21,946	2,405,721
		12,199,591
Air Freight & Logistics 0.7%		
C.H. Robinson Worldwide, Inc.	4,011	293,846
Expeditors International of Washington, Inc.	5,214	276,133
FedEx Corp.	6,990	1,301,538
United Parcel Service, Inc. "B"	19,758	2,265,057
		4,136,574
Airlines 0.6%		
Alaska Air Group, Inc.	3,532	313,394
American Airlines Group, Inc.	14,832	692,506
Delta Air Lines, Inc.	21,111	1,038,450
Southwest Airlines Co.	17,703	882,318
United Continental Holdings, Inc.*	8,227	599,584
		3,526,252
Building Products 0.3%		
Allegion PLC	2,822	180,608
Fortune Brands Home & Security, Inc.	4,360	233,086
Johnson Controls International PLC	26,774	1,102,821
Masco Corp.	9,321	294,730
		1,811,245
Commercial Services & Supplies 0.3%		
Cintas Corp.	2,489	287,629
Pitney Bowes, Inc.	5,488	83,363
Republic Services, Inc.	6,707	382,634
Stericycle, Inc.*	2,458	189,364
Waste Management, Inc.	11,577	820,925
		1,763,915
Construction & Engineering 0.1%		
Fluor Corp.	3,925	206,141
Jacobs Engineering Group, Inc.*	3,539	201,723
Quanta Services, Inc.*	4,221	147,102
		554,966
Electrical Equipment 0.5%		
Acuity Brands, Inc.	1,263	291,576
AMETEK, Inc.	6,604	320,954
Eaton Corp. PLC	13,007	872,640
Emerson Electric Co.	18,438	1,027,918
Rockwell Automation, Inc.	3,709	498,490
		3,011,578
Industrial Conglomerates 2.6%		
3M Co.	17,204	3,072,118
General Electric Co.	253,400	8,007,440
Honeywell International, Inc.	21,835	2,529,585
Roper Technologies, Inc.	2,927	535,875
		14,145,018
Machinery 1.5%		
Caterpillar, Inc.	16,776	1,555,806
Cummins, Inc.	4,415	603,398
Deere & Co.	8,261	851,213
Dover Corp.	4,429	331,865
Flowserve Corp.	3,711	178,314
Fortive Corp.	8,538	457,893
Illinois Tool Works, Inc.	9,088	1,112,916
Ingersoll-Rand PLC	7,422	556,947

	Shares	Value ($)
PACCAR, Inc.	9,953	635,997
Parker-Hannifin Corp.	3,831	536,340
Pentair PLC	4,774	267,678
Snap-on, Inc.	1,686	288,761
Stanley Black & Decker, Inc.	4,314	494,773
Xylem, Inc.	5,082	251,661
		8,123,562
Professional Services 0.3%		
Dun & Bradstreet Corp.	1,023	124,110
Equifax, Inc.	3,430	405,529
Nielsen Holdings PLC	9,597	402,594
Robert Half International, Inc.	3,730	181,950
Verisk Analytics, Inc.*	4,490	364,453
		1,478,636
Road & Rail 0.9%		
CSX Corp.	26,907	966,769
J.B. Hunt Transport Services, Inc.	2,539	246,461
Kansas City Southern	3,030	257,095
Norfolk Southern Corp.	8,329	900,115
Ryder System, Inc.	1,566	116,573
Union Pacific Corp.	23,618	2,448,714
		4,935,727
Trading Companies & Distributors 0.2%		
Fastenal Co.	8,385	393,927
United Rentals, Inc.*	2,384	251,703
W.W. Grainger, Inc.	1,553	360,684
		1,006,314
Information Technology 20.7%		
Communications Equipment 1.0%		
Cisco Systems, Inc.	143,909	4,348,930
F5 Networks, Inc.*	1,899	274,823
Harris Corp.	3,542	362,949
Juniper Networks, Inc.	10,964	309,842
Motorola Solutions, Inc.	4,766	395,054
		5,691,598
Electronic Equipment, Instruments & Components 0.4%		
Amphenol Corp. "A"	8,899	598,013
Corning, Inc.	27,151	658,955
FLIR Systems, Inc.	3,838	138,897
TE Connectivity Ltd.	10,224	708,318
		2,104,183
Internet Software & Services 4.2%		
Akamai Technologies, Inc.*	5,031	335,467
Alphabet, Inc. "A"*	8,482	6,721,561
Alphabet, Inc. "C"*	8,502	6,562,014
eBay, Inc.*	29,700	881,793
Facebook, Inc. "A"*	67,070	7,716,404
VeriSign, Inc.* (a)	2,619	199,227
Yahoo!, Inc.*	25,211	974,909
		23,391,375
IT Services 3.7%		
Accenture PLC "A"	17,798	2,084,680
Alliance Data Systems Corp.	1,662	379,767
Automatic Data Processing, Inc.	12,930	1,328,945
Cognizant Technology Solutions Corp. "A"*	17,455	978,004
CSRA, Inc.	4,064	129,398
Fidelity National Information Services, Inc.	9,365	708,369
Fiserv, Inc.*	6,228	661,912
Global Payments, Inc.	4,448	308,736

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

	Shares	Value ($)
International Business Machines Corp.	24,762	4,110,244
Mastercard, Inc. "A"	27,269	2,815,524
Paychex, Inc.	9,274	564,601
PayPal Holdings, Inc.*	32,043	1,264,737
Teradata Corp.*	3,610	98,084
Total System Services, Inc.	4,844	237,501
Visa, Inc. "A"	53,504	4,174,382
Western Union Co.	14,001	304,102
Xerox Corp.	24,362	212,680
		20,361,666
Semiconductors & Semiconductor Equipment 3.4%		
Analog Devices, Inc.	8,794	638,620
Applied Materials, Inc.	30,942	998,498
Broadcom Ltd.	11,382	2,011,996
First Solar, Inc.*	2,209	70,887
Intel Corp.	135,744	4,923,435
KLA-Tencor Corp.	4,458	350,756
Lam Research Corp.	4,692	496,085
Linear Technology Corp.	6,893	429,779
Microchip Technology, Inc.	6,149	394,458
Micron Technology, Inc.*	29,850	654,312
NVIDIA Corp.	15,444	1,648,493
Qorvo, Inc.*	3,643	192,095
QUALCOMM, Inc.	42,316	2,759,003
Skyworks Solutions, Inc.	5,385	402,044
Texas Instruments, Inc.	28,683	2,092,999
Xilinx, Inc.	7,159	432,189
		18,495,649
Software 4.3%		
Activision Blizzard, Inc.	19,472	703,134
Adobe Systems, Inc.*	14,224	1,464,361
Autodesk, Inc.*	5,579	412,902
CA, Inc.	8,963	284,754
Citrix Systems, Inc.*	4,444	396,894
Electronic Arts, Inc.*	8,581	675,839
Intuit, Inc.	6,990	801,124
Microsoft Corp.	222,780	13,843,549
Oracle Corp.	85,894	3,302,624
Red Hat, Inc.*	5,138	358,119
salesforce.com, Inc.*	18,221	1,247,410
Symantec Corp.	17,986	429,685
		23,920,395
Technology Hardware, Storage & Peripherals 3.7%		
Apple, Inc.	152,751	17,691,621
Hewlett Packard Enterprise Co.	47,698	1,103,732
HP, Inc.	48,863	725,127
NetApp, Inc.	7,968	281,031
Seagate Technology PLC	8,484	323,834
Western Digital Corp.	8,208	557,734
		20,683,079
Materials 2.8%		
Chemicals 2.1%		
Air Products & Chemicals, Inc.	6,197	891,253
Albemarle Corp.	3,193	274,853
CF Industries Holdings, Inc.	6,520	205,250
Dow Chemical Co.	32,188	1,841,797
E.I. du Pont de Nemours & Co.	24,868	1,825,311
Eastman Chemical Co.	4,149	312,046
Ecolab, Inc.	7,557	885,832
FMC Corp.	3,904	220,810

	Shares	Value ($)
International Flavors & Fragrances, Inc.	2,280	268,652
LyondellBasell Industries NV "A"	9,542	818,513
Monsanto Co.	12,599	1,325,541
PPG Industries, Inc.	7,568	717,144
Praxair, Inc.	8,169	957,325
The Mosaic Co.	10,183	298,667
The Sherwin-Williams Co.	2,334	627,239
		11,470,233
Construction Materials 0.1%		
Martin Marietta Materials, Inc.	1,802	399,197
Vulcan Materials Co.	3,763	470,940
		870,137
Containers & Packaging 0.3%		
Avery Dennison Corp.	2,496	175,269
Ball Corp.	4,944	371,146
International Paper Co.	11,818	627,063
Sealed Air Corp.	5,653	256,307
WestRock Co.	7,273	369,251
		1,799,036
Metals & Mining 0.3%		
Freeport-McMoRan, Inc.*	35,891	473,402
Newmont Mining Corp.	15,259	519,874
Nucor Corp.	9,159	545,144
		1,538,420
Real Estate 2.9%		
Equity Real Estate Investment Trusts (REITs) 2.8%		
American Tower Corp.	12,214	1,290,776
Apartment Investment & Management Co. "A"	4,616	209,797
AvalonBay Communities, Inc.	3,950	699,743
Boston Properties, Inc.	4,446	559,218
Crown Castle International Corp.	10,292	893,037
Digital Realty Trust, Inc. (a)	4,535	445,609
Equinix, Inc.	2,029	725,185
Equity Residential	10,519	677,003
Essex Property Trust, Inc.	1,900	441,750
Extra Space Storage, Inc.	3,639	281,076
Federal Realty Investment Trust	2,092	297,294
General Growth Properties, Inc.	16,905	422,287
HCP, Inc.	13,440	399,437
Host Hotels & Resorts, Inc.	21,136	398,202
Iron Mountain, Inc.	7,003	227,457
Kimco Realty Corp.	12,091	304,210
Mid-America Apartment Communities, Inc.	3,239	317,163
Prologis, Inc.	15,090	796,601
Public Storage	4,257	951,440
Realty Income Corp.	7,367	423,455
Simon Property Group, Inc.	8,973	1,594,233
SL Green Realty Corp.	2,863	307,916
The Macerich Co.	3,454	244,681
UDR, Inc.	7,765	283,267
Ventas, Inc.	10,208	638,204
Vornado Realty Trust	4,917	513,187
Welltower, Inc.	10,369	693,997
Weyerhaeuser Co.	21,513	647,326
		15,683,551
Real Estate Management & Development 0.1%		
CBRE Group, Inc. "A"*	8,759	**275,821**

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

	Shares	Value ($)
Telecommunication Services 2.6%		
Diversified Telecommunication Services		
AT&T, Inc.	175,922	7,481,963
CenturyLink, Inc.	15,756	374,678
Frontier Communications Corp. (a)	32,823	110,942
Level 3 Communications, Inc.*	8,384	472,522
Verizon Communications, Inc.	116,793	6,234,410
		14,674,515
Utilities 3.2%		
Electric Utilities 2.0%		
Alliant Energy Corp.	6,458	244,694
American Electric Power Co., Inc.	14,091	887,169
Duke Energy Corp.	19,766	1,534,237
Edison International	9,396	676,418
Entergy Corp.	5,176	380,281
Eversource Energy	8,989	496,462
Exelon Corp.	26,355	935,339
FirstEnergy Corp.	12,280	380,312
NextEra Energy, Inc.	13,433	1,604,706
PG&E Corp.	14,494	880,800
Pinnacle West Capital Corp.	3,238	252,661
PPL Corp.	19,373	659,651
Southern Co.	27,953	1,375,008
Xcel Energy, Inc.	14,675	597,273
		10,905,011
Independent Power & Renewable Electricity Producers 0.1%		
AES Corp.	18,485	214,796
NRG Energy, Inc.	9,273	113,687
		328,483
Multi-Utilities 1.0%		
Ameren Corp.	7,020	368,269
CenterPoint Energy, Inc.	12,335	303,934
CMS Energy Corp.	8,016	333,626
Consolidated Edison, Inc.	8,689	640,205
Dominion Resources, Inc.	17,891	1,370,272
DTE Energy Co.	5,189	511,168
NiSource, Inc.	9,033	199,991
Public Service Enterprise Group, Inc.	14,377	630,863
SCANA Corp.	4,061	297,590
Sempra Energy	7,148	719,375
WEC Energy Group, Inc.	9,120	534,888
		5,910,181
Water Utilities 0.1%		
American Water Works Co., Inc.	5,037	**364,477**
Total Common Stocks (Cost $313,079,854)		**551,987,440**

	Principal Amount ($)	Value ($)
Government & Agency Obligation 0.1%		
U.S. Treasury Obligation		
U.S. Treasury Bill, 0.45%**, 3/2/2017 (b) (Cost $584,561)	585,000	**584,544**

	Shares	Value ($)
Securities Lending Collateral 0.2%		
Government & Agency Securities Portfolio "Deutsche Government Cash Institutional Shares", 0.42% (c) (d) (Cost $1,037,498)	1,037,498	**1,037,498**
Cash Equivalents 0.1%		
Deutsche Central Cash Management Government Fund, 0.49% (c) (Cost $629,066)	629,066	**629,066**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $315,330,979)†	100.0	**554,238,548**
Other Assets and Liabilities, Net	(0.00)	**(92,860)**
Net Assets	100.0	**554,145,688**

* Non-income producing security.

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

† The cost for federal income tax purposes was $325,693,060. At December 31, 2016, net unrealized appreciation for all securities based on tax cost was $228,545,488. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $248,420,515 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $19,875,027.

(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, 2016 amounted to $1,011,055, which is 0.2% of net assets.

(b) At December 31, 2016, 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.

S&P: Standard & Poor's

At December 31, 2016, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Depreciation ($)
S&P 500 E-Mini Index	USD	3/17/2017	17	1,921,030	**(20,400)**

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, 2016 in valuing the Fund's investments.

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Common Stocks (e)	$551,987,440	$ —	$ —	$551,987,440
Government & Agency Obligations	—	584,544	—	584,544
Short-Term Investments (e)	1,666,564	—	—	1,666,564
Total	**$553,654,004**	**$ 584,544**	**$ —**	**$554,238,548**

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivatives (f)				
Futures Contracts	$ (20,400)	$ —	$ —	$ (20,400)
Total	**$ (20,400)**	**$ —**	**$ —**	**$ (20,400)**

There have been no transfers between fair value measurement levels during the year ended December 31, 2016.

(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, 2016

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $313,664,415) — including $1,011,055 of securities loaned	$	552,571,984
Investment in Government & Agency Securities Portfolio (cost $1,037,498)*		1,037,498
Investment in Deutsche Central Cash Management Government Fund (cost $629,066)		629,066
Total investments in securities, at value (cost $315,330,979)		554,238,548
Cash		3,496
Receivable for Fund shares sold		665,770
Dividends receivable		703,682
Interest receivable		2,267
Other assets		10,229
Total assets	$	555,623,992

Liabilities		
Payable upon return of securities loaned		1,037,498
Payable for Fund shares redeemed		142,814
Payable for variation margin on futures contracts		7,834
Accrued management fee		96,876
Accrued Trustees' fees		6,263
Other accrued expenses and payables		187,019
Total liabilities		1,478,304
Net assets, at value	**$**	**554,145,688**

Net Assets Consist of		
Undistributed net investment income		9,879,009
Net unrealized appreciation (depreciation) on:		
Investments		238,907,569
Futures		(20,400)
Accumulated net realized gain (loss)		18,614,908
Paid-in capital		286,764,602
Net assets, at value	**$**	**554,145,688**
Class A		
Net Asset Value, offering and redemption price per share ($519,227,617 ÷ 26,513,791 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$**	**19.58**
Class B		
Net Asset Value, offering and redemption price per share ($18,414,039 ÷ 940,533 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$**	**19.58**
Class B2		
Net Asset Value, offering and redemption price per share ($16,504,032 ÷ 843,125 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$**	**19.57**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2016

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $295)	$	11,697,489
Interest		1,691
Income distributions — Deutsche Central Cash Management Government Fund		22,189
Securities lending income, net of borrower rebates		46,247
Other income		26,148
Total income		11,793,764
Expenses:		
Management fee		1,066,033
Administration fee		533,017
Services to shareholders		4,710
Record keeping fee (Class B and Class B2)		38,178
Distribution service fees (Class B and Class B2)		77,079
Custodian fee		26,676
Professional fees		75,709
Reports to shareholders		50,395
Trustees' fees and expenses		25,153
Other		38,968
Total expenses before expense reductions		1,935,918
Expense reductions		(71,569)
Total expenses after expense reductions		1,864,349
Net investment income (loss)		**9,929,415**

Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		28,781,799
Futures		1,768,856
		30,550,655
Change in net unrealized appreciation (depreciation) on:		
Investments		17,505,994
Futures		(13,990)
		17,492,004
Net gain (loss)		**48,042,659**
Net increase (decrease) in net assets resulting from operations	**$**	**57,972,074**

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

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2016	2015
Operations:		
Net investment income (loss)	$ 9,929,415	$ 10,807,749
Net realized gain (loss)	30,550,655	40,935,822
Change in net unrealized appreciation (depreciation)	17,492,004	(44,867,654)
Net increase (decrease) in net assets resulting from operations	57,972,074	6,875,917
Distributions to shareholders from:		
Net investment income:		
Class A	(10,160,013)	(9,872,144)
Class B	(239,707)	(139,339)
Class B2	(284,387)	(233,490)
Net realized gains:		
Class A	(37,893,356)	(27,498,227)
Class B	(1,020,192)	(461,402)
Class B2	(1,283,529)	(836,657)
Total distributions	(50,881,184)	(39,041,259)
Fund share transactions:		
Class A		
Proceeds from shares sold	19,113,656	24,313,549
Reinvestment of distributions	48,053,369	37,370,371
Payments for shares redeemed	(84,799,336)	(111,171,237)
Net increase (decrease) in net assets from Class A share transactions	(17,632,311)	(49,487,317)
Class B		
Proceeds from shares sold	6,018,267	6,669,770
Reinvestment of distributions	1,259,899	600,741
Payments for shares redeemed	(1,576,659)	(1,280,491)
Net increase (decrease) in net assets from Class B share transactions	5,701,507	5,990,020
Class B2		
Proceeds from shares sold	343,915	675,159
Reinvestment of distributions	1,567,916	1,070,147
Payments for shares redeemed	(2,587,120)	(2,843,635)
Net increase (decrease) in net assets from Class B2 share transactions	(675,289)	(1,098,329)
Increase (decrease) in net assets	(5,515,203)	(76,760,968)
Net assets at beginning of period	559,660,891	636,421,859
Net assets at end of period (including undistributed net investment income of $9,879,009 and $10,615,081, respectively)	**$ 554,145,688**	**$ 559,660,891**

Other Information	Years Ended December 31, 2016	2015
Class A		
Shares outstanding at beginning of period	27,337,468	29,911,141
Shares sold	1,015,516	1,225,463
Shares issued to shareholders in reinvestment of distributions	2,660,762	1,892,171
Shares redeemed	(4,499,955)	(5,691,307)
Net increase (decrease) in Class A shares	(823,677)	(2,573,673)
Shares outstanding at end of period	**26,513,791**	**27,337,468**
Class B		
Shares outstanding at beginning of period	634,704	337,768
Shares sold	320,148	331,792
Shares issued to shareholders in reinvestment of distributions	69,646	30,371
Shares redeemed	(83,965)	(65,227)
Net increase (decrease) in Class B shares	305,829	296,936
Shares outstanding at end of period	**940,533**	**634,704**
Class B2		
Shares outstanding at beginning of period	877,722	933,560
Shares sold	18,490	33,269
Shares issued to shareholders in reinvestment of distributions	86,625	54,075
Shares redeemed	(139,712)	(143,182)
Net increase (decrease) in Class B2 shares	(34,597)	(55,838)
Shares outstanding at end of period	**843,125**	**877,722**

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

Financial Highlights

Class A	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data					
Net asset value, beginning of period	**$19.40**	**$20.41**	**$19.01**	**$15.01**	**$13.20**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.35	.35	.33	.30	.28
Net realized and unrealized gain (loss)	1.74	(.10)	2.10	4.37	1.78
Total from investment operations	2.09	.25	2.43	4.67	2.06
Less distributions from:					
Net investment income	(.40)	(.33)	(.37)	(.31)	(.25)
Net realized gains	(1.51)	(.93)	(.66)	(.36)	—
Total distributions	(1.91)	(1.26)	(1.03)	(.67)	(.25)
Net asset value, end of period	**$19.58**	**$19.40**	**$20.41**	**$19.01**	**$15.01**
Total Return (%)	11.61[b]	1.13[b]	13.39[b]	31.93[b]	15.70
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	519	530	610	600	668
Ratio of expenses before expense reductions (%)	.34	.34	.34	.34	.35
Ratio of expenses after expense reductions (%)	.33	.33	.33	.34	.35
Ratio of net investment income (loss) (%)	1.88	1.77	1.70	1.76	1.95
Portfolio turnover rate (%)	4	3	3	4[c]	4

[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	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data					
Net asset value, beginning of period	**$19.40**	**$20.40**	**$19.01**	**$15.00**	**$13.19**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.30	.30	.28	.34	.25
Net realized and unrealized gain (loss)	1.74	(.09)	2.09	4.29	1.78
Total from investment operations	2.04	.21	2.37	4.63	2.03
Less distributions from:					
Net investment income	(.35)	(.28)	(.32)	(.26)	(.22)
Net realized gains	(1.51)	(.93)	(.66)	(.36)	—
Total distributions	(1.86)	(1.21)	(.98)	(.62)	(.22)
Net asset value, end of period	**$19.58**	**$19.40**	**$20.40**	**$19.01**	**$15.00**
Total Return (%)	11.32[b]	.92[b]	13.05[b]	31.68[b]	15.42
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	18	12	7	5	47
Ratio of expenses before expense reductions (%)	.69	.67	.62	.59	.60
Ratio of expenses after expense reductions (%)	.61	.58	.58	.58	.60
Ratio of net investment income (loss) (%)	1.61	1.53	1.45	2.11	1.70
Portfolio turnover rate (%)	4	3	3	4[c]	4

[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	2016	2015	2014	2013	2012
	Years Ended December 31,				
Selected Per Share Data					
Net asset value, beginning of period	**$19.39**	**$20.40**	**$18.99**	**$14.99**	**$13.18**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.28	.28	.27	.23	.22
Net realized and unrealized gain (loss)	1.74	(.10)	2.09	4.37	1.78
Total from investment operations	2.02	.18	2.36	4.60	2.00
Less distributions from:					
Net investment income	(.33)	(.26)	(.29)	(.24)	(.19)
Net realized gains	(1.51)	(.93)	(.66)	(.36)	—
Total distributions	(1.84)	(1.19)	(.95)	(.60)	(.19)
Net asset value, end of period	**$19.57**	**$19.39**	**$20.40**	**$18.99**	**$14.99**
Total Return (%)[b]	11.20	.76	13.00	31.44	15.26
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	17	17	19	20	19
Ratio of expenses before expense reductions (%)	.74	.74	.74	.74	.75
Ratio of expenses after expense reductions (%)	.71	.68	.68	.72	.74
Ratio of net investment income (loss) (%)	1.50	1.42	1.35	1.39	1.55
Portfolio turnover rate (%)	4	3	3	4[c]	4

[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 ("U.S. GAAP") which require the use of management estimates. Actual results could differ from those estimates. The Fund qualifies as an investment company under Topic 946 of Accounting Standards Codification of U.S. GAAP. 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 its securities lending agreement. During the term of the loans, the Fund 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. As of period end, any securities on loan were collateralized by cash. During the year ended December 31, 2016, the Fund invested the cash collateral into a joint trading account in affiliated money market funds managed by Deutsche Investment Management Americas Inc. As of December 31, 2016, the Fund invested the cash collateral in Government & Agency Securities Portfolio. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.09% annualized effective rate as of December 31, 2016) on the cash collateral invested in Government & Agency Securities Portfolio. 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 at any time, and the borrower, after notice, is required to return borrowed securities within a standard time period. 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, 2016, the Fund had securities on loan, which were classified as common stock in the Investment Portfolio. The value of the related collateral exceeded the value of the securities loaned at period end. As of period end, the remaining contractual maturity of the collateral agreements were overnight and continuous.

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, 2016 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, 2016, the Fund's components of distributable earnings (accumulated gains) on a tax basis were as follows:

Undistributed ordinary income	$ 10,573,953
Undistributed long-term capital gains	$ 28,250,977
Unrealized appreciation (depreciation) on investments	$ 228,545,488

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

	Years Ended December 31, 2016	2015
Distributions from ordinary income*	$ 11,177,274	$ 10,895,561
Distributions from long-term capital gains	$ 39,703,910	$ 28,145,698

* 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 at its fiscal year end 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, 2016, 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, 2016 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2016, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $1,921,000 to $11,496,000.

The following tables summarize the value of the Fund's derivative instruments held as of December 31, 2016 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)	$ (20,400)

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, 2016 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	**Futures Contracts**
Equity Contracts (a)	$ 1,768,856

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)	$ (13,990)

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, 2016, purchases and sales of investment securities (excluding short-term investments) aggregated $20,266,201 and $68,209,372, 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, 2016, 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, 2016 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 April 30, 2017, 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, 2016, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 54,946
Class B	11,382
Class B2	5,241
	$ 71,569

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, 2016, the Administration Fee was $533,017, of which $47,150 is unpaid.

Distribution Service Agreement. Deutsche AM 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, 2016, the Distribution Service Fees were as follows:

Distribution Service Fees	Total Aggregated	Unpaid at December 31, 2016
Class B	$ 36,075	$ 3,795
Class B2	41,004	3,555
	$ 77,079	**$ 7,350**

Service Provider Fees. Deutsche AM 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, 2016, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at December 31, 2016
Class A	$ 445	$ 111
Class B	81	20
Class B2	52	13
	$ 578	**$ 144**

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, 2016, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $15,301, of which $5,954 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 Deutsche Central Cash Management Government Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. 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. Deutsche Central Cash Management Government 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. Deutsche Central Cash Management Government 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, 2016, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $3,989.

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, 2016.

F. Ownership of the Fund

At December 31, 2016, 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 50% and 18%, respectively. At December 31, 2016, two participating insurance companies were beneficial owners of record of 10% or more of the total outstanding Class B shares of the Fund, each owning 74% and 16%. At December 31, 2016, one participating insurance company was a beneficial owner of record of 94% 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 (the "Fund") at December 31, 2016, 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, 2016 by correspondence with the custodian, brokers and transfer agent, provide a reasonable basis for our opinion.

Boston, Massachusetts
February 14, 2017

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, 2016 to December 31, 2016).

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, 2016

Actual Fund Return	**Class A**	**Class B**	**Class B2**
Beginning Account Value 7/1/16	$1,000.00	$1,000.00	$1,000.00
Ending Account Value 12/31/16	$1,076.40	$1,075.20	$1,074.10
Expenses Paid per $1,000*	$ 1.72	$ 3.23	$ 3.75

Hypothetical 5% Fund Return	**Class A**	**Class B**	**Class B2**
Beginning Account Value 7/1/16	$1,000.00	$1,000.00	$1,000.00
Ending Account Value 12/31/16	$1,023.48	$1,022.02	$1,021.52
Expenses Paid per $1,000*	$ 1.68	$ 3.15	$ 3.66

* 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 366.

Annualized Expense Ratios	**Class A**	**Class B**	**Class B2**
Deutsche Equity 500 Index VIP	.33%	.62%	.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 $1.49 per share from net long-term capital gains during its year ended December 31, 2016.

Pursuant to Section 852 of the Internal Revenue Code, the Fund designates $31,216,000 as capital gain dividends for its year ended December 31, 2016.

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, 2016 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 most recent 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 and Sub-Advisory Agreement Board Considerations and Fee Evaluation

The Board of Trustees (hereinafter referred to as the "Board" or "Trustees") approved the renewal of Deutsche Equity 500 Index VIP's (the "Fund") 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 2016.

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

— During the entire process, all of the Fund's Trustees were independent of DIMA and its affiliates (the "Independent Trustees").

— The Board 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 extensive 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 Management ("Deutsche AM") division. Deutsche AM 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 Board 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 invest in Deutsche AM and seek to enhance Deutsche AM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AM 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 and the resources made available to such personnel. Throughout the course of the year, the Board also received information regarding DIMA's oversight of 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, 2015, the Fund's performance (Class A shares) was in the 1st quartile, 2nd quartile and 1st quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers).

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 Broadridge Financial Solutions, Inc. ("Broadridge") 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 Broadridge peer group (based on Broadridge data provided as of December 31, 2015). 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 Broadridge expense universe (based on Broadridge data provided as of December 31, 2015, and analyzing Broadridge expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Broadridge Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Broadridge 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 AM. The Board noted that DIMA indicated that Deutsche AM 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, seniority and time commitment of the individuals serving as DIMA's and the Fund's chief compliance officers; (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 Independent 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 Keith R. Fox, Deutsche Funds Board Chair, c/o Thomas R. Hiller, Ropes & Gray LLP, Prudential Tower, 800 Boylston Street, Boston, MA 02199-3600. 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
Keith R. Fox, CFA (1954) Chairperson since 2017,[2] and 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)	98	—
Kenneth C. Froewiss (1945) Vice Chairperson since 2017,[2] Board Member since 2001, and Chairperson (2013–December 31, 2016)	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)	98	—
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.[3] (population well-being and wellness services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International	98	Portland General Electric[3] (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); The Pew Charitable Trusts (charitable organization); former Directorships: Becton Dickinson and Company[3] (medical technology company); Belo Corporation[3] (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)	98	—
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: Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: ICI Mutual Insurance Company (2007–2015); Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	98	—
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	98	—

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; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006)	98	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004, and Vice Chairperson (2013–December 31, 2016)	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	98	—
Rebecca W. Rimel (1951) Board Member since 1995	President, Chief Executive Officer and Director, The Pew Charitable Trusts (charitable organization) (1994–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[3] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	98	Director, Becton Dickinson and Company[3] (medical technology company) (2012–present); Director, BioTelemetry Inc.[3] (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[3] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	98	—
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); former Directorships: The William and Flora Hewlett Foundation (charitable organization) (2000–2015); Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	98	—

Officers[5]

Name, Year of Birth, Position with the Fund and Length of Time Served[6]	Business Experience and Directorships During the Past Five Years
Brian E. Binder[9] (1972) President and Chief Executive Officer, 2013–present	Managing Director[4] and Head of US Product and Fund Administration, Deutsche Asset Management (2013–present); Director and President, Deutsche AM Service Company (since 2016); Director and Vice President, Deutsche AM Distributors, Inc. (since 2016); Director and President, DB Investment Managers, Inc. (since 2016); formerly, Head of Business Management and Consulting at Invesco, Ltd. (2010–2012)
John Millette[8] (1962) Vice President and Secretary, 1999–present	Director,[4] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (2015–present); and Director and Vice President, Deutsche AM Trust Company (since 2016)
Hepsen Uzcan[7] (1974) Vice President, since 2016 Assistant Secretary, 2013–present	Director,[4] Deutsche Asset Management
Paul H. Schubert[7] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[4] Deutsche Asset Management, and Chairman, Director and President, Deutsche AM Trust Company (since 2013); Vice President, Deutsche AM Distributors, Inc. (since 2016); formerly, Director, Deutsche AM Trust Company (2004–2013)
Caroline Pearson[8] (1962) Chief Legal Officer, 2010–present	Managing Director,[4] Deutsche Asset Management; Secretary, Deutsche AM Distributors, Inc.; and Secretary, Deutsche AM Service Company

Name, Year of Birth, Position with the Fund and Length of Time Served[6]	Business Experience and Directorships During the Past Five Years
Scott D. Hogan[8] (1970) Chief Compliance Officer, since 2016	Director,[4] Deutsche Asset Management
Wayne Salit[7] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[4] Deutsche Asset Management; AML Compliance Officer, Deutsche AM Distributors, Inc.; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Paul Antosca[8] (1957) Assistant Treasurer, 2007–present	Director,[4] Deutsche Asset Management
Diane Kenneally[8] (1966) Assistant Treasurer, 2007–present	Director,[4] 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 Effective as of January 1, 2017.

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

4 Executive title, not a board directorship.

5 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.

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

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

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

9 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-025817-6 2/17)

Deutsche
Asset Management

December 31, 2016

Annual Report

Deutsche Variable Series II

Deutsche Global Equity VIP

Contents

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

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 and less liquid 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.

Deutsche AM 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

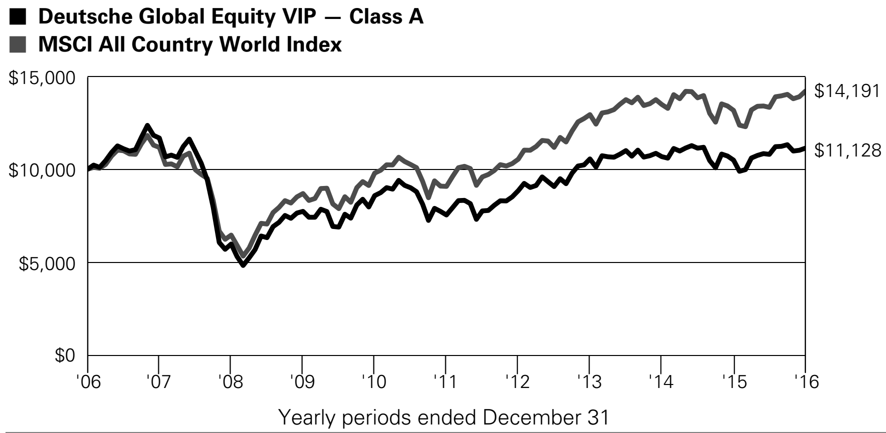
December 31, 2016 (Unaudited)

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, 2016 is 1.00% for Class A shares and may differ from the expense ratio disclosed in the Financial Highlights table in this report.

Generally accepted accounting principles require adjustments to be made to the net assets of the Fund at period end for financial reporting purposes only, and as such, the total return based on the unadjusted net asset value per share may differ from the total return reported in the financial highlights.

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 46 country indices comprising 23 developed and 23 emerging market country indices.

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

Comparative Results

Deutsche Global Equity VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,611	$10,544	$14,762	$11,128
	Average annual total return	6.11%	1.78%	8.10%	1.07%
MSCI All Country World Index	Growth of $10,000	$10,786	$10,970	$15,644	$14,191
	Average annual total return	7.86%	3.13%	9.36%	3.56%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2016 (Unaudited)

Global equities performed well during 2016, with strength in the United States and the Asia-Pacific region offsetting the weaker performance in Europe. The Fund's benchmark, the MSCI AC World Index, returned 7.86% during the year, while the Class A shares of the Fund returned 6.11% (unadjusted for contract charges).[1]

Sector allocations were the primary reason for the Fund's underperformance, while the effect of stock selection was largely flat. With regard to the former, we were hurt by holding a significant overweight position in health care.[2] We averaged an allocation to the sector that was approximately twice that of its weighting in the index, which proved to be a meaningful detractor given that health care was the only sector to finish the year in negative territory.

In terms of stock selection, we generated strong performance in both health care and telecommunications services, but this was counterbalanced by a weaker showing in consumer staples, information technology and industrials.[3] Several of our top individual contributors were companies that were taken over in 2016, including Medivation, Inc.,* Meda AB* and Press Ganey Holdings, Inc.*[4] We believe the takeover of multiple Fund holdings illustrates how our emphasis on companies with strong organic growth can lead us to the types of stocks that may also be attractive to corporate buyers. Applied Materials, Inc., Amphenol Corp. and Marine Harvest ASA were also key contributors in 2016. On the negative side, the Fund's largest detractors were Galenica AG,* Acadia Healthcare Company, Inc. and Alliance Data Systems Corp.

We continued to focus our efforts on identifying stocks positioned for sustainable, above-average growth that were trading below what we believed were their intrinsic values. As always, we remained focused on delivering outperformance through the quality of our stock-picking rather than making large "macro" bets or taking excessive risk.

Our search for reasonably valued growth companies led us to make several shifts in the portfolio during the past year. At the regional level, our individual-stock moves prompted us to boost the Fund's allocation to the United States and add modestly to Japan. In the former, the positive economic outlook has created numerous opportunities in companies with a domestic focus. Japan, for its part, has become more fertile ground to identify growing companies due to the favorable combination of accommodative monetary policy and substantial fiscal stimulus. We funded these additions by reducing the portfolio's weighting in Europe, where it became somewhat more challenging to find attractive growth stocks due to the structural challenges faced by the region's economies. The Fund's weighting in the emerging markets held steady at approximately 3% of assets, but we remained on the lookout for opportunities in this segment. More broadly speaking, we think companies that can deliver both top- and bottom-line growth in excess of the overall market should benefit from steady investor demand at a time of sluggish global economic conditions.

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

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

4 Contribution and detraction incorporate both an investment's total return and its weighting in the Fund.

* Not held in the portfolio as of December 31, 2016.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/16**	**12/31/15**
Common Stocks	98%	100%
Cash Equivalents	1%	0%
Preferred Stock	1%	—
	100%	100%

Sector Diversification (As a % of Common Stocks and Preferred Stock)	**12/31/16**	**12/31/15**
Information Technology	21%	15%
Health Care	20%	25%
Financials	13%	13%
Consumer Staples	12%	16%
Consumer Discretionary	9%	9%
Industrials	8%	10%
Materials	7%	6%
Energy	6%	5%
Telecommunication Services	2%	1%
Real Estate	2%	—
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/16**	**12/31/15**
United States	55%	50%
Switzerland	7%	7%
Canada	7%	6%
Germany	6%	6%
United Kingdom	6%	5%
Sweden	3%	6%
Japan	3%	—
Finland	2%	2%
Ireland	2%	3%
Other	9%	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, 2016

	Shares	Value ($)
Common Stocks 97.7%		
Australia 1.0%		
Australia & New Zealand Banking Group Ltd. (Cost $434,670)	19,800	**434,520**
Canada 7.1%		
Agnico Eagle Mines Ltd.	25,500	1,071,000
Alimentation Couche-Tard, Inc. "B"	16,600	752,697
Brookfield Asset Management, Inc. "A"	38,000	1,253,789
(Cost $2,189,276)		**3,077,486**
China 1.0%		
Tencent Holdings Ltd. (Cost $427,910)	18,400	**450,066**
Finland 1.8%		
Sampo Oyj "A" (Cost $824,246)	17,500	**787,320**
Germany 5.7%		
Allianz SE (Registered)	4,400	727,456
BASF SE	5,000	464,542
Fresenius Medical Care AG & Co. KGaA	15,000	1,270,150
(Cost $2,056,985)		**2,462,148**
Ireland 1.6%		
Kerry Group PLC "A" (a)	1,579	112,567
Kerry Group PLC "A" (a)	7,921	566,050
(Cost $660,575)		**678,617**
Israel 0.7%		
Mobileye NV* (b) (Cost $317,737)	8,000	**304,960**
Japan 2.6%		
Asics Corp.	15,000	299,680
Japan Tobacco, Inc.	20,000	657,818
LINE Corp. (ADR)* (c)	5,400	183,654
(Cost $1,151,870)		**1,141,152**
Luxembourg 1.5%		
Eurofins Scientific (Cost $331,302)	1,500	**639,438**
Malaysia 0.7%		
IHH Healthcare Bhd. (Cost $277,346)	213,000	**301,610**
Mexico 0.8%		
Fomento Economico Mexicano SAB de CV (ADR) (Cost $434,833)	4,800	**365,808**
Netherlands 0.5%		
Patheon NV* (b) (Cost $212,555)	8,200	**235,422**
Norway 0.8%		
Marine Harvest ASA* (Cost $209,110)	18,300	**330,142**
Philippines 0.8%		
Universal Robina Corp. (Cost $459,003)	100,000	**329,294**
Sweden 3.5%		
Assa Abloy AB "B"	32,000	594,245
Hennes & Mauritz AB "B"	14,800	411,962
Svenska Cellulosa AB "B"	18,400	519,878
(Cost $1,474,346)		**1,526,085**
Switzerland 7.2%		
Comet Holding AG (Registered)*	260	256,604
Lonza Group AG (Registered)*	3,700	640,862
Nestle SA (Registered)	12,015	862,157
Roche Holding AG (Genusschein)	3,900	890,750
u-blox Holding AG*	2,500	469,741
(Cost $2,522,904)		**3,120,114**
United Kingdom 5.8%		
Aon PLC (b)	8,000	892,240
Compass Group PLC	40,000	740,929
Halma PLC	43,000	476,011
Spirax-Sarco Engineering PLC	8,300	428,440
(Cost $2,239,428)		**2,537,620**
United States 54.6%		
A.O. Smith Corp.	7,000	331,450
Acadia Healthcare Co., Inc.*	12,000	397,200
Activision Blizzard, Inc.	18,500	668,035
Allergan PLC*	2,700	567,027
Alliance Data Systems Corp.	2,000	457,000
Alphabet, Inc. "A"*	820	649,809
AMETEK, Inc.	8,500	413,100
Amphenol Corp. "A"	19,300	1,296,960
Apple, Inc.	6,500	752,830
Applied Materials, Inc.	23,900	771,253
Biogen, Inc.*	850	241,043
Bristol-Myers Squibb Co.	8,000	467,520
CBRE Group, Inc. "A"*	10,300	324,347
Celgene Corp.*	8,500	983,875
CVS Health Corp.	4,500	355,095
Danaher Corp.	9,500	739,480
Dollar General Corp.	4,000	296,280
Ecolab, Inc.	5,000	586,100
EOG Resources, Inc.	6,100	616,710
EPAM Systems, Inc.*	4,900	315,119
Evolent Health, Inc. "A"*	13,600	201,280
Exxon Mobil Corp.	6,200	559,612
Facebook, Inc. "A"*	3,600	414,180
Fidelity National Information Services, Inc.	4,500	340,380
General Electric Co.	16,500	521,400
JPMorgan Chase & Co.	10,300	888,787
L Brands, Inc.	3,000	197,520
LKQ Corp.*	14,000	429,100
Marcus & Millichap, Inc.*	15,000	400,800
Mastercard, Inc. "A"	10,500	1,084,125
Mead Johnson Nutrition Co.	4,600	325,496
NIKE, Inc. "B"	5,500	279,565
Noble Energy, Inc.	14,700	559,482
PPG Industries, Inc.	4,500	426,420
Progressive Corp.	20,600	731,300
Rollins, Inc.	6,500	219,570
Schlumberger Ltd.	8,500	713,575
Scotts Miracle-Gro Co. "A"	5,000	477,750
T-Mobile U.S., Inc.*	13,000	747,630
Time Warner, Inc.	8,500	820,505
TJX Companies, Inc.	8,100	608,553
Union Pacific Corp.	4,200	435,456
United Technologies Corp.	4,000	438,480

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

	Shares	Value ($)
Zoetis, Inc.	13,200	706,596
(Cost $21,027,982)		**23,757,795**
Total Common Stocks (Cost $37,252,078)		**42,479,597**

Preferred Stock 0.6%

Germany

Draegerwerk AG & Co. KGaA (Cost $214,962)	3,000	**251,251**

Securities Lending Collateral 0.4%

Government & Agency Securities Portfolio "Deutsche Government Cash Institutional Shares", 0.41% (d) (e) (Cost $184,920)	184,920	**184,920**

Cash Equivalents 1.3%

	Shares	Value ($)
Deutsche Central Cash Management Government Fund, 0.50% (d) (Cost $579,159)	579,159	**579,159**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $38,231,119)†	100.0	**43,494,927**
Other Assets and Liabilities, Net	0.0	**(3,065)**
Net Assets	100.0	**43,491,862**

* Non-income producing security.

† The cost for federal income tax purposes was $38,332,815. At December 31, 2016, net unrealized appreciation for all securities based on tax cost was $5,162,112. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $6,558,921 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $1,396,809.

(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, 2016 amounted to $182,294, which is 0.4% of net assets.

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

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

ADR: American Depositary Receipt

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, 2016 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	$ —	$ 434,520	$ —	$ 434,520
Canada	3,077,486	—	—	3,077,486
China	—	450,066	—	450,066
Finland	—	787,320	—	787,320
Germany	—	2,462,148	—	2,462,148
Ireland	—	678,617	—	678,617
Israel	304,960	—	—	304,960
Japan	183,654	957,498	—	1,141,152
Luxembourg	—	639,438	—	639,438
Malaysia	—	301,610	—	301,610
Mexico	365,808	—	—	365,808
Netherlands	235,422	—	—	235,422
Norway	—	330,142	—	330,142
Philippines	—	329,294	—	329,294
Sweden	—	1,526,085	—	1,526,085
Switzerland	—	3,120,114	—	3,120,114
United Kingdom	892,240	1,645,380	—	2,537,620
United States	23,757,795	—	—	23,757,795
Preferred Stock	—	251,251	—	251,251
Short-Term Investments (f)	764,079	—	—	764,079
Total	**$ 29,581,444**	**$ 13,913,483**	**$ —**	**$ 43,494,927**

There have been no transfers between fair value measurement levels during the year ended December 31, 2016.

(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, 2016

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $37,467,040) — including $182,294 of securities loaned	$	42,730,848
Investment in Government & Agency Securities Portfolio (cost $184,920)*		184,920
Investment in Deutsche Central Cash Management Government Fund (cost $579,159)		579,159
Total investments in securities, at value (cost $38,231,119)		43,494,927
Foreign currency, at value (cost $150,581)		146,538
Receivable for Fund shares sold		85,360
Dividends receivable		38,268
Interest receivable		1,656
Foreign taxes recoverable		28,403
Other assets		993
Total assets		43,796,145
Liabilities		
Payable upon return of securities loaned		184,920
Payable for Fund shares redeemed		4,520
Accrued management fee		29,045
Accrued Trustees' fees		1,025
Other accrued expenses and payables		84,773
Total liabilities		304,283
Net assets, at value	**$**	**43,491,862**
Net Assets Consist of		
Undistributed net investment income		215,993
Net unrealized appreciation (depreciation) on:		
Investments		5,263,808
Foreign currency		(6,729)
Accumulated net realized gain (loss)		(39,265,983)
Paid-in capital		77,284,773
Net assets, at value	**$**	**43,491,862**
Class A		
Net Asset Value, offering and redemption price per share ($43,491,862 ÷ 4,587,493 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**9.48**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2016

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $38,721)	$	627,999
Income distributions — Deutsche Central Cash Management Government Fund		4,933
Securities lending income, including income from Government & Agency Securities Portfolio, net of borrower rebates		8,673
Total income		641,605
Expenses:		
Management fee		290,902
Administration fee		44,754
Services to shareholders		680
Custodian fee		21,351
Professional fees		72,339
Reports to shareholders		23,022
Trustees' fees and expenses		4,011
Other		3,309
Total expenses before expense reductions		460,368
Expense reductions		(37,258)
Total expenses after expense reductions		423,110
Net investment income		**218,495**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		878,217
Foreign currency		22,189
Payment by affiliates (see Note F)		140,394
		1,040,800
Change in net unrealized appreciation (depreciation) on:		
Investments		1,217,338
Foreign currency		(4,079)
		1,213,259
Net gain (loss)		**2,254,059**
Net increase (decrease) in net assets resulting from operations	**$**	**2,472,554**

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

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2016	2015
Operations:		
Net investment income	$ 218,495	$ 363,204
Net realized gain (loss)	1,040,800	904,730
Change in net unrealized appreciation (depreciation)	1,213,259	(2,104,278)
Net increase (decrease) in net assets resulting from operations	2,472,554	(836,344)
Distributions to shareholders from:		
Net investment income:		
Class A	(336,718)	(365,100)
Fund share transactions:		
Class A		
Proceeds from shares sold	1,414,193	1,395,898
Reinvestment of distributions	336,718	365,100
Payments for shares redeemed	(9,403,270)	(19,468,680)
Net increase (decrease) in net assets from Class A share transactions	(7,652,359)	(17,707,682)
Increase (decrease) in net assets	(5,516,523)	(18,909,126)
Net assets at beginning of period	49,008,385	67,917,511
Net assets at end of period (including undistributed net investment income of $215,993 and $312,027, respectively)	**$ 43,491,862**	**$ 49,008,385**

Other Information		
Class A		
Shares outstanding at beginning of period	5,446,357	7,372,593
Shares sold	152,025	147,455
Shares issued to shareholders in reinvestment of distributions	36,640	37,523
Shares redeemed	(1,047,529)	(2,111,214)
Net increase (decrease) in Class A shares	(858,864)	(1,926,236)
Shares outstanding at end of period	**4,587,493**	**5,446,357**

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

Financial Highlights

Class A	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data					
Net asset value, beginning of period	**$ 9.00**	**$ 9.21**	**$ 9.27**	**$ 7.96**	**$ 6.98**
Income (loss) from investment operations:					
Net investment income[a]	.04	.05	.06	.14	.18
Net realized and unrealized gain (loss)	.51	(.21)	.04	1.37	1.01
Total from investment operations	.55	(.16)	.10	1.51	1.19
Less distributions from:					
Net investment income	(.07)	(.05)	(.16)	(.20)	(.21)
Net asset value, end of period	**$ 9.48**	**$ 9.00**	**$ 9.21**	**$ 9.27**	**$ 7.96**
Total Return (%)	6.11[b,c]	(1.75)[b]	1.14	19.31[b]	17.34
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	43	49	68	73	67
Ratio of expenses before expense reductions (%)	1.03	1.00	.95	1.06	1.02
Ratio of expenses after expense reductions (%)	.95	.91	.95	.99	1.02
Ratio of net investment income (%)	.49	.58	.59	1.69	2.46
Portfolio turnover rate (%)	46	79	78	139	18

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

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

[c] Includes a reimbursement by the Advisor for a realized loss on a trade executed incorrectly, which otherwise would have reduced total return by 0.31%.

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 ("U.S. GAAP") which require the use of management estimates. Actual results could differ from those estimates. The Fund qualifies as an investment company under Topic 946 of Accounting Standards Codification of U.S. GAAP. 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 its securities lending agreement. During the term of the loans, the Fund 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 securities lending agreement. As of period end, any securities on loan were collateralized by cash. During the year ended December 31, 2016, the Fund invested the cash collateral into a joint trading account in affiliated money market funds managed by Deutsche Investment Management Americas Inc. As of December 31, 2016, the Fund invested the cash collateral in Government & Agency Securities Portfolio. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.09% annualized effective rate as of December 31, 2016) on the cash collateral invested in Government & Agency Securities Portfolio. 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 at any time, and the borrower, after notice, is required to return borrowed securities within a standard time period. 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, 2016, the Fund had securities on loan, which were classified as common stocks in the Investment Portfolio. The value of the related collateral exceeded the value of the securities loaned at period end. As of period end, the remaining contractual maturity of the collateral agreements were overnight and continuous.

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, 2016, the Fund had a net tax basis capital loss carryforward of approximately $39,164,000 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 ($39,164,000), the expiration date, whichever occurs first.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2016 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, expiration of capital loss carryforward 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, 2016, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 215,993
Capital loss carryforwards	$ (39,164,000)
Unrealized appreciation (depreciation) on investments	$ 5,162,112

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

	Years Ended December 31, 2016	2015
Distributions from ordinary income*	$ 336,718	$ 365,100

* 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, 2016, purchases and sales of investment transactions (excluding short-term investments) aggregated $20,133,209 and $27,444,466, 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, 2016, 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, 2016 through April 30, 2016, the Advisor had contractually agreed to waive its fees and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of Class A shares at 0.91%.

For the period from May 1, 2016 through September 30, 2016, the Advisor had contractually agreed to waive its fees and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of Class A shares at 0.97%.

Effective October 1, 2016 through September 30, 2017, 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) of Class A shares at 0.95%.

For the year ended December 31, 2016, fees waived and/or expenses reimbursed were $37,258.

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, 2016, the Administration Fee was $44,754, of which $3,687 is unpaid.

Service Provider Fees. Deutsche AM 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, 2016, the amounts charged to the Fund by DSC aggregated $83, of which $20 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, 2016, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $11,925, of which $4,278 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 Deutsche Central Cash Management Government Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. 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. Deutsche Central Cash Management Government 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. Deutsche Central Cash Management Government 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, 2016, the Fund incurred lending agent fees to Deutsche Bank AG in the amount of $725.

D. Ownership of the Fund

At December 31, 2016, 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 25%.

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, 2016.

F. Payment by Affiliates

During the year ended December 31, 2016, the Advisor agreed to reimburse the Fund $140,394 for a loss incurred on a trade executed incorrectly. The amount of the loss was 0.31% of the Fund's average net assets.

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, 2016, 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, 2016, 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, 2016, 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 14, 2017

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, 2016 to December 31, 2016).

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, 2016

Actual Fund Return	**Class A**
Beginning Account Value 7/1/16	$1,000.00
Ending Account Value 12/31/16	$1,030.40
Expenses Paid per $1,000*	$ 4.90

Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 7/1/16	$1,000.00
Ending Account Value 12/31/16	$1,020.31
Expenses Paid per $1,000*	$ 4.88

* 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 366.

Annualized Expense Ratio	**Class A**
Deutsche Variable Series II — Deutsche Global Equity VIP	.96%

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, 91% of the ordinary dividends (i.e., income dividends plus short-term capital gains) paid during the Fund's fiscal year ended December 31, 2016, 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 most recent 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 (hereinafter referred to as the "Board" or "Trustees") approved the renewal of Deutsche Global Equity VIP's (the "Fund") investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2016.

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

— During the entire process, all of the Fund's Trustees were independent of DIMA and its affiliates (the "Independent Trustees").

— The Board 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 extensive 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 Management ("Deutsche AM") division. Deutsche AM 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 Board 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 invest in Deutsche AM and seek to enhance Deutsche AM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AM 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 and the resources made available to such personnel. 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, 2015, 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, 2015. 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 2016. 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 Broadridge Financial Solutions, Inc. ("Broadridge") 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 Broadridge peer group (based on Broadridge data provided as of December 31, 2015). 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 Broadridge expense universe (based on Broadridge data provided as of December 31, 2015, and analyzing Broadridge expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Broadridge 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 AM. The Board noted that DIMA indicated that Deutsche AM 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,seniority and time commitment of the individuals serving as DIMA's and the Fund's chief compliance officers; (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 Independent 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 Keith R. Fox, Deutsche Funds Board Chair, c/o Thomas R. Hiller, Ropes & Gray LLP, Prudential Tower, 800 Boylston Street, Boston, MA 02199-3600. 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
Keith R. Fox, CFA (1954) Chairperson since 2017,[2] and 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)	98	—
Kenneth C. Froewiss (1945) Vice Chairperson since 2017,[2] Board Member since 2001, and Chairperson (2013–December 31, 2016)	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)	98	—
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.[3] (population well-being and wellness services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International	98	Portland General Electric[3] (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); The Pew Charitable Trusts (charitable organization); former Directorships: Becton Dickinson and Company[3] (medical technology company); Belo Corporation[3] (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)	98	—
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: Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: ICI Mutual Insurance Company (2007–2015); Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	98	—
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	98	—

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; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006)	98	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004, and Vice Chairperson (2013–December 31, 2016)	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	98	—
Rebecca W. Rimel (1951) Board Member since 1995	President, Chief Executive Officer and Director, The Pew Charitable Trusts (charitable organization) (1994–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[3] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	98	Director, Becton Dickinson and Company[3] (medical technology company) (2012–present); Director, BioTelemetry Inc.[3] (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[3] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	98	—
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); former Directorships: The William and Flora Hewlett Foundation (charitable organization) (2000–2015); Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	98	—

Officers[5]

Name, Year of Birth, Position with the Fund and Length of Time Served[6]	Business Experience and Directorships During the Past Five Years
Brian E. Binder[9] (1972) President and Chief Executive Officer, 2013–present	Managing Director[4] and Head of US Product and Fund Administration, Deutsche Asset Management (2013–present); Director and President, Deutsche AM Service Company (since 2016); Director and Vice President, Deutsche AM Distributors, Inc. (since 2016); Director and President, DB Investment Managers, Inc. (since 2016); formerly, Head of Business Management and Consulting at Invesco, Ltd. (2010–2012)
John Millette[8] (1962) Vice President and Secretary, 1999–present	Director,[4] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (2015–present); and Director and Vice President, Deutsche AM Trust Company (since 2016)
Hepsen Uzcan[7] (1974) Vice President, since 2016 Assistant Secretary, 2013–present	Director,[4] Deutsche Asset Management
Paul H. Schubert[7] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[4] Deutsche Asset Management, and Chairman, Director and President, Deutsche AM Trust Company (since 2013); Vice President, Deutsche AM Distributors, Inc. (since 2016); formerly, Director, Deutsche AM Trust Company (2004–2013)
Caroline Pearson[8] (1962) Chief Legal Officer, 2010–present	Managing Director,[4] Deutsche Asset Management; Secretary, Deutsche AM Distributors, Inc.; and Secretary, Deutsche AM Service Company

Name, Year of Birth, Position with the Fund and Length of Time Served[6]	Business Experience and Directorships During the Past Five Years
Scott D. Hogan[8] (1970) Chief Compliance Officer, since 2016	Director,[4] Deutsche Asset Management
Wayne Salit[7] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[4] Deutsche Asset Management; AML Compliance Officer, Deutsche AM Distributors, Inc.; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Paul Antosca[8] (1957) Assistant Treasurer, 2007–present	Director,[4] Deutsche Asset Management
Diane Kenneally[8] (1966) Assistant Treasurer, 2007–present	Director,[4] 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 Effective as of January 1, 2017.

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

4 Executive title, not a board directorship.

5 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.

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

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

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

9 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

VS2GE-2 (R-025828-6 2/17)

Deutsche
Asset Management

December 31, 2016

Annual Report

Deutsche Variable Series II

Deutsche Global Growth VIP

Contents

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

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 and less liquid 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.

Deutsche AM 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

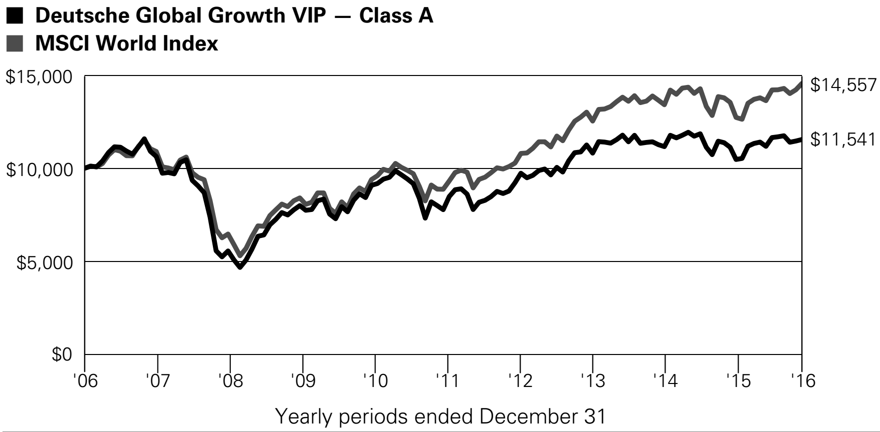
December 31, 2016 (Unaudited)

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, 2016 are 1.44% 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.

Generally accepted accounting principles require adjustments to be made to the net assets of the Fund at period end for financial reporting purposes only, and as such, the total return based on the unadjusted net asset value per share may differ from the total return reported in the financial highlights.

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.

The growth of $10,000 is cumulative.

Comparative Results

Deutsche Global Growth VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,372	$10,256	$14,848	$11,541
	Average annual total return	3.72%	0.85%	8.23%	1.44%
MSCI World Index	Growth of $10,000	$10,751	$11,184	$16,409	$14,557
	Average annual total return	7.51%	3.80%	10.41%	3.83%

Deutsche Global Growth VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,338	$10,153	$14,591	$11,142
	Average annual total return	3.38%	0.51%	7.85%	1.09%
MSCI World Index	Growth of $10,000	$10,751	$11,184	$16,409	$14,557
	Average annual total return	7.51%	3.80%	10.41%	3.83%

Management Summary

December 31, 2016 (Unaudited)

The Fund's Class A shares returned 3.72% during 2016 (unadjusted for contract charges), underperforming the 7.51% return of the MSCI World Index.[1] We are disappointed that the Fund underperformed in the past year, but it's important to keep in mind that we employ a bottom-up stock selection process that emphasizes companies with strong organic growth and reasonable valuations. Although this may lead to differences in portfolio composition relative to the benchmark, we believe stock-by-stock analysis — rather than an effort to match the benchmark's performance over short-term intervals — is the best way to achieve consistent exposure to the most compelling growth stories in the world markets.

Both sector allocations and individual stock selection contributed to the Fund's underperformance. With regard to the former, the Fund was hurt by holding a significant overweight position in health care.[2] The Fund averaged an allocation to the sector that was approximately twice that of its weighting in the index, which proved to be a meaningful detractor given that health care was the only sector to finish the year in negative territory.

In terms of stock selection, the Fund's favorable performance in health care was outweighed by its weaker showing in information technology, industrials and financials. The health care stock Meda AB, which was taken over at a premium, was the strongest individual contributor.[3] Agnico Eagle Mines Ltd., Marine Harvest ASA and Amphenol Corp. also provided a substantial boost to returns. On the negative side, Galenica AG,* Acadia Healthcare Company, Inc. and Alliance Data Systems Corp. were the Fund's largest detractors.

As is typically the case, the Fund's portfolio activity was characterized by a steady rotation out of holdings that had become fully valued in favor of growth companies that were more attractively priced. Our most notable reduction occurred in the consumer staples sector, where we found it increasingly difficult to identify reasonably valued growth stocks.[4] In addition, the continued weakness in the global economy prompted us to shift from more cyclical growers to those with company-specific profit drivers. Our stock-level decisions also led us to rotate a portion of the Fund's allocation to higher-growth companies into those with more stable cash flows. We believe these shifts help illustrate how our flexible approach enables the Fund to capitalize on the broad range of potential opportunities within the growth category.

We maintained geographic diversification and balanced exposure across the global market capitalization spectrum, as we sought to invest in the most compelling growth ideas regardless of a company's size or location. We continued to identify attractively valued growth stocks in Europe and the Pacific Rim, but we modestly reduced the Fund's allocations to these areas during the second half of the period in favor of a higher weighting in the United States. At the sector level, we found health care to be home to a relatively high representation of investment ideas. Conversely, the Fund was underweight in slower-growing areas such as financials, energy, utilities and telecommunications services.

Sebastian P. Werner, PhD
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 Contribution and detraction incorporate both a stock's total return and its weighting in the fund.

4 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, 2016.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/16**	**12/31/15**
Common Stocks	97%	97%
Cash Equivalents	2%	3%
Preferred Stock	1%	0%
Warrants	0%	0%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/16**	**12/31/15**
Health Care	20%	21%
Information Technology	20%	15%
Financials	18%	12%
Consumer Discretionary	13%	12%
Industrials	10%	13%
Consumer Staples	9%	14%
Materials	5%	6%
Energy	3%	5%
Telecommunication Services	2%	2%
Real Estate	0%	0%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/16**	**12/31/15**
United States	56%	46%
Germany	6%	7%
Japan	6%	2%
Switzerland	5%	6%
Canada	5%	6%
United Kingdom	5%	6%
Sweden	3%	6%
Singapore	2%	0%
Hong Kong	2%	1%
Ireland	1%	3%
Netherlands	1%	2%
Norway	1%	2%
France	1%	2%
Luxembourg	1%	2%
Finland	1%	2%
Other	4%	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, 2016

	Shares	Value ($)
Common Stocks 97.0%		
Australia 1.1%		
Australia & New Zealand Banking Group Ltd. (Cost $290,405)	13,000	**285,291**
Canada 4.6%		
Agnico Eagle Mines Ltd.	9,000	378,393
Alimentation Couche-Tard, Inc. "B"	7,500	340,074
Brookfield Asset Management, Inc. "A"	15,734	519,135
(Cost $859,274)		**1,237,602**
China 1.1%		
Minth Group Ltd.	38,870	121,018
Tencent Holdings Ltd.	7,500	183,451
ZTO Express Cayman, Inc. (ADR)*	459	5,540
(Cost $285,699)		**310,009**
Finland 1.0%		
Cramo Oyj	2,641	66,100
Sampo Oyj "A"	4,500	202,454
(Cost $272,658)		**268,554**
France 0.8%		
Flamel Technologies SA (ADR)*	6,494	67,472
LVMH Moet Hennessy Louis Vuitton SE	750	143,271
(Cost $236,872)		**210,743**
Germany 5.5%		
Allianz SE (Registered)	2,100	347,195
BASF SE	2,800	260,144
Continental AG	850	163,784
Fresenius Medical Care AG & Co. KGaA	4,730	400,521
Siemens AG (Registered)	2,400	295,314
VIB Vermoegen AG	1,198	24,836
(Cost $1,371,983)		**1,491,794**
Hong Kong 1.5%		
AIA Group Ltd.	25,000	141,153
Techtronic Industries Co., Ltd.	72,097	258,660
(Cost $398,925)		**399,813**
Indonesia 0.6%		
PT Arwana Citramulia Tbk	621,918	24,044
PT Bank Rakyat Indonesia Persero Tbk	150,000	129,952
(Cost $187,898)		**153,996**
Ireland 0.9%		
Kerry Group PLC "A" (Cost $225,191)	3,300	**235,824**
Japan 5.4%		
Asics Corp.	6,200	123,868
Bandai Namco Holdings, Inc.	4,700	129,732
FANUC Corp.	1,100	186,638
Hoya Corp.	7,000	293,880
KDDI Corp.	8,200	207,601
MISUMI Group, Inc.	7,511	123,588
Murata Manufacturing Co., Ltd.	1,200	160,594
Syuppin Co., Ltd.	3,100	39,688
Unicharm Corp.	8,300	181,343
(Cost $1,473,138)		**1,446,932**
Korea 0.5%		
Vieworks Co., Ltd.* (Cost $132,359)	2,500	**123,779**
Luxembourg 0.9%		
Eurofins Scientific (Cost $130,977)	600	**255,775**
Malaysia 0.5%		
IHH Healthcare Bhd. (Cost $125,729)	92,000	**130,273**
Netherlands 1.4%		
Core Laboratories NV (a) (b)	1,268	152,211
ING Groep NV	15,400	216,738
(Cost $327,651)		**368,949**
Norway 0.6%		
Marine Harvest ASA* (Cost $97,944)	8,500	**153,345**
Philippines 0.3%		
Universal Robina Corp. (Cost $126,280)	27,000	**88,909**
Singapore 1.6%		
Broadcom Ltd. (c) (Cost $433,038)	2,500	**441,925**
Spain 0.1%		
Telepizza Group SA 144A* (Cost $50,971)	6,546	**31,111**
Sweden 3.1%		
Assa Abloy AB "B"	15,000	278,552
Hennes & Mauritz AB "B"	9,500	264,435
Nobina AB 144A	9,892	55,257
Svenska Cellulosa AB "B"	8,000	226,034
(Cost $787,624)		**824,278**
Switzerland 5.2%		
Lonza Group AG (Registered)*	1,500	259,809
Nestle SA (Registered)	4,200	301,378
Novartis AG (Registered)	4,100	298,052
Roche Holding AG (Genusschein)	2,400	548,154
(Cost $1,368,499)		**1,407,393**
Taiwan 0.8%		
Taiwan Semiconductor Manufacturing Co., Ltd. (Cost $230,034)	38,000	**213,922**
United Kingdom 4.5%		
Aon PLC (b)	4,300	479,579
Arrow Global Group PLC	11,587	42,424
Babcock International Group PLC	7,500	88,127
Clinigen Healthcare Ltd.	5,959	52,315
Compass Group PLC	12,400	229,688
Halma PLC	11,000	121,770
Reckitt Benckiser Group PLC	2,450	208,278
(Cost $1,133,548)		**1,222,181**

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

	Shares	Value ($)
United States 55.0%		
A.O. Smith Corp.	4,300	203,605
Acadia Healthcare Co., Inc.*	4,500	148,950
Activision Blizzard, Inc.	8,500	306,935
Allergan PLC*	1,600	336,016
Alliance Data Systems Corp.	1,200	274,200
Alphabet, Inc. "A"*	900	713,205
Ameriprise Financial, Inc.	1,700	188,598
AMETEK, Inc.	7,200	349,920
Amgen, Inc.	1,800	263,178
Amphenol Corp. "A"	7,000	470,400
Apple, Inc.	4,700	544,354
Biogen, Inc.*	950	269,401
Celgene Corp.*	4,200	486,150
Citigroup, Inc.	4,900	291,207
Colgate-Palmolive Co.	4,700	307,568
Costco Wholesale Corp.	1,500	240,165
Danaher Corp.	3,700	288,008
Ecolab, Inc.	2,400	281,328
EOG Resources, Inc.	3,400	343,740
EPAM Systems, Inc.*	2,800	180,068
Facebook, Inc. "A"*	1,800	207,090
Fiserv, Inc.*	2,800	297,584
General Electric Co.	9,700	306,520
Home Depot, Inc.	2,100	281,568
Jack in the Box, Inc.	2,500	279,100
JPMorgan Chase & Co.	5,300	457,337
L Brands, Inc.	2,900	190,936
Marsh & McLennan Companies, Inc.	4,300	290,637
Mastercard, Inc. "A"	3,700	382,025
Mead Johnson Nutrition Co.	2,600	183,976
Microsoft Corp.	3,600	223,704
Middleby Corp.*	1,000	128,810
Moody's Corp.	2,600	245,102
NIKE, Inc. "B"	4,000	203,320
NVIDIA Corp.	1,400	149,436
PNC Financial Services Group, Inc.	1,600	187,136
PPG Industries, Inc.	2,200	208,472
Praxair, Inc.	1,200	140,628
Progressive Corp.	8,500	301,750
QUALCOMM, Inc.	3,409	222,267
Retrophin, Inc.*	2,821	53,402
S&P Global, Inc.	2,300	247,342
Schlumberger Ltd.	1,900	159,505
T-Mobile U.S., Inc.*	6,000	345,060
The Priceline Group, Inc.*	280	410,497
Thermo Fisher Scientific, Inc.	2,600	366,860
Time Warner, Inc.	2,800	270,284
TJX Companies, Inc.	4,300	323,059
TriState Capital Holdings, Inc.*	4,035	89,173
Union Pacific Corp.	1,600	165,888
United Technologies Corp.	2,600	285,012
Wabtec Corp.	1,800	149,436
WEX, Inc.*	1,300	145,080
Zoetis, Inc.	8,000	428,240
(Cost $13,485,390)		**14,813,232**
Total Common Stocks (Cost $24,032,087)		**26,115,630**

Warrant 0.0%

France

	Shares	Value ($)
Parrot SA Expiration Date 12/15/2022*	924	375
Parrot SA Expiration Date 12/22/2022*	924	454
Total Warrant (Cost $0)		**829**

Preferred Stock 0.7%

	Shares	Value ($)
Germany 0.6%		
Draegerwerk AG & Co. KGaA (Cost $145,724)	2,000	**167,501**
United States 0.1%		
Providence Service Corp. (Cost $13,600)	136	**12,976**
Total Preferred Stock (Cost $159,324)		**180,477**

Securities Lending Collateral 0.1%

	Shares	Value ($)
Government & Agency Securities Portfolio "Deutsche Government Cash Institutional Shares", 0.41% (d) (e) (Cost $37,088)	37,088	**37,088**

Cash Equivalents 1.7%

	Shares	Value ($)
Deutsche Central Cash Management Government Fund, 0.50% (d) (Cost $467,912)	467,912	**467,912**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $24,696,411)†	99.5	**26,801,936**
Other Assets and Liabilities, Net	0.5	**137,789**
Net Assets	100.0	**26,939,725**

* Non-income producing security.

† The cost for federal income tax purposes was $24,735,562. At December 31, 2016, net unrealized appreciation for all securities based on tax cost was $2,066,374. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $2,884,746 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $818,372.

(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, 2016 amounted to $36,612, which is 0.1% of net assets.

(b) Listed on the New York Stock Exchange.

(c) Listed on the NASDAQ Stock Market, Inc.

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

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

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

S&P: Standard & Poor's

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, 2016 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	$ —	$ 285,291	$ —	$ 285,291
Canada	1,237,602	—	—	1,237,602
China	5,540	304,469	—	310,009
Finland	—	268,554	—	268,554
France	67,472	143,271	—	210,743
Germany	—	1,491,794	—	1,491,794
Hong Kong	—	399,813	—	399,813
Indonesia	—	153,996	—	153,996
Ireland	—	235,824	—	235,824
Japan	—	1,446,932	—	1,446,932
Korea	—	123,779	—	123,779
Luxembourg	—	255,775	—	255,775
Malaysia	—	130,273	—	130,273
Netherlands	152,211	216,738	—	368,949
Norway	—	153,345	—	153,345
Philippines	—	88,909	—	88,909
Singapore	441,925	—	—	441,925
Spain	—	31,111	—	31,111
Sweden	—	824,278	—	824,278
Switzerland	—	1,407,393	—	1,407,393
Taiwan	—	213,922	—	213,922
United Kingdom	479,579	742,602	—	1,222,181
United States	14,813,232	—	—	14,813,232
Warrants	—	—	829	829
Preferred Stock (f)	—	167,501	12,976	180,477
Short-Term Investments (f)	505,000	—	—	505,000
Total	**$ 17,702,561**	**$ 9,085,570**	**$ 13,805**	**$ 26,801,936**

There have been no transfers between fair value measurement levels during the year ended December 31, 2016.

(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, 2016

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $24,191,411) — including $36,612 of securities loaned	$	26,296,936
Investment in Government & Agency Securities Portfolio (cost $37,088)*		37,088
Investment in Deutsche Central Cash Management Government Fund (cost $467,912)		467,912
Total investments in securities, at value (cost $24,696,411)		26,801,936
Foreign currency, at value (cost $160,507)		156,487
Receivable for investments sold		153,708
Receivable for Fund shares sold		1,673
Dividends receivable		12,751
Interest receivable		377
Foreign taxes recoverable		11,755
Other assets		1,100
Total assets		27,139,787

Liabilities		
Cash overdraft		78
Payable upon return of securities loaned		37,088
Payable for Fund shares redeemed		56,124
Accrued management fee		9,669
Accrued Directors' fees		1,222
Other accrued expenses and payables		95,881
Total liabilities		200,062
Net assets, at value		**26,939,725**

Net Assets Consist of		
Undistributed net investment income		93,056
Net unrealized appreciation (depreciation) on:		
Investments		2,105,525
Foreign currency		(5,425)
Accumulated net realized gain (loss)		(17,823,821)
Paid-in capital		42,570,390
Net assets, at value		**26,939,725**
Class A		
Net Asset Value, offering and redemption price per share ($26,869,894 ÷ 2,417,159 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**11.12**
Class B		
Net Asset Value, offering and redemption price per share ($69,831 ÷ 6,272 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**11.13**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2016

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $28,982)	$	409,876
Income distributions — Deutsche Central Cash Management Government Fund		3,361
Securities lending income, net of borrower rebates		8,125
Total income		421,362
Expenses:		
Management fee		264,035
Administration fee		28,856
Services to shareholders		1,201
Distribution service fee (Class B)		151
Custodian fee		68,342
Professional fees		78,517
Reports to shareholders		30,910
Directors' fees and expenses		3,420
Other		3,564
Total expenses before expense reductions		478,996
Expense reductions		(204,617)
Total expenses after expense reductions		274,379
Net investment income (loss)		**146,983**

Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		1,344,526
Foreign currency		(8,208)
		1,336,318
Change in net unrealized appreciation (depreciation) on:		
Investments		(703,170)
Foreign currency		1,343
		(701,827)
Net gain (loss)		**634,491**
Net increase (decrease) in net assets resulting from operations	**$**	**781,474**

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

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2016	2015
Operations:		
Net investment income (loss)	$ 146,983	$ 289,213
Net realized gain (loss)	1,336,318	153,277
Change in net unrealized appreciation (depreciation)	(701,827)	(828,051)
Net increase (decrease) in net assets resulting from operations	781,474	(385,561)
Distributions to shareholders from:		
Net investment income:		
Class A	(243,128)	(371,824)
Class B	(285)	(513)
Total distributions	(243,413)	(372,337)
Fund share transactions:		
Class A		
Proceeds from shares sold	1,028,197	1,554,080
Reinvestment of distributions	243,128	371,824
Payments for shares redeemed	(8,614,441)	(14,574,128)
Net increase (decrease) in net assets from Class A share transactions	(7,343,116)	(12,648,224)
Class B		
Proceeds from shares sold	14,771	8,017
Reinvestment of distributions	285	513
Payments for shares redeemed	(11,122)	(52,359)
Net increase (decrease) in net assets from Class B share transactions	3,934	(43,829)
Increase (decrease) in net assets	(6,801,121)	(13,449,951)
Net assets at beginning of period	33,740,846	47,190,797
Net assets at end of period (including undistributed net investment income of $93,056 and $155,039, respectively)	**$ 26,939,725**	**$ 33,740,846**

Other Information		
Class A		
Shares outstanding at beginning of period	3,116,107	4,265,093
Shares sold	95,060	137,321
Shares issued to shareholders in reinvestment of distributions	22,163	31,944
Shares redeemed	(816,171)	(1,318,251)
Net increase (decrease) in Class A shares	(698,948)	(1,148,986)
Shares outstanding at end of period	**2,417,159**	**3,116,107**
Class B		
Shares outstanding at beginning of period	6,040	10,038
Shares sold	1,328	716
Shares issued to shareholders in reinvestment of distributions	26	44
Shares redeemed	(1,122)	(4,758)
Net increase (decrease) in Class B shares	232	(3,998)
Shares outstanding at end of period	**6,272**	**6,040**

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

Financial Highlights

Class A	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data					
Net asset value, beginning of period	**$10.81**	**$11.04**	**$11.13**	**$ 9.24**	**$ 7.90**
Income (loss) from investment operations:					
Net investment income[a]	.06	.07	.08	.10	.12
Net realized and unrealized gain (loss)	.34	(.21)	(.06)	1.92	1.34
Total from investment operations	.40	(.14)	.02	2.02	1.46
Less distributions from:					
Net investment income	(.09)	(.09)	(.11)	(.13)	(.12)
Net asset value, end of period	**$11.12**	**$10.81**	**$11.04**	**$11.13**	**$ 9.24**
Total Return (%)[b]	3.72	(1.32)	.21	22.08	18.60
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	27	34	47	51	54
Ratio of expenses before expense reductions (%)	1.66	1.44	1.41	1.45	1.42
Ratio of expenses after expense reductions (%)	.95	.90	.82	.88	.99
Ratio of net investment income (%)	.51	.65	.71	1.00	1.40
Portfolio turnover rate (%)	70	64	63	171	107

a Based on average shares outstanding during the period.

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

Class B	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data					
Net asset value, beginning of period	**$10.82**	**$11.05**	**$11.14**	**$ 9.25**	**$ 7.91**
Income (loss) from investment operations:					
Net investment income[a]	.02	.05	.02	.07	.09
Net realized and unrealized gain (loss)	.35	(.23)	(.04)	1.92	1.34
Total from investment operations	.37	(.18)	(.02)	1.99	1.43
Less distributions from:					
Net investment income	(.06)	(.05)	(.07)	(.10)	(.09)
Net asset value, end of period	**$11.13**	**$10.82**	**$11.05**	**$11.14**	**$ 9.25**
Total Return (%)[b]	3.38	(1.64)	(.15)	21.62	18.16
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	.07	.1	.1	3	3
Ratio of expenses before expense reductions (%)	1.98	1.76	1.76	1.81	1.76
Ratio of expenses after expense reductions (%)	1.24	1.22	1.15	1.23	1.34
Ratio of net investment income (%)	.17	.40	.14	.66	1.04
Portfolio turnover rate (%)	70	64	63	171	107

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 ("U.S. GAAP") which require the use of management estimates. Actual results could differ from those estimates. The Fund qualifies as an investment company under Topic 946 of Accounting Standards Codification of U.S. GAAP. 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.

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 its securities lending agreement. During the term of the loans, the Fund 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 securities lending agreement. As of period end, any securities on loan were collateralized by cash. During the year ended December 31, 2016, the Fund invested the cash collateral into a joint trading account in affiliated money market funds managed by Deutsche Investment Management Americas Inc. As of December 31, 2016, the Fund invested the cash collateral in Government & Agency Securities Portfolio. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.09% annualized effective rate as of December 31, 2016) on the cash collateral invested in Government & Agency Securities Portfolio. 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 at any time, and the borrower, after notice, is required to return borrowed securities within a standard time period. 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, 2016, the Fund had securities on loan, which were classified as common stock in the Investment Portfolio. The value of the related collateral exceeded the value of the securities loaned at period end. As of period end, the remaining contractual maturity of the collateral agreements were overnight and continuous.

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, 2016, the Fund had a net tax basis capital loss carryforward of approximately $17,790,000 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.

From November 1, 2016 through December 31, 2016, the Fund elects to defer qualified late year losses of approximately $360 of net short-term realized capital losses and treat them as arising in the fiscal year ending December 31, 2017.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2016 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, 2016, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 98,245
Capital loss carryforwards	$ (17,790,000)
Unrealized appreciation (depreciation) on investments	$ 2,066,374

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

	Years Ended December 31, 2016	2015
Distributions from ordinary income*	$ 243,413	$ 372,337

* 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, 2016, purchases and sales of investment transactions (excluding short-term investments) aggregated $19,521,874 and $26,285,877, 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	.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, 2016, the fee pursuant to the Investment Management Agreement was equivalent to an annualized rate (exclusive of any applicable waivers/reimbursements) of 0.915% of the Fund's average daily net assets.

For the period from January 1, 2016 through April 30, 2016, the Advisor had contractually agreed to waive its fees and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of each class as follows:

Class A	.90%
Class B	1.25%

For the period from May 1, 2016 through September 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	.99%
Class B	1.25%

Effective October 1, 2016 through September 30, 2017, the Advisor has contractually agreed to waive all or a portion of its fee and/or reimburse certain operating expenses of the Fund to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of each class as follows:

Class A	.95%
Class B	1.20%

For the year ended December 31, 2016, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 204,171
Class B	446
	$ 204,617

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, 2016, the Administration Fee was $28,856, of which $2,313 is unpaid.

Service Provider Fees. Deutsche AM 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, 2016, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	**Total Aggregated**	**Unpaid at December 31, 2016**
Class A	$ 244	$ 62
Class B	41	10
	$ 285	**$ 72**

Distribution Service Agreement. Under the Fund's Class B 12b-1 plan, Deutsche AM 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, 2016, the Distribution Service Fee aggregated $151, of which $15 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, 2016, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $13,374, of which $4,879 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 Deutsche Central Cash Management Government Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. 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. Deutsche Central Cash Management Government 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. Deutsche Central Cash Management Government 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, 2016, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 66% and 27%. Two participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, owning 68% and 32%.

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, 2016.

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, 2016, 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, 2016, by correspondence with the custodian and brokers. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Deutsche Global Growth VIP (one of the funds constituting Deutsche Variable Series II) at December 31, 2016, 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 14, 2017

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, 2016 to December 31, 2016).

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, 2016

Actual Fund Return	Class A	Class B
Beginning Account Value 7/1/16	$1,000.00	$1,000.00
Ending Account Value 12/31/16	$1,032.50	$1,031.50
Expenses Paid per $1,000*	$ 4.96	$ 6.26
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/16	$1,000.00	$1,000.00
Ending Account Value 12/31/16	$1,020.31	$1,018.97
Expenses Paid per $1,000*	$ 4.93	$ 6.22

* 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 366.

Annualized Expense Ratios	Class A	Class B
Deutsche Variable Series II — Deutsche Global Growth VIP	.97%	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, 65% of the ordinary dividends (i.e., income dividends plus short-term capital gains) paid during the Fund's fiscal year ended December 31, 2016, 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 most recent 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 (hereinafter referred to as the "Board" or "Trustees") approved the renewal of Deutsche Global Growth VIP's (the "Fund") investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2016.

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

— During the entire process, all of the Fund's Trustees were independent of DIMA and its affiliates (the "Independent Trustees").

— The Board 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 extensive 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 Management ("Deutsche AM") division. Deutsche AM 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 Board 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 invest in Deutsche AM and seek to enhance Deutsche AM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AM 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 and the resources made available to such personnel. 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, 2015, the Fund's performance (Class A shares) was in the 3rd quartile, 4th quartile and 4th quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has underperformed its benchmark in the one-, three- and five-year periods ended December 31, 2015. 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 considered that effective on or about October 3, 2016, the Fund would change its investment strategy and portfolio managers. The Board observed that the Fund had experienced improved relative performance during the first seven months of 2016. 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 Broadridge Financial Solutions, Inc. ("Broadridge") 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 Broadridge peer group (based on Broadridge data provided as of December 31, 2015). 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 Broadridge expense universe (based on Broadridge data provided as of December 31, 2015, and analyzing Broadridge expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Broadridge Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Broadridge 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 AM. The Board noted that DIMA indicated that Deutsche AM 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, seniority and time commitment of the individuals serving as DIMA's and the Fund's chief compliance officers; (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 Independent 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 Keith R. Fox, Deutsche Funds Board Chair, c/o Thomas R. Hiller, Ropes & Gray LLP, Prudential Tower, 800 Boylston Street, Boston, MA 02199-3600. 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
Keith R. Fox, CFA (1954) Chairperson since 2017,[2] and 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)	98	—
Kenneth C. Froewiss (1945) Vice Chairperson since 2017,[2] Board Member since 2001, and Chairperson (2013–December 31, 2016)	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)	98	—
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.[3] (population well-being and wellness services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International	98	Portland General Electric[3] (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); The Pew Charitable Trusts (charitable organization); former Directorships: Becton Dickinson and Company[3] (medical technology company); Belo Corporation[3] (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)	98	—
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: Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: ICI Mutual Insurance Company (2007–2015); Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	98	—
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	98	—

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; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006)	98	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004, and Vice Chairperson (2013–December 31, 2016)	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	98	—
Rebecca W. Rimel (1951) Board Member since 1995	President, Chief Executive Officer and Director, The Pew Charitable Trusts (charitable organization) (1994–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[3] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	98	Director, Becton Dickinson and Company[3] (medical technology company) (2012–present); Director, BioTelemetry Inc.[3] (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[3] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	98	—
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); former Directorships: The William and Flora Hewlett Foundation (charitable organization) (2000–2015); Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	98	—

Officers[5]

Name, Year of Birth, Position with the Fund and Length of Time Served[6]	Business Experience and Directorships During the Past Five Years
Brian E. Binder[9] (1972) President and Chief Executive Officer, 2013–present	Managing Director[4] and Head of US Product and Fund Administration, Deutsche Asset Management (2013–present); Director and President, Deutsche AM Service Company (since 2016); Director and Vice President, Deutsche AM Distributors, Inc. (since 2016); Director and President, DB Investment Managers, Inc. (since 2016); formerly, Head of Business Management and Consulting at Invesco, Ltd. (2010–2012)
John Millette[8] (1962) Vice President and Secretary, 1999–present	Director,[4] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (2015–present); and Director and Vice President, Deutsche AM Trust Company (since 2016)
Hepsen Uzcan[7] (1974) Vice President, since 2016 Assistant Secretary, 2013–present	Director,[4] Deutsche Asset Management
Paul H. Schubert[7] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[4] Deutsche Asset Management, and Chairman, Director and President, Deutsche AM Trust Company (since 2013); Vice President, Deutsche AM Distributors, Inc. (since 2016); formerly, Director, Deutsche AM Trust Company (2004–2013)
Caroline Pearson[8] (1962) Chief Legal Officer, 2010–present	Managing Director,[4] Deutsche Asset Management; Secretary, Deutsche AM Distributors, Inc.; and Secretary, Deutsche AM Service Company

Name, Year of Birth, Position with the Fund and Length of Time Served[6]	Business Experience and Directorships During the Past Five Years
Scott D. Hogan[8] (1970) Chief Compliance Officer, since 2016	Director,[4] Deutsche Asset Management
Wayne Salit[7] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[4] Deutsche Asset Management; AML Compliance Officer, Deutsche AM Distributors, Inc.; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Paul Antosca[8] (1957) Assistant Treasurer, 2007–present	Director,[4] Deutsche Asset Management
Diane Kenneally[8] (1966) Assistant Treasurer, 2007–present	Director,[4] 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 Effective as of January 1, 2017.

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

4 Executive title, not a board directorship.

5 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.

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

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

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

9 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

Notes

Deutsche
Asset Management

VS2GG-2 (R-025830-7 2/17)

Deutsche
Asset Management

December 31, 2016

Annual Report

Deutsche Variable Series II

Deutsche Global Income Builder VIP

Contents

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

Although allocation among different asset categories generally limits risk, fund management may favor an asset category that underperforms other assets or markets as a whole. 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 and less liquid 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.

Deutsche AM 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

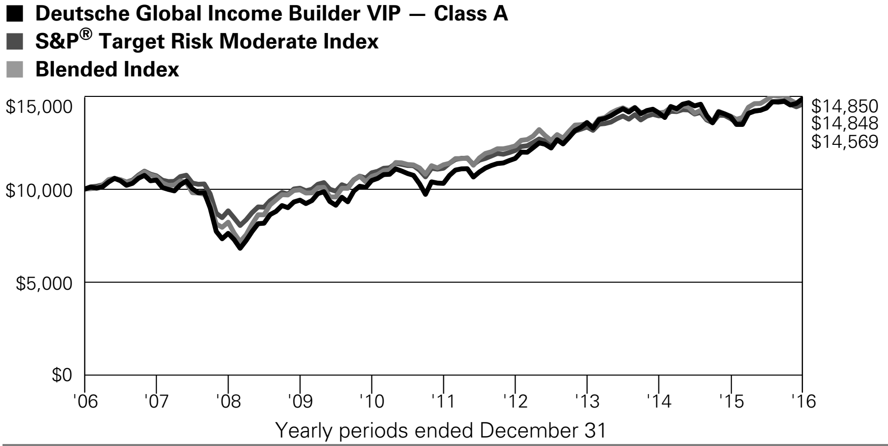
December 31, 2016 (Unaudited)

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, 2016 is 0.63% for Class A shares and may differ from the expense ratio disclosed in the Financial Highlights table in this report.

Generally accepted accounting principles require adjustments to be made to the net assets of the Fund at period end for financial reporting purposes only, and as such, the total return based on the unadjusted net asset value per share may differ from the total return reported in the financial highlights.

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 Bloomberg 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.

Bloomberg 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.

Comparative Results

Deutsche Global Income Builder VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,681	$10,931	$14,402	$14,850
	Average annual total return	6.81%	3.01%	7.57%	4.03%
S&P® Target Risk Moderate Index	Growth of $10,000	$10,563	$10,920	$13,099	$14,569
	Average annual total return	5.63%	2.98%	5.55%	3.83%
Blended Index	Growth of $10,000	$10,666	$10,970	$13,133	$14,848
	Average annual total return	6.66%	3.13%	5.60%	4.03%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2016 (Unaudited)

The Fund returned 6.81% during the 12 months ended December 31, 2016 (Class A shares, unadjusted for contract charges), outperforming the 5.63% return of S&P® Target Risk Moderate Index.[1] Its other benchmark — the Blended Index — returned 6.66%.[2]

The Fund closed the period with allocations of 58% to equities and 41% to bonds, vs. 59% and 35% on December 31, 2015. Although the final numbers appear to indicate only a moderate change, we were active in managing these allocations throughout the period. For instance, we sought to take advantage of the sell-off that followed the "Brexit" vote by increasing the weighting in equities in late June and early July. This decision added value, given that stocks quickly rebounded as investors grew increasingly comfortable with the outlook for global growth. We subsequently pared back the position in stocks in the wake of the rally, reducing the equity weighting to a level that was in line with our longer-term target. We believe this active approach can help us use market volatility to our advantage by capitalizing on values as they emerge. On balance, the Fund's tilt toward equities was well suited to a period characterized by significant outperformance for stocks.

Both the equity and fixed-income portfolios finished the year with positive returns. In the former, we added value through effective stock selection in the materials sector, but this was offset by a weaker showing in telecommunications services and industrials. Among individual stocks, Navient Corp., Vermilion Energy, Inc.* and Newmont Mining Corp. were the leading contributors to performance, while the largest detraction came from underweight positions in JPMorgan Chase & Co. and Bank of America Corp.[3] We held a somewhat cautious view at year-end given the unusually large gains that followed the November election, leading us to maintain a focus on higher-quality companies.

On the fixed-income side, the portfolio's overall positioning had a mixed impact on performance. We entered the period with a defensive posture, as we were very conscious of the risks associated with falling energy prices and slowing global growth. This cautious approach was expressed in a below-average credit exposure and an emphasis on higher-quality issues. Our defensive strategy served us well until the market low in mid-February, but it subsequently cost us some relative performance over the next four to six weeks by preventing the Fund from fully participating in the initial stages of the rally. We began to rebuild the portfolio's credit exposure in early April, a process that we continued throughout the remainder of the period. The bond portfolio performed well vs. the benchmark in the second half as a result of these moves, enabling it to provide competitive returns for the full year. In terms of allocations, the portfolio was aided by its overweight positions in high-yield bonds and the emerging markets, together with its corresponding underweight in investment-grade issues.[4]

The Fund employed derivatives 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 contributed positively to performance during the past 12 months.

Di Kumble, CFA
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 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 Bloomberg 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 U.S. dollars using the London close foreign exchange rates. Bloomberg 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 Contribution and detraction incorporate both a stock's total return and its weighting in the Fund.

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

Credit quality measures a bond issuer's ability to repay interest and principal in a timely manner.

* Not held in the portfolio as of December 31, 2016.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/16**	**12/31/15**
Equity	**58%**	**59%**
Common Stocks	58%	59%
Fixed Income	**41%**	**35%**
Corporate Bonds	14%	20%
Government & Agency Obligations	13%	8%
Exchange-Traded Funds	10%	—
Collateralized Mortgage Obligations	1%	2%
Commercial Mortgage-Backed Securities	1%	1%
Mortgage-Backed Securities Pass-Throughs	1%	3%
Asset-Backed	1%	1%
Municipal Bonds and Notes	0%	0%
Cash Equivalents	**1%**	**6%**
	100%	100%

Sector Diversification (As a % of Equities, Corporate Bonds, Preferred Securities and Convertible Bonds)	**12/31/16**	**12/31/15**
Financials	20%	29%
Information Technology	13%	19%
Energy	13%	4%
Consumer Discretionary	12%	9%
Industrials	10%	8%
Health Care	8%	7%
Consumer Staples	7%	7%
Telecommunication Services	6%	6%
Materials	5%	3%
Real Estate	3%	1%
Utilities	3%	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, 2016

	Shares	Value ($)
Common Stocks 57.6%		
Consumer Discretionary 7.5%		
Auto Components 0.4%		
Aisin Seiki Co., Ltd.	2,464	106,795
Bridgestone Corp.	4,505	162,442
Cie Generale des Etablissements Michelin	224	24,956
Denso Corp.	3,579	154,981
Magna International, Inc.	3,100	134,607
Nokian Renkaat Oyj	444	16,548
Sumitomo Electric Industries Ltd.	8,005	115,517
Sumitomo Rubber Industries Ltd.	2,993	47,471
Toyota Industries Corp.	79	3,763
		767,080
Automobiles 1.2%		
Bayerische Motoren Werke (BMW) AG	1,599	149,521
Daimler AG (Registered)	3,109	231,733
Ford Motor Co.	27,315	331,331
Fuji Heavy Industries Ltd.	5,200	212,339
General Motors Co.	9,423	328,297
Honda Motor Co., Ltd.	5,950	173,844
Isuzu Motors Ltd.	4,100	51,923
Nissan Motor Co., Ltd.	32,085	322,751
Renault SA	1,453	129,438
Toyota Motor Corp.	3,700	217,580
Volkswagen AG	965	139,127
		2,287,884
Distributors 0.1%		
Genuine Parts Co.	1,400	**133,756**
Diversified Consumer Services 0.1%		
H&R Block, Inc.	5,300	**121,847**
Hotels, Restaurants & Leisure 1.3%		
Carnival Corp.	4,488	233,645
Carnival PLC	2,097	106,712
Compass Group PLC	6,932	128,403
Crown Resorts Ltd.	17,625	147,400
Darden Restaurants, Inc.	2,200	159,984
Hilton Worldwide Holdings, Inc.	5,800	157,760
Las Vegas Sands Corp.	4,400	235,004
Marriott International, Inc. "A"	2,000	165,360
McDonald's Corp.	2,823	343,616
Royal Caribbean Cruises Ltd.	738	60,546
Sands China Ltd.	25,200	109,501
Starbucks Corp.	2,533	140,632
TUI AG	9,017	129,484
Wyndham Worldwide Corp.	1,600	122,192
Yum! Brands, Inc.	1,810	114,627
		2,354,866
Household Durables 0.6%		
Barratt Developments PLC	18,660	106,472
D.R. Horton, Inc.	4,200	114,786
Garmin Ltd.	2,400	116,376
Leggett & Platt, Inc.	2,400	117,312
Mohawk Industries, Inc.*	224	44,728
Newell Brands, Inc.	3,400	151,810
Persimmon PLC	5,683	124,624
PulteGroup, Inc.	5,700	104,766
Sekisui House Ltd.	12,454	207,455
Whirlpool Corp.	412	74,889
		1,163,218
Internet & Direct Marketing Retail 0.2%		
Amazon.com, Inc.*	200	149,974
The Priceline Group, Inc.*	100	146,606
		296,580
Leisure Products 0.1%		
Hasbro, Inc.	851	66,199
Mattel, Inc.	4,500	123,975
Sankyo Co., Ltd.	2,300	74,266
		264,440
Media 1.7%		
CBS Corp. "B"	1,086	69,091
Charter Communications, Inc. "A"*	517	148,855
Comcast Corp. "A"	4,444	306,858
Eutelsat Communications SA	7,460	144,355
Interpublic Group of Companies, Inc.	4,900	114,709
Lagardere SCA	4,492	124,900
News Corp. "A"	5,067	58,068
Omnicom Group, Inc.	3,079	262,054
Pearson PLC	10,783	108,884
ProSiebenSat.1 Media SE	2,546	98,161
RTL Group SA*	14	1,029
Scripps Networks Interactive, Inc. "A"	700	49,959
SES SA	6,436	141,895
Shaw Communications, Inc. "B"	6,877	137,986
Singapore Press Holdings Ltd.	38,400	93,659
Sirius XM Holdings, Inc. (a)	49,900	222,055
Sky PLC	9,730	119,049
Time Warner, Inc.	2,527	243,931
Twenty-First Century Fox, Inc. "A"	2,823	79,157
Twenty-First Century Fox, Inc. "B"	4,343	118,347
Viacom, Inc. "B"	5,700	200,070
Walt Disney Co.	2,109	219,800
WPP PLC	4,192	93,891
		3,156,763
Multiline Retail 0.4%		
Canadian Tire Corp., Ltd. "A"	145	15,041
Dollar General Corp.	1,810	134,067
Harvey Norman Holdings Ltd.	36,814	136,836
Kohl's Corp.	3,040	150,115
Macy's, Inc.	2,027	72,587
Target Corp.	3,402	245,726
		754,372
Specialty Retail 0.7%		
AutoZone, Inc.*	90	71,081
Bed Bath & Beyond, Inc.	869	35,316
Best Buy Co., Inc.	1,834	78,257
Foot Locker, Inc.	1,002	71,032
Hennes & Mauritz AB "B"	5,107	142,155
Home Depot, Inc.	1,883	252,472
Industria de Diseno Textil SA	481	16,429
L Brands, Inc.	2,956	194,623
Lowe's Companies, Inc.	2,231	158,669
Staples, Inc.	16,536	149,651
The Gap, Inc.	796	17,862
TJX Companies, Inc.	1,448	108,788
		1,296,335

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

	Shares	Value ($)
Textiles, Apparel & Luxury Goods 0.7%		
Cie Financiere Richemont SA (Registered)	2,214	146,612
Coach, Inc.	3,300	115,566
HUGO BOSS AG	2,524	154,576
Li & Fung Ltd.	238,000	104,846
NIKE, Inc. "B"	4,242	215,621
Swatch Group AG (Bearer)	189	58,758
Swatch Group AG (Registered)	1,593	97,406
VF Corp.	2,441	130,227
Yue Yuen Industrial (Holdings) Ltd.	52,476	190,992
		1,214,604
Consumer Staples 4.8%		
Beverages 1.0%		
Anheuser-Busch InBev SA	2,306	244,031
Asahi Group Holdings Ltd.	3,500	110,578
Brown-Forman Corp. "B"	2,586	116,163
Coca-Cola Co.	8,285	343,496
Constellation Brands, Inc. "A"	640	98,118
Diageo PLC	7,054	183,566
Dr. Pepper Snapple Group, Inc.	1,189	107,807
Heineken Holding NV	91	6,345
Heineken NV	295	22,157
Kirin Holdings Co., Ltd.	2,800	45,596
Molson Coors Brewing Co. "B"	1,309	127,379
Monster Beverage Corp.*	500	22,170
PepsiCo, Inc.	3,295	344,756
Suntory Beverage & Food Ltd.	1,000	41,563
		1,813,725
Food & Staples Retailing 0.9%		
Casino Guichard-Perrachon SA	484	23,261
Colruyt SA	754	37,317
Costco Wholesale Corp.	1,231	197,095
CVS Health Corp.	2,611	206,034
George Weston Ltd.	307	25,973
ICA Gruppen AB	1,223	37,332
J Sainsbury PLC	13,467	41,459
Koninklijke Ahold Delhaize NV	2,076	43,792
Kroger Co.	848	29,265
Lawson, Inc.	400	28,093
Loblaw Companies Ltd.	1,622	85,579
Seven & I Holdings Co., Ltd.	967	36,860
Sysco Corp.	3,474	192,355
Wal-Mart Stores, Inc.	4,146	286,572
Walgreens Boots Alliance, Inc.	2,074	171,644
Wesfarmers Ltd.	3,522	107,049
Woolworths Ltd.	3,923	68,169
		1,617,849
Food Products 1.5%		
Archer-Daniels-Midland Co.	4,922	224,689
Bunge Ltd.	1,545	111,611
Campbell Soup Co.	2,120	128,196
Conagra Brands, Inc.	4,126	163,183
General Mills, Inc.	4,416	272,776
Hormel Foods Corp.	5,254	182,892
Kellogg Co.	2,756	203,145
Kraft Heinz Co.	2,864	250,084
McCormick & Co., Inc.	1,047	97,717
Mondelez International, Inc. "A"	4,794	212,518
Nestle SA (Registered)	4,357	312,644
Tate & Lyle PLC	5,637	49,236
The Hershey Co.	1,853	191,656
The JM Smucker Co.	1,448	185,431
Tyson Foods, Inc. "A"	2,200	135,696
Wilmar International Ltd.	31,912	79,117
		2,800,591
Household Products 0.5%		
Church & Dwight Co., Inc.	818	36,147
Clorox Co.	1,118	134,182
Colgate-Palmolive Co.	2,244	146,847
Henkel AG & Co. KGaA	108	11,258
Kimberly-Clark Corp.	1,883	214,888
Procter & Gamble Co.	4,218	354,650
Reckitt Benckiser Group PLC	1,463	124,372
		1,022,344
Personal Products 0.1%		
Unilever PLC	3,225	**130,946**
Tobacco 0.8%		
Altria Group, Inc.	4,998	337,965
British American Tobacco PLC	4,239	241,556
Imperial Brands PLC	4,374	191,137
Japan Tobacco, Inc.	5,477	180,143
Philip Morris International, Inc.	3,619	331,102
Reynolds American, Inc.	4,392	246,128
		1,528,031
Energy 4.8%		
Energy Equipment & Services 0.4%		
Baker Hughes, Inc.	2,100	136,437
Halliburton Co.	1,700	91,953
Helmerich & Payne, Inc.	600	46,440
Petrofac Ltd.	12,492	133,900
Schlumberger Ltd.	3,400	285,430
		694,160
Oil, Gas & Consumable Fuels 4.4%		
AltaGas Ltd.	6,700	169,165
BP PLC	70,450	442,815
Caltex Australia Ltd.	7,357	161,860
Canadian Natural Resources Ltd.	3,200	101,983
Chevron Corp.	3,915	460,796
ConocoPhillips	2,900	145,406
Enbridge, Inc.	4,500	189,364
Eni SpA	12,513	203,700
Exxon Mobil Corp.	6,043	545,441
HollyFrontier Corp.	4,332	141,916
Idemitsu Kosan Co., Ltd.	4,400	116,823
Imperial Oil Ltd.	5,300	184,384
Inter Pipeline Ltd.	7,100	156,738
JX Holdings, Inc.	38,985	165,008
Kinder Morgan, Inc.	6,900	142,899
Marathon Petroleum Corp.	4,500	226,575
Neste Oyj	3,895	149,555
Occidental Petroleum Corp.	5,349	381,009
OMV AG	3,812	134,555
ONEOK, Inc.	2,400	137,784
Pembina Pipeline Corp.	5,900	184,385
Phillips 66	3,765	325,334
Plains GP Holdings LP "A"	4,919	170,591
Repsol SA	13,891	196,459
Royal Dutch Shell PLC "A"	14,223	393,236
Royal Dutch Shell PLC "B"	12,716	369,014
Snam SpA	59,442	245,034
Spectra Energy Corp.	6,585	270,578
Statoil ASA	5,548	101,732
Suncor Energy, Inc.	6,700	219,067
Targa Resources Corp.	3,600	201,852

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

	Shares	Value ($)
Tesoro Corp.	1,655	144,730
TonenGeneral Sekiyu KK	6,000	63,193
TOTAL SA	7,525	385,580
TransCanada Corp.	6,600	297,594
Valero Energy Corp.	4,617	315,433
		8,241,588

Financials 10.5%

	Shares	Value ($)
Banks 5.4%		
Aozora Bank Ltd.	31,174	110,145
Australia & New Zealand Banking Group Ltd.	9,097	199,638
Banco Bilbao Vizcaya Argentaria SA	21,877	147,784
Banco Santander SA	36,176	189,130
Bank Hapoalim BM	34,026	202,598
Bank of America Corp.	8,700	192,270
Bank of Montreal	2,982	214,480
Bank of Nova Scotia	5,798	322,838
Barclays PLC	56,954	156,863
BB&T Corp.	5,718	268,860
BNP Paribas SA	2,864	182,732
BOC Hong Kong (Holdings) Ltd.	50,927	182,060
CaixaBank SA	20,420	67,569
Canadian Imperial Bank of Commerce	2,194	179,030
Citigroup, Inc.	3,400	202,062
Commonwealth Bank of Australia	3,767	224,061
Credit Agricole SA	11,561	143,493
Danske Bank AS	6,374	193,447
DBS Group Holdings Ltd.	9,671	115,801
Fifth Third Bancorp.	3,790	102,216
Hang Seng Bank Ltd.	10,200	189,862
HSBC Holdings PLC	44,178	357,953
Huntington Bancshares, Inc.	7,505	99,216
ING Groep NV	9,966	140,261
Intesa Sanpaolo SpA	59,462	151,961
Intesa Sanpaolo SpA (RSP)	85,802	201,997
Japan Post Bank Co., Ltd.	14,000	167,748
JPMorgan Chase & Co.	3,849	332,130
KBC Group NV	2,881	178,582
KeyCorp	186	3,398
Lloyds Banking Group PLC	171,766	132,251
M&T Bank Corp.	1,110	173,637
Mebuki Financial Group, Inc.	28,400	105,217
Mitsubishi UFJ Financial Group, Inc.	23,300	143,560
Mizuho Financial Group, Inc.	122,173	219,206
National Australia Bank Ltd.	10,460	231,672
National Bank of Canada	5,100	207,130
Nordea Bank AB	27,976	311,202
Oversea-Chinese Banking Corp., Ltd.	23,855	146,934
People's United Financial, Inc.	7,356	142,412
PNC Financial Services Group, Inc.	1,367	159,884
Resona Holdings, Inc.	16,256	83,421
Royal Bank of Canada	4,488	303,746
Skandinaviska Enskilda Banken AB “A”	13,055	137,003
Societe Generale SA	3,753	184,855
Sumitomo Mitsui Financial Group, Inc.	4,300	163,985
SunTrust Banks, Inc.	2,505	137,399
Svenska Handelsbanken AB “A”	12,389	172,122
Swedbank AB “A”	7,769	187,924
Toronto-Dominion Bank	4,831	238,267
U.S. Bancorp.	5,355	275,086
United Overseas Bank Ltd.	8,702	122,670
Wells Fargo & Co.	5,916	326,031
Westpac Banking Corp.	9,287	218,490
		9,944,289
Capital Markets 0.7%		
Aberdeen Asset Management PLC	3,603	11,440
Bank of New York Mellon Corp.	3,112	147,447
BlackRock, Inc.	290	110,357
CME Group, Inc.	983	113,389
Credit Suisse Group AG (Registered)*	7,499	107,650
Intercontinental Exchange, Inc.	1,450	81,809
Morgan Stanley	3,500	147,875
Nasdaq, Inc.	1,086	72,892
NEX Group PLC	9,993	57,205
The Goldman Sachs Group, Inc.	600	143,670
Thomson Reuters Corp.	3,909	171,074
TP ICAP PLC	8,166	43,628
UBS Group AG (Registered)	8,715	136,319
		1,344,755
Consumer Finance 0.2%		
American Express Co.	507	37,558
Capital One Financial Corp.	2,200	191,928
Discover Financial Services	1,810	130,483
Navient Corp.	1,056	17,350
		377,319
Diversified Financial Services 0.3%		
Berkshire Hathaway, Inc. “B”*	1,417	230,943
Groupe Bruxelles Lambert SA	1,079	90,520
Investor AB “B”	2,094	78,399
Pargesa Holding SA (Bearer)	2,110	137,331
		537,193
Insurance 3.8%		
Admiral Group PLC	6,047	136,319
Aflac, Inc.	2,429	169,058
Ageas	3,955	156,632
Alleghany Corp.*	35	21,284
Allianz SE (Registered)	1,207	199,554
Allstate Corp.	2,548	188,858
American International Group, Inc.	2,875	187,766
Aon PLC	435	48,516
Arch Capital Group Ltd.*	689	59,454
Assicurazioni Generali SpA	10,604	157,730
Assurant, Inc.	495	45,966
Aviva PLC	15,029	90,250
AXA SA	10,123	255,912
Axis Capital Holdings Ltd.	2,509	163,762
Baloise Holding AG (Registered)	900	113,362
Chubb Ltd.	1,731	228,700
Cincinnati Financial Corp.	1,800	136,350
Everest Re Group Ltd.	600	129,840
Fairfax Financial Holdings Ltd.	170	82,110
FNF Group	4,342	147,454
Great-West Lifeco, Inc.	4,126	108,078
Hannover Rueck SE	979	106,077
Hartford Financial Services Group, Inc.	1,321	62,946
Japan Post Holdings Co., Ltd.	13,000	162,013
Legal & General Group PLC	48,724	148,835
Manulife Financial Corp.	9,700	172,738
Marsh & McLennan Companies, Inc.	1,013	68,469
MetLife, Inc.	2,900	156,281

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

	Shares	Value ($)
MS&AD Insurance Group Holdings, Inc.	3,600	111,671
Muenchener Rueckversicherungs-Gesellschaft AG (Registered)	1,203	227,504
NN Group NV	6,297	213,690
Poste Italiane SpA 144A	16,016	106,298
Power Corp. of Canada	6,400	143,239
Power Financial Corp.	8,500	212,460
Principal Financial Group, Inc.	1,013	58,612
Progressive Corp.	4,560	161,880
Prudential Financial, Inc.	2,563	266,706
Sampo Oyj "A"	3,223	145,002
SCOR SE	1,635	56,530
Sompo Holdings, Inc.	500	16,930
Standard Life PLC	25,210	115,654
Sun Life Financial, Inc.	2,200	84,467
Suncorp Group Ltd.	19,025	185,534
Swiss Life Holding AG (Registered)*	520	147,324
Swiss Re AG	2,808	266,096
The Travelers Companies, Inc.	1,495	183,018
Tokio Marine Holdings, Inc.	1,600	65,686
Torchmark Corp.	806	59,451
Willis Towers Watson PLC	800	97,824
XL Group Ltd.	3,308	123,256
Zurich Insurance Group AG*	1,074	295,912
		7,049,058
Thrifts & Mortgage Finance 0.1%		
New York Community Bancorp., Inc.	8,036	**127,853**
Health Care 4.8%		
Biotechnology 1.3%		
AbbVie, Inc.	6,826	427,444
Actelion Ltd. (Registered)*	658	142,328
Alexion Pharmaceuticals, Inc.*	900	110,115
Alkermes PLC*	400	22,232
Amgen, Inc.	2,109	308,357
Biogen, Inc.*	541	153,417
BioMarin Pharmaceutical, Inc.*	300	24,852
Celgene Corp.*	1,700	196,775
CSL Ltd.	2,121	153,726
Gilead Sciences, Inc.	4,540	325,109
Incyte Corp.*	600	60,162
Regeneron Pharmaceuticals, Inc.*	400	146,836
Shire PLC	2,739	158,285
United Therapeutics Corp.*	1,300	186,459
Vertex Pharmaceuticals, Inc.*	100	7,367
		2,423,464
Health Care Equipment & Supplies 0.6%		
Abbott Laboratories	5,212	200,193
Baxter International, Inc.	2,461	109,121
Becton, Dickinson & Co.	1,076	178,132
Danaher Corp.	2,461	191,564
Medtronic PLC	3,402	242,325
Stryker Corp.	1,099	131,671
Zimmer Biomet Holdings, Inc.	507	52,322
		1,105,328
Health Care Providers & Services 0.6%		
Aetna, Inc.	1,411	174,978
AmerisourceBergen Corp.	1,303	101,882
Anthem, Inc.	1,358	195,240
Cardinal Health, Inc.	1,810	130,266
Cigna Corp.	501	66,828
Express Scripts Holding Co.*	1,195	82,204
Humana, Inc.	326	66,514
McKesson Corp.	241	33,848
Quest Diagnostics, Inc.	953	87,581
UnitedHealth Group, Inc.	1,457	233,178
		1,172,519
Life Sciences Tools & Services 0.1%		
Thermo Fisher Scientific, Inc.	1,183	**166,921**
Pharmaceuticals 2.2%		
Allergan PLC*	781	164,018
Astellas Pharma, Inc.	8,400	116,814
AstraZeneca PLC	4,399	240,747
Bayer AG (Registered)	1,056	110,202
Bristol-Myers Squibb Co.	3,112	181,865
Daiichi Sankyo Co., Ltd.	6,100	124,768
Eisai Co., Ltd.	1,700	97,578
Eli Lilly & Co.	2,968	218,296
GlaxoSmithKline PLC	16,150	311,365
Johnson & Johnson	3,330	383,649
Merck & Co., Inc.	5,139	302,533
Mitsubishi Tanabe Pharma Corp.	8,900	174,672
Novartis AG (Registered)	3,436	249,782
Novo Nordisk AS ''B"	3,560	128,417
Orion Oyj "B"	3,170	141,014
Otsuka Holdings Co., Ltd.	2,900	126,392
Pfizer, Inc.	12,522	406,715
Roche Holding AG (Genusschein)	1,027	234,564
Sanofi	1,414	114,532
Takeda Pharmaceutical Co., Ltd.	4,100	169,570
UCB SA	1,078	69,130
		4,066,623
Industrials 6.9%		
Aerospace & Defense 0.8%		
BAE Systems PLC	11,050	80,619
Boeing Co.	1,376	214,216
Cobham PLC	49,602	100,152
General Dynamics Corp.	986	170,243
L3 Technologies, Inc.	260	39,549
Lockheed Martin Corp.	709	177,207
Northrop Grumman Corp.	867	201,647
Raytheon Co.	1,352	191,984
Rockwell Collins, Inc.	869	80,608
Singapore Technologies Engineering Ltd.	13,900	31,000
United Technologies Corp.	2,389	261,882
		1,549,107
Air Freight & Logistics 0.3%		
FedEx Corp.	724	134,809
Royal Mail PLC	22,113	126,049
United Parcel Service, Inc. "B"	2,086	239,139
		499,997
Airlines 0.1%		
Japan Airlines Co., Ltd.	3,600	105,112
Singapore Airlines Ltd.	5,974	39,907
Southwest Airlines Co.	46	2,293
		147,312
Building Products 0.1%		
Johnson Controls International PLC	3,586	**147,707**
Commercial Services & Supplies 0.5%		
Cintas Corp.	1,200	138,672
Dai Nippon Printing Co., Ltd.	11,000	108,733

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

	Shares	Value ($)
G4S PLC	28	81
Quad Graphics, Inc.	13	349
Republic Services, Inc.	4,777	272,528
Secom Co., Ltd.	1,500	109,729
Waste Connections, Inc.	1,900	149,321
Waste Management, Inc.	2,027	143,735
		923,148
Construction & Engineering 0.3%		
Bouygues SA	2,434	87,312
Kajima Corp.	15,000	103,866
Obayashi Corp.	10,900	104,245
Taisei Corp.	15,000	104,996
VINCI SA	2,646	180,281
		580,700
Electrical Equipment 0.6%		
ABB Ltd. (Registered)*	7,980	168,325
AMETEK, Inc.	1,231	59,827
Eaton Corp. PLC	3,889	260,913
Emerson Electric Co.	4,600	256,450
Mitsubishi Electric Corp.	11,300	157,474
Rockwell Automation, Inc.	1,300	174,720
Schneider Electric SE	1,113	77,513
		1,155,222
Industrial Conglomerates 1.0%		
3M Co.	1,961	350,176
CK Hutchison Holdings Ltd.	15,701	177,795
General Electric Co.	12,449	393,389
Honeywell International, Inc.	2,606	301,905
Jardine Matheson Holdings Ltd.	2,900	160,099
Keppel Corp., Ltd.	19,400	77,582
NWS Holdings Ltd.	87,171	142,241
Roper Technologies, Inc.	796	145,732
Sembcorp Industries Ltd.	20,238	39,882
Siemens AG (Registered)	1,153	141,874
		1,930,675
Machinery 1.6%		
Atlas Copco AB “B”	3,116	85,034
Caterpillar, Inc.	2,296	212,931
Cummins, Inc.	1,100	150,337
Deere & Co.	2,173	223,906
Dover Corp.	2,200	164,846
FANUC Corp.	900	152,704
Fortive Corp.	2,800	150,164
Illinois Tool Works, Inc.	1,907	233,531
Ingersoll-Rand PLC	2,400	180,096
Komatsu Ltd.	6,300	142,580
Kone Oyj “B”	3,407	152,787
MAN SE	1,694	168,096
Mitsubishi Heavy Industries Ltd.	1,000	4,556
PACCAR, Inc.	1,158	73,996
Parker-Hannifin Corp.	1,200	168,000
Schindler Holding AG (Registered)	767	134,051
SKF AB “B”	27	497
Stanley Black & Decker, Inc.	1,231	141,183
Volvo AB “B”	16,093	188,004
Wartsila Oyj	1,838	82,573
Yangzijiang Shipbuilding Holdings Ltd.	126,907	71,355
		2,881,227
Marine 0.1%		
Kuehne + Nagel International AG (Registered)	866	**114,592**

	Shares	Value ($)
Professional Services 0.4%		
Adecco Group AG (Registered)	2,241	146,777
Capita PLC	17,783	116,503
Equifax, Inc.	1,300	153,699
Nielsen Holdings PLC	3,829	160,627
SGS SA (Registered)	70	142,409
		720,015
Road & Rail 0.4%		
Canadian National Railway Co.	218	14,671
CSX Corp.	3,547	127,444
East Japan Railway Co.	997	86,124
MTR Corp., Ltd.	25,695	124,995
Norfolk Southern Corp.	796	86,024
Union Pacific Corp.	2,027	210,159
West Japan Railway Co.	1,161	71,180
		720,597
Trading Companies & Distributors 0.5%		
Fastenal Co.	3,600	169,128
ITOCHU Corp.	12,139	161,251
Marubeni Corp.	21,849	123,897
Mitsubishi Corp.	4,328	92,199
Mitsui & Co., Ltd.	10,651	146,452
Sumitomo Corp.	9,666	113,736
W.W. Grainger, Inc.	579	134,473
		941,136
Transportation Infrastructure 0.2%		
Atlantia SpA	4,329	101,747
Macquarie Infrastructure Corp.	2,200	179,740
Transurban Group (Units)	6,095	45,450
		326,937
Information Technology 9.3%		
Communications Equipment 0.9%		
Cisco Systems, Inc.	13,235	399,961
F5 Networks, Inc.*	700	101,304
Harris Corp.	2,249	230,455
Juniper Networks, Inc.	3,172	89,641
Motorola Solutions, Inc.	2,630	218,001
Nokia Oyj	68,785	332,590
Palo Alto Networks, Inc.*	400	50,020
Telefonaktiebolaget LM Ericsson “B”	51,614	303,299
		1,725,271
Electronic Equipment, Instruments & Components 0.6%		
Amphenol Corp. “A”	1,449	97,373
Avnet, Inc.	1,253	59,655
Corning, Inc.	8,721	211,659
Hitachi Ltd.	18,485	99,970
Keyence Corp.	200	137,192
Kyocera Corp.	2,500	124,335
Murata Manufacturing Co., Ltd.	606	81,100
TE Connectivity Ltd.	2,554	176,941
		988,225
Internet Software & Services 1.0%		
Alphabet, Inc. “A”*	400	316,980
Alphabet, Inc. “C”*	500	385,910
eBay, Inc.*	7,060	209,612
Facebook, Inc. “A”*	3,100	356,655
Mixi, Inc.	3,100	113,224
Yahoo Japan Corp.	60,300	231,510
Yahoo!, Inc.*	5,400	208,818
		1,822,709

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

	Shares	Value ($)
IT Services 2.2%		
Accenture PLC "A"	2,286	267,759
Amadeus IT Group SA	2,405	109,405
Atos SE	413	43,701
Automatic Data Processing, Inc.	2,986	306,901
Broadridge Financial Solutions, Inc.	2,000	132,600
Cognizant Technology Solutions Corp. "A"*	3,300	184,899
Computer Sciences Corp.	2,800	166,376
Fidelity National Information Services, Inc.	2,201	166,484
Fiserv, Inc.*	1,996	212,135
Fujitsu Ltd.	24,000	133,308
International Business Machines Corp.	2,823	468,590
Mastercard, Inc. "A"	2,700	278,775
Nomura Research Institute Ltd.	3,410	103,758
NTT Data Corp.	2,000	96,713
Paychex, Inc.	4,623	281,448
PayPal Holdings, Inc.*	3,300	130,251
Sabre Corp.	5,200	129,740
Total System Services, Inc.	2,079	101,933
Vantiv, Inc. "A"*	1,312	78,222
Visa, Inc. "A"	3,865	301,547
Western Union Co.	11,509	249,976
Xerox Corp.	20,974	183,103
		4,127,624
Semiconductors & Semiconductor Equipment 1.6%		
Analog Devices, Inc.	2,389	173,489
Applied Materials, Inc.	3,800	122,626
ASML Holding NV	222	24,893
Broadcom Ltd.	1,551	274,170
Intel Corp.	9,860	357,622
KLA-Tencor Corp.	2,021	159,012
Lam Research Corp.	1,259	133,114
Linear Technology Corp.	2,500	155,875
Marvell Technology Group Ltd.	4,271	59,239
Maxim Integrated Products, Inc.	4,054	156,363
Microchip Technology, Inc.	2,538	162,813
NVIDIA Corp.	1,300	138,762
QUALCOMM, Inc.	5,515	359,578
Skyworks Solutions, Inc.	1,400	104,524
Texas Instruments, Inc.	3,621	264,224
Tokyo Electron Ltd.	2,000	189,329
Xilinx, Inc.	2,800	169,036
		3,004,669
Software 1.9%		
Activision Blizzard, Inc.	5,383	194,380
Adobe Systems, Inc.*	1,200	123,540
ANSYS, Inc.*	724	66,963
CA, Inc.	6,685	212,382
CDK Global, Inc.	2,000	119,380
Dell Technologies, Inc. "V"*	4,829	265,450
Electronic Arts, Inc.*	1,426	112,312
Intuit, Inc.	1,400	160,454
Microsoft Corp.	6,974	433,364
Nice Ltd.	1,927	131,358
Nintendo Co., Ltd.	500	104,940
Oracle Corp.	8,901	342,243
Oracle Corp.	2,000	100,708
Red Hat, Inc.*	1,500	104,550
salesforce.com, Inc.*	2,000	136,920
SAP SE	2,741	238,291
Symantec Corp.	7,428	177,455
Synopsys, Inc.*	1,295	76,224
The Sage Group PLC	13,235	106,970
Trend Micro, Inc.	2,800	99,646
VMware, Inc. "A"* (a)	3,024	238,079
		3,545,609
Technology Hardware, Storage & Peripherals 1.1%		
Apple, Inc.	4,783	553,967
Canon, Inc.	11,174	314,921
FUJIFILM Holdings Corp.	3,600	136,568
Hewlett Packard Enterprise Co.	10,400	240,656
HP, Inc.	12,754	189,269
NetApp, Inc.	2,389	84,260
Ricoh Co., Ltd.	12,647	106,794
Seagate Technology PLC	3,600	137,412
Seiko Epson Corp.	2,800	59,222
Western Digital Corp.	2,700	183,465
		2,006,534
Materials 1.3%		
Chemicals 0.8%		
Air Products & Chemicals, Inc.	900	129,438
BASF SE	1,393	129,422
Celanese Corp. "A"	732	57,638
Dow Chemical Co.	3,496	200,041
E.I. du Pont de Nemours & Co.	1,376	100,998
Ecolab, Inc.	362	42,434
EMS-Chemie Holding AG (Registered)	110	55,977
GEO Specialty Chemicals, Inc.*	19,324	7,588
Israel Chemicals Ltd.	15,855	65,079
Kuraray Co., Ltd.	900	13,529
LyondellBasell Industries NV "A"	2,654	227,660
Mitsubishi Chemical Holdings Corp.	600	3,892
Monsanto Co.	941	99,003
Praxair, Inc.	507	59,415
Solvay SA	911	107,017
Syngenta AG (Registered)	281	111,059
		1,410,190
Construction Materials 0.0%		
Fletcher Building Ltd.	8,134	**59,836**
Containers & Packaging 0.1%		
International Paper Co.	2,655	140,875
WestRock Co.	404	20,511
		161,386
Metals & Mining 0.3%		
Franco-Nevada Corp.	2,000	119,584
Newmont Mining Corp.	3,188	108,615
Nucor Corp.	2,065	122,909
Rio Tinto PLC	4,820	187,793
		538,901
Paper & Forest Products 0.1%		
Stora Enso Oyj "R"	12,231	131,916
UPM-Kymmene Oyj	5,018	123,738
		255,654
Real Estate 1.9%		
Equity Real Estate Investment Trusts (REITs) 1.6%		
American Tower Corp.	800	84,544
AvalonBay Communities, Inc.	739	130,914
Crown Castle International Corp.	1,478	128,246
Dexus Property Group	11,978	83,124
Equity Residential	2,500	160,900
General Growth Properties, Inc.	3,800	94,924

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

	Shares	Value ($)
H&R Real Estate Investment Trust (Units)	5,712	95,168
HCP, Inc.	6,559	194,933
Host Hotels & Resorts, Inc.	9,200	173,328
Iron Mountain, Inc.	3,100	100,688
Kimco Realty Corp.	4,900	123,284
Prologis, Inc.	2,200	116,138
Public Storage	700	156,450
Realty Income Corp.	2,125	122,145
RioCan Real Estate Investment Trust	5,400	107,103
Scentre Group	43,783	146,612
Simon Property Group, Inc.	700	124,369
The Macerich Co.	1,000	70,840
UDR, Inc.	2,500	91,200
Ventas, Inc.	2,000	125,040
VEREIT, Inc.	11,640	98,474
Vicinity Centres	40,703	87,887
Welltower, Inc.	2,864	191,688
Weyerhaeuser Co.	2,400	72,216
		2,880,215
Real Estate Management & Development 0.3%		
Henderson Land Development Co., Ltd.	16,514	87,812
New World Development Co., Ltd.	44,151	46,694
Sun Hung Kai Properties Ltd.	11,536	145,856
Swire Pacific Ltd. "A"	12,305	117,610
Swiss Prime Site AG (Registered)*	1,553	127,142
Wharf Holdings Ltd.	6,835	45,454
		570,568
Telecommunication Services 3.7%		
Diversified Telecommunication Services 2.7%		
AT&T, Inc.	12,573	534,730
BCE, Inc.	6,804	294,072
Bezeq Israeli Telecommunication Corp., Ltd.	189,510	360,202
BT Group PLC	51,995	235,764
Deutsche Telekom AG (Registered)	9,327	160,594
Elisa Oyj	3,142	102,487
HKT Trust & HKT Ltd. "SS", (Units)	145,683	178,511
Inmarsat PLC	13,209	122,380
Nippon Telegraph & Telephone Corp.	8,400	352,774
Orange SA	7,544	114,715
PCCW Ltd.	369,183	199,941
Proximus SA	10,168	293,152
Singapore Telecommunications Ltd.	70,245	176,107
Spark New Zealand Ltd.	98,244	232,795
Swisscom AG (Registered)	492	220,482
Telecom Italia SpA (RSP)*	217,970	157,944
Telefonica Deutschland Holding AG	29,696	127,297
Telenor ASA	9,475	141,664
Telstra Corp., Ltd.	89,735	330,473
TELUS Corp.	6,732	214,347
Verizon Communications, Inc.	10,071	537,590
		5,088,021
Wireless Telecommunication Services 1.0%		
KDDI Corp.	11,000	278,489
Millicom International Cellular SA (SDR)	2,271	97,057
NTT DoCoMo, Inc.	14,969	341,244
Rogers Communications, Inc. "B"	3,207	123,704
SoftBank Group Corp.	1,900	126,386
StarHub Ltd.	103,900	201,527

	Shares	Value ($)
T-Mobile U.S., Inc.*	3,200	184,032
Tele2 AB "B"	17,137	137,595
Vodafone Group PLC	127,480	314,493
		1,804,527
Utilities 2.1%		
Electric Utilities 1.3%		
Alliant Energy Corp.	1,634	61,912
American Electric Power Co., Inc.	2,254	141,912
CLP Holdings Ltd.	1,690	15,542
Duke Energy Corp.	3,695	286,806
Edison International	2,079	149,667
Endesa SA	2,489	52,806
Entergy Corp.	1,991	146,279
Eversource Energy	2,723	150,391
Exelon Corp.	6,600	234,234
FirstEnergy Corp.	3,900	120,783
HK Electric Investments & HK Electric Investments Ltd. "SS", 144A (Units)	89,000	73,446
NextEra Energy, Inc.	900	107,514
PG&E Corp.	2,325	141,290
Pinnacle West Capital Corp.	960	74,909
Power Assets Holdings Ltd.	3,243	28,586
PPL Corp.	5,646	192,246
Southern Co.	5,079	249,836
SSE PLC	6,377	122,257
Xcel Energy, Inc.	3,125	127,188
		2,477,604
Independent Power & Renewable Electricity Producers 0.1%		
Meridian Energy Ltd.	59,474	**107,446**
Multi-Utilities 0.7%		
Ameren Corp.	1,301	68,250
CenterPoint Energy, Inc.	1,689	41,617
CMS Energy Corp.	2,461	102,427
Consolidated Edison, Inc.	2,582	190,242
Dominion Resources, Inc.	3,040	232,834
DTE Energy Co.	927	91,319
DUET Group (Units)	9,497	18,781
National Grid PLC	9,911	116,309
Public Service Enterprise Group, Inc.	2,784	122,162
SCANA Corp.	1,930	141,430
Sempra Energy	1,300	130,832
WEC Energy Group, Inc.	1,671	98,004
		1,354,207
Total Common Stocks (Cost $95,386,336)		**106,543,869**
Preferred Stock 0.2%		
Consumer Discretionary		
Bayerische Motoren Werke (BMW) AG	3,157	241,945
Volkswagen AG	984	138,220
Total Preferred Stock (Cost $374,243)		**380,165**
Rights 0.0%		
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**

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

	Shares	Value ($)
Warrant 0.0%		
Materials		
Hercules Trust II, Expiration Date 3/31/2029* (Cost $30,283)	170	**772**

	Principal Amount ($)(b)	Value ($)
Corporate Bonds 13.5%		
Consumer Discretionary 1.2%		
21st Century Fox America, Inc., 144A, 3.375%, 11/15/2026	536,000	525,429
Charter Communications Operating LLC:		
3.579%, 7/23/2020	40,000	40,809
4.908%, 7/23/2025	30,000	31,618
Churchill Downs, Inc., 5.375%, 12/15/2021	28,000	29,050
Cox Communications, Inc., 144A, 3.35%, 9/15/2026	30,000	28,648
CVS Health Corp., 5.125%, 7/20/2045	50,000	55,722
Ford Motor Co., 5.291%, 12/8/2046	35,000	35,455
Ford Motor Credit Co., LLC, 5.875%, 8/2/2021	750,000	828,276
General Motors Co., 6.6%, 4/1/2036	30,000	34,290
General Motors Financial Co., Inc.:		
2.4%, 5/9/2019	55,000	54,854
3.2%, 7/13/2020	100,000	100,301
3.2%, 7/6/2021	60,000	59,500
The Gap, Inc., 5.95%, 4/12/2021 (a)	160,000	168,375
Time Warner, Inc., 3.8%, 2/15/2027	110,000	109,375
Walgreens Boots Alliance, Inc., 4.8%, 11/18/2044	40,000	41,112
		2,142,814
Consumer Staples 0.5%		
Anheuser-Busch InBev Finance, Inc., 4.9%, 2/1/2046	70,000	75,661
Kellogg Co., 2.65%, 12/1/2023	515,000	498,208
Kraft Heinz Foods Co., 4.375%, 6/1/2046	35,000	32,934
Minerva Luxembourg SA, 144A, 12.25%, 2/10/2022	250,000	268,750
Molson Coors Brewing Co., 4.2%, 7/15/2046	40,000	37,293
		912,846
Energy 4.1%		
Anadarko Petroleum Corp.:		
4.85%, 3/15/2021 (a)	15,000	16,083
5.55%, 3/15/2026 (a)	50,000	55,963
ConocoPhillips Co., 4.15%, 11/15/2034	35,000	34,210
Delek & Avner Tamar Bond Ltd., 144A, 5.082%, 12/30/2023	350,000	358,750
Empresa Nacional del Petroleo, 144A, 3.75%, 8/5/2026	400,000	373,936
Enbridge, Inc., 5.5%, 12/1/2046	115,000	123,052
Encana Corp., 5.15%, 11/15/2041	150,000	136,120
Energy Transfer Partners LP, 5.95%, 10/1/2043	30,000	30,919
Halliburton Co., 4.85%, 11/15/2035	45,000	47,458
KazMunayGas National Co. JSC, 144A, 9.125%, 7/2/2018	800,000	869,280
Kinder Morgan Energy Partners LP:		
4.7%, 11/1/2042	40,000	37,268
6.375%, 3/1/2041	10,000	10,848
Lukoil International Finance BV, 144A, 6.656%, 6/7/2022	750,000	834,375
Marathon Oil Corp., 5.2%, 6/1/2045	140,000	131,957
Noble Holding International Ltd., 5.25%, 3/16/2018	10,000	9,975
Pertamina Persero PT, 144A, 5.25%, 5/23/2021	800,000	841,828
Petrobras Global Finance BV, 8.375%, 5/23/2021	1,600,000	1,724,000
Petroleos Mexicanos:		
144A, 4.625%, 9/21/2023	540,000	525,312
144A, 5.375%, 3/13/2022	171,000	175,101
Plains All American Pipeline LP:		
2.85%, 1/31/2023	55,000	51,994
4.3%, 1/31/2043	15,000	12,428
4.5%, 12/15/2026	490,000	497,078
Regency Energy Partners LP, 4.5%, 11/1/2023	40,000	40,589
Reliance Industries Ltd., 144A, 4.125%, 1/28/2025	500,000	498,332
Shell International Finance BV, 4.0%, 5/10/2046	40,000	38,250
Sunoco Logistics Partners Operations LP, 5.3%, 4/1/2044	40,000	38,620
Valero Energy Corp., 3.4%, 9/15/2026	105,000	100,591
Valero Energy Partners LP, 4.375%, 12/15/2026	35,000	35,314
		7,649,631
Financials 3.6%		
Akbank TAS, 144A, 5.0%, 10/24/2022	750,000	712,500
Apollo Investment Corp., 5.25%, 3/3/2025	60,000	58,390
Ares Capital Corp., 3.625%, 1/19/2022	60,000	58,166
Bank of America Corp.:		
3.5%, 4/19/2026	50,000	49,334
3.875%, 8/1/2025	750,000	762,623
Barclays Bank PLC, 144A, 6.05%, 12/4/2017	220,000	227,279
BBVA Bancomer SA, 144A, 6.008%, 5/17/2022	500,000	500,000
Blackstone Holdings Finance Co., LLC, 144A, 5.0%, 6/15/2044	20,000	19,728
Branch Banking & Trust Co., 1.45%, 5/10/2019	50,000	49,443
Citigroup, Inc., 3.3%, 4/27/2025	750,000	734,792
Corp. Financiera de Desarrollo SA, 144A, 4.75%, 2/8/2022	250,000	261,250
Credito Real SAB de CV SOFOM ER, 144A, 7.25%, 7/20/2023	250,000	255,000
Everest Reinsurance Holdings, Inc., 4.868%, 6/1/2044	50,000	48,495
FS Investment Corp., 4.75%, 5/15/2022	70,000	69,800
HSBC Holdings PLC:		
4.375%, 11/23/2026	200,000	201,485
6.375%, 12/29/2049 (a)	200,000	199,000
JPMorgan Chase & Co., 2.95%, 10/1/2026	190,000	181,353
KKR Group Finance Co. III LLC, 144A, 5.125%, 6/1/2044	30,000	28,325

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

	Principal Amount ($)(b)	Value ($)
Legg Mason, Inc., 5.625%, 1/15/2044	50,000	48,690
Loews Corp., 4.125%, 5/15/2043	40,000	38,375
Manulife Financial Corp., 5.375%, 3/4/2046	55,000	62,746
Massachusetts Mutual Life Insurance Co., 144A, 4.5%, 4/15/2065	10,000	9,172
Morgan Stanley:		
3.125%, 7/27/2026	50,000	47,769
6.25%, 8/9/2026	600,000	717,037
Nationwide Financial Services, Inc., 144A, 5.3%, 11/18/2044	40,000	41,654
Societe Generale SA, 144A, 2.625%, 9/16/2020	100,000	100,051
Standard Chartered PLC, 144A, 4.05%, 4/12/2026	200,000	198,288
Swiss Re Treasury U.S. Corp., 144A, 4.25%, 12/6/2042	30,000	29,297
The Goldman Sachs Group, Inc.:		
2.64%**, 10/28/2027	750,000	764,546
3.5%, 11/16/2026	20,000	19,540
3.75%, 2/25/2026	50,000	50,147
Voya Financial, Inc., 4.8%, 6/15/2046	45,000	43,742
Wells Fargo & Co., 3.0%, 10/23/2026	80,000	76,192
		6,664,209
Health Care 0.5%		
Abbott Laboratories:		
2.9%, 11/30/2021	170,000	169,515
4.9%, 11/30/2046	175,000	179,609
AbbVie, Inc., 4.7%, 5/14/2045	60,000	58,868
Actavis Funding SCS, 4.75%, 3/15/2045	25,000	24,543
Aetna, Inc., 4.375%, 6/15/2046	40,000	40,166
Celgene Corp., 5.0%, 8/15/2045	30,000	31,192
Gilead Sciences, Inc., 4.15%, 3/1/2047	40,000	37,992
Mylan NV, 144A, 5.25%, 6/15/2046	55,000	50,726
Pfizer, Inc.:		
4.0%, 12/15/2036	40,000	40,982
4.125%, 12/15/2046	20,000	20,345
Shire Acquisitions Investments Ireland DAC, 3.2%, 9/23/2026	110,000	102,777
Stryker Corp., 4.625%, 3/15/2046	40,000	40,787
UnitedHealth Group, Inc.:		
3.45%, 1/15/2027	50,000	50,792
4.2%, 1/15/2047	80,000	80,920
		929,214
Industrials 0.1%		
CSX Corp., 4.25%, 11/1/2066	25,000	22,815
FedEx Corp., 4.55%, 4/1/2046	30,000	30,231
Molex Electronic Technologies LLC, 144A, 3.9%, 4/15/2025	30,000	29,511
Roper Technologies, Inc., 3.8%, 12/15/2026	55,000	55,424
Transurban Finance Co. Pty Ltd., 144A, 3.375%, 3/22/2027	40,000	37,795
		175,776
Information Technology 0.2%		
Activision Blizzard, Inc., 144A, 3.4%, 9/15/2026	50,000	47,456
Diamond 1 Finance Corp.:		
144A, 4.42%, 6/15/2021	200,000	206,949
144A, 8.1%, 7/15/2036	30,000	35,688
NVIDIA Corp.:		
2.2%, 9/16/2021	40,000	39,044
3.2%, 9/16/2026	40,000	38,458
Seagate HDD Cayman, 5.75%, 12/1/2034	50,000	42,625
		410,220
Materials 2.0%		
CF Industries, Inc.:		
144A, 3.4%, 12/1/2021	180,000	178,108
144A, 4.5%, 12/1/2026	20,000	19,658
Equate Petrochemical BV, 144A, 4.25%, 11/3/2026	690,000	658,453
Glencore Funding LLC, 144A, 4.625%, 4/29/2024	20,000	20,450
GTL Trade Finance, Inc., 144A, 5.893%, 4/29/2024 (a)	570,000	567,150
Potash Corp. of Saskatchewan, Inc., 4.0%, 12/15/2026	85,000	85,538
St. Marys Cement, Inc., 144A, 5.75%, 1/28/2027	805,000	772,800
UPL Corp., Ltd., 144A, 3.25%, 10/13/2021	600,000	583,883
Vale Overseas Ltd., 5.875%, 6/10/2021	800,000	838,000
		3,724,040
Real Estate 0.5%		
CBL & Associates LP:		
(REIT), 4.6%, 10/15/2024	50,000	46,867
(REIT), 5.25%, 12/1/2023	70,000	68,829
(REIT), 5.95%, 12/15/2026	120,000	120,793
Hospitality Properties Trust, (REIT), 5.0%, 8/15/2022	220,000	232,256
Omega Healthcare Investors, Inc., (REIT), 4.95%, 4/1/2024	60,000	60,797
Select Income REIT, (REIT), 4.15%, 2/1/2022	60,000	59,416
Trust F/1401, 144A, (REIT), 5.25%, 1/30/2026	355,000	339,912
		928,870
Telecommunication Services 0.6%		
AT&T, Inc., 4.5%, 5/15/2035	80,000	77,293
Bharti Airtel International Netherlands BV, 144A, 5.35%, 5/20/2024	1,000,000	1,047,435
Verizon Communications, Inc., 4.672%, 3/15/2055	60,000	56,347
		1,181,075
Utilities 0.2%		
Adani Transmission Ltd., 144A, 4.0%, 8/3/2026	200,000	188,855
Electricite de France SA, 144A, 4.75%, 10/13/2035	95,000	95,313
Southern Power Co., Series F, 4.95%, 12/15/2046	29,000	28,259
		312,427
Total Corporate Bonds (Cost $25,361,513)		**25,031,122**

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

	Principal Amount ($)(b)	Value ($)
Asset-Backed 0.3%		
Miscellaneous		
Hilton Grand Vacations Trust, "B", Series 2014-AA, 144A, 2.07%, 11/25/2026	232,725	229,785
PennyMac LLC, "A1", Series 2015-NPL1, 144A, 4.0%, 3/25/2055	271,641	273,222
Total Asset-Backed (Cost $504,086)		**503,007**
Mortgage-Backed Securities Pass-Throughs 0.7%		
Federal Home Loan Mortgage Corp., 6.0%, 3/1/2038	5,656	6,403
Federal National Mortgage Association:		
3.5%, 3/1/2046	1,316,611	1,340,530
4.5%, 9/1/2035	14,282	15,435
6.0%, 1/1/2024	17,533	19,835
6.5%, 5/1/2017	893	896
Total Mortgage-Backed Securities Pass-Throughs (Cost $1,401,908)		**1,383,099**
Commercial Mortgage-Backed Securities 1.0%		
Credit Suisse First Boston Mortgage Securities Corp., "G", Series 2005-C6, 144A, 5.191%**, 12/15/2040	250,000	249,687
CSAIL Commercial Mortgage Trust, "A4", Series 2015-C4, 3.808%, 11/15/2048	300,000	312,387
FHLMC Multifamily Structured Pass-Through Certificates, "X1", Series K043, Interest Only, 0.548%***, 12/25/2024	4,975,774	182,684
GMAC Commercial Mortgage Securities, Inc., "G", Series 2004-C1, 144A, 5.455%, 3/10/2038	502,681	494,094
JPMBB Commercial Mortgage Securities Trust:		
"A4", Series 2015-C28, 3.227%, 10/15/2048	450,000	452,522
"A3", Series 2014-C19, 3.669%, 4/15/2047	125,000	130,023
Total Commercial Mortgage-Backed Securities (Cost $1,827,152)		**1,821,397**
Collateralized Mortgage Obligations 1.2%		
Fannie Mae Connecticut Avenue Securities, "1M1", Series 2016-C02, 2.734%**, 9/25/2028	596,332	602,533
Federal Home Loan Mortgage Corp.:		
"HI", Series 3979, Interest Only, 3.0%, 12/15/2026	348,679	30,064
"IK", Series 4048, Interest Only, 3.0%, 5/15/2027	467,735	43,234
"LI", Series 3720, Interest Only, 4.5%, 9/15/2025	680,909	78,269
"PI", Series 3843, Interest Only, 4.5%, 5/15/2038	343,018	31,488
"C31", Series 303, Interest Only, 4.5%, 12/15/2042	1,483,032	294,944
"H", Series 2278, 6.5%, 1/15/2031	127	132
Federal National Mortgage Association:		
"WO", Series 2013-27, Principal Only, Zero Coupon, 12/25/2042	220,000	127,593
"4", Series 406, Interest Only, 4.0%, 9/25/2040	125,927	24,894
"I", Series 2003-84, Interest Only, 6.0%, 9/25/2033	147,143	27,160
Government National Mortgage Association:		
"QI", Series 2011-112, Interest Only, 4.0%, 5/16/2026	273,215	26,635
"PI", Series 2015-40, Interest Only, 4.0%, 4/20/2044	369,117	55,490
"NI", Series 2011-80, Interest Only, 4.5%, 5/16/2038	183,917	2,573
"BI", Series 2010-30, Interest Only, 4.5%, 7/20/2039	55,462	6,729
"ND", Series 2010-130, 4.5%, 8/16/2039	600,000	635,931
"PI", Series 2014-108, Interest Only, 4.5%, 12/20/2039	92,303	15,395
"IP", Series 2014-11, Interest Only, 4.5%, 1/20/2043	252,844	41,293
"IQ", Series 2011-18, Interest Only, 5.5%, 1/16/2039	119,250	12,653
"IV", Series 2009-69, Interest Only, 5.5%, 8/20/2039	263,212	52,110
"IN", Series 2009-69, Interest Only, 5.5%, 8/20/2039	273,554	49,052
"AI", Series 2007-38, Interest Only, 5.753%***, 6/16/2037	50,144	7,255
"IJ", Series 2009-75, Interest Only, 6.0%, 8/16/2039	209,804	36,123
Total Collateralized Mortgage Obligations (Cost $1,980,041)		**2,201,550**
Government & Agency Obligations 13.0%		
Other Government Related (c) 1.4%		
Novatek OAO, 144A, 4.422%, 12/13/2022	216,000	213,132
Novolipetsk Steel, 144A, 4.5%, 6/15/2023	800,000	795,533
Perusahaan Penerbit SBSN, 144A, 4.325%, 5/28/2025	200,000	199,240
Rosneft Oil Co., 144A, 4.199%, 3/6/2022	750,000	739,417
Vnesheconombank, 144A, 6.902%, 7/9/2020	500,000	540,150
		2,487,472
Sovereign Bonds 2.8%		
Dominican Republic, 144A, 6.875%, 1/29/2026	100,000	103,957
Export-Import Bank of India, 144A, 3.375%, 8/5/2026	1,000,000	933,271
Government of Indonesia, Series FR56, 8.375%, 9/15/2026	IDR 1,340,000,000	102,147
Mexican Udibonos, Series S, 2.0%, 6/9/2022	MXN 8,363,295	389,589
Republic of Angola, 144A, 9.5%, 11/12/2025	450,000	434,376
Republic of Hungary, Series 19/A, 6.5%, 6/24/2019	HUF 16,900,000	65,567
Republic of Namibia, 144A, 5.25%, 10/29/2025	250,000	244,775

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

	Principal Amount ($)(b)	Value ($)
Republic of Panama, 3.875%, 3/17/2028	200,000	195,500
Republic of Portugal, 144A, 5.125%, 10/15/2024	400,000	387,000
Republic of Sri Lanka, 144A, 5.125%, 4/11/2019	200,000	202,063
United Mexican States, Series M, 5.75%, 3/5/2026 MXN	51,025,200	2,184,024
		5,242,269
U.S. Government Sponsored Agency 0.4%		
Tennessee Valley Authority, 4.25%, 9/15/2065	778,000	**800,888**
U.S. Treasury Obligations 8.0%		
U.S. Treasury Bonds:		
2.25%, 8/15/2046	30,000	25,225
3.625%, 2/15/2044	170,000	188,428
5.375%, 2/15/2031	571,000	760,501
U.S. Treasury Notes:		
0.75%, 10/31/2017 (e) (f)	2,556,000	2,553,705
0.75%, 4/30/2018 (e)	6,000,000	5,980,314
0.75%, 7/15/2019	60,000	59,128
1.25%, 1/31/2020	180,000	178,678
1.625%, 2/15/2026	4,875,000	4,555,078
1.625%, 5/15/2026	375,000	349,687
		14,650,744
Total Government & Agency Obligations (Cost $23,554,845)		**23,181,373**

Short-Term U.S Treasury Obligations 0.4%

	Principal Amount ($)(b)	Value ($)
U.S. Treasury Bills:		
0.4%****, 2/9/2017 (d)	658,000	657,697
0.56%****, 6/1/2017 (d)	156,000	155,597
Total Short-Term U.S. Treasury Obligations (Cost $813,348)		**813,294**

Municipal Bonds and Notes 0.1%

	Principal Amount ($)(b)	Value ($)
Kentucky, Asset/Liability Commission, General Fund Revenue, 3.165%, 4/1/2018 (Cost $142,644)	142,644	**144,179**

Convertible Bond 0.1%

Materials

	Principal Amount ($)(b)	Value ($)
GEO Specialty Chemicals, Inc., 144A, 7.5%, 10/30/2018 (PIK) (Cost $227,653)	230,026	**235,294**

Exchange-Traded Funds 9.9%

	Shares	Value ($)
iShares iBoxx $ High Yield Corporate Bond ETF	60,000	5,193,000
SPDR Bloomberg Barclays High Yield Bond ETF (a)	235,800	8,594,910
VanEck Vectors JPMorgan EM Local Currency Bond ETF	253,324	4,458,501
Total Exchange-Traded Funds (Cost $17,700,207)		**18,246,411**

Securities Lending Collateral 5.0%

	Shares	Value ($)
Government & Agency Securities Portfolio "Deutsche Government Cash Institutional Shares", 0.42% (g) (h) (Cost $9,315,773)	9,315,773	**9,315,773**

Cash Equivalents 1.4%

	Shares	Value ($)
Deutsche Central Cash Management Government Fund, 0.49% (g) (Cost $2,593,226)	2,593,226	**2,593,226**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $181,221,235)†	104.0	**192,402,508**
Other Assets and Liabilities, Net	(4.0)	**(7,382,463)**
Net Assets	100.0	**185,020,045**

* 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, 2016.

*** These securities are shown at their current rate as of December 31, 2016.

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

† The cost for federal income tax purposes was $181,705,030. At December 31, 2016, net unrealized appreciation for all securities based on tax cost was $10,697,478. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $15,920,452 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $5,222,974.

(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, 2016 amounted to $9,099,320, which is 4.9% of net assets.

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

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

(d) At December 31, 2016, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

(e) At December 31, 2016, this security has been pledged, in whole or in part, as collateral for open over-the-counter derivatives.

(f) At December 31, 2016, this security has been pledged, in whole or in part, to cover initial margin requirements for open centrally cleared swap contracts.

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

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

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

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.

EM: Emerging Markets

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.

JSC: Joint Stock Company

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)

SDR: Swedish Depositary Receipt

SPDR: Standard & Poor's Depositary Receipt

At December 31, 2016, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation/ (Depreciation) ($)
3 Month Euro Euribor Interest Rate Futures	EUR	12/18/2017	10	2,638,600	116
3 Month Euro Swiss Franc (Euroswiss) Interest Rate Futures	CHF	12/18/2017	11	2,720,294	(1,906)
3 Month Euroyen Futures	JPY	12/18/2017	12	2,565,305	(162)
90 Day Eurodollar	USD	12/18/2017	11	2,708,200	(3,606)
90 Day Sterling Interest Rate Futures	GBP	12/20/2017	17	2,606,541	1,536
ASX 90 Day Bank Accepted Bills	AUD	12/7/2017	15	10,771,368	(2,937)
S&P 500 E-Mini Index	USD	3/17/2017	35	3,913,350	(55,542)
Ultra Long U.S. Treasury Bond	USD	3/22/2017	73	11,698,250	(212,309)
Total net unrealized depreciation					**(274,810)**

At December 31, 2016, open futures contracts sold were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation ($)
10 Year U.S. Treasury Note	USD	3/22/2017	23	2,858,469	19,717
U.S. Treasury Long Bond	USD	3/22/2017	16	2,410,500	33,465
Ultra 10 Year U.S. Treasury Note	USD	3/22/2017	5	670,313	6,357
Total unrealized appreciation					**59,539**

At December 31, 2016, open credit default swap contracts sold were as follows:

Centrally Cleared Swaps

Expiration Date	Notional Amount ($) (i)	Fixed Cash Flows Received	Underlying Reference Obligation	Value ($)	Unrealized Appreciation ($)
6/20/2021	7,700,000	5.0%	Markit CDX North America High Yield Index	551,832	**246,366**

(i) 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, 2016, open interest rate swap contracts were as follows:

Centrally Cleared Swaps

Effective/ Expiration Dates	Notional Amount ($)	Cash Flows Paid by the Fund	Cash Flows Received by the Fund	Value ($)	Unrealized Appreciation/ (Depreciation) ($)
12/16/2015 9/16/2020	17,900,000	Floating — 3-Month LIBOR	Fixed — 2.214%	375,371	381,561
12/16/2015 9/17/2035	400,000	Fixed — 2.938%	Floating — 3-Month LIBOR	(25,723)	(18,146)
12/4/2015 12/4/2045	4,900,000	Fixed — 2.615%	Floating — 3-Month LIBOR	(55,899)	46,607
5/9/2016 5/9/2026	2,100,000	Fixed — 2.48%	Floating — 3-Month LIBOR	(40,132)	(18,089)
7/13/2016 7/13/2046	3,400,000	Fixed — 2.22%	Floating — 3-Month LIBOR	230,200	293,122

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) ($)
12/21/2016 12/21/2046	2,940,000	Fixed — 2.25%	Floating — 3-Month LIBOR	234,561	514,387
Total net unrealized appreciation					**1,199,442**

LIBOR: London Interbank Offered Rate; 3-Month LIBOR rate at December 31, 2016 is 1.00%.

As of December 31, 2016, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
EUR	9,370,000	USD	10,501,081	1/11/2017	632,593	Societe Generale
JPY	1,196,000,000	USD	11,547,302	1/11/2017	1,308,808	Morgan Stanley
USD	1,614,528	ZAR	23,000,000	1/17/2017	56,252	Goldman Sachs & Co.
CAD	3,745,200	USD	2,799,775	1/25/2017	9,589	Barclays Bank PLC
MXN	22,200,000	USD	1,186,341	1/26/2017	118,745	Barclays Bank PLC
MXN	22,200,000	USD	1,091,258	2/14/2017	26,333	Barclays Bank PLC
JPY	1,061,000,000	USD	9,716,340	2/17/2017	617,958	Goldman Sachs & Co.
USD	739,667	MXN	15,470,000	2/21/2017	1,786	JPMorgan Chase Securities, Inc.
MXN	46,418,196	USD	2,252,137	2/21/2017	27,384	JPMorgan Chase Securities, Inc.
KRW	4,300,000,000	USD	3,668,472	3/2/2017	108,028	Australia & New Zealand Banking Group Ltd.
JPY	409,128,200	USD	3,572,917	3/2/2017	62,696	Morgan Stanley
USD	5,506,778	EUR	5,250,000	3/20/2017	40,570	Barclays Bank PLC
USD	2,025,092	GBP	1,640,000	4/4/2017	718	Barclays Bank PLC
Total unrealized appreciation					**3,011,460**	

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
USD	5,019,409	EUR	4,686,000	1/11/2017	(84,112)	Goldman Sachs & Co.
USD	5,006,142	EUR	4,684,000	1/11/2017	(72,951)	Toronto-Dominion Bank
USD	11,221,682	JPY	1,196,000,000	1/11/2017	(983,188)	State Street Bank & Trust Co.
ZAR	23,000,000	USD	1,578,489	1/17/2017	(92,291)	Citigroup, Inc.
USD	2,792,718	CAD	3,745,172	1/25/2017	(2,553)	Toronto-Dominion Bank
USD	1,156,967	MXN	22,200,000	1/26/2017	(89,371)	Citigroup, Inc.
USD	1,110,469	MXN	22,200,000	2/14/2017	(45,544)	Citigroup, Inc.
USD	4,688,075	JPY	530,390,000	2/17/2017	(139,827)	JPMorgan Chase Securities, Inc.
USD	4,551,846	JPY	530,610,000	2/17/2017	(1,712)	Goldman Sachs & Co.
MXN	8,060,000	USD	385,445	2/28/2017	(527)	Toronto-Dominion Bank
USD	3,641,085	JPY	409,128,200	3/2/2017	(130,864)	Goldman Sachs & Co.
KRW	14,492,000	USD	11,976	3/2/2017	(428)	Australia & New Zealand Banking Group Ltd.
USD	3,692,966	KRW	4,314,492,000	3/2/2017	(120,094)	Barclays Bank PLC
EUR	5,250,000	USD	5,489,857	3/20/2017	(57,490)	Bank of America
Total unrealized depreciation					**(1,820,952)**	

Currency Abbreviations

AUD	Australian Dollar	IDR	Indonesian Rupiah
CAD	Canadian Dollar	JPY	Japanese Yen
CHF	Swiss Franc	KRW	South Korean Won
EUR	Euro	MXN	Mexican Peso
GBP	British Pound	USD	United States Dollar
HUF	Hungarian Forint	ZAR	South African Rand

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

Fair Value Measurements

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

The following is a summary of the inputs used as of December 31, 2016 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Common Stocks				
Consumer Discretionary	$ 8,442,266	$ 5,369,479	$ —	$ 13,811,745
Consumer Staples	6,515,909	2,397,577	—	8,913,486
Energy	5,673,284	3,262,464	—	8,935,748
Financials	9,173,263	10,207,204	—	19,380,467
Health Care	6,070,969	2,863,886	—	8,934,855
Industrials	7,443,956	5,194,416	—	12,638,372
Information Technology	13,696,896	3,523,745	—	17,220,641
Materials	1,429,121	989,258	7,588	2,425,967
Real Estate	2,562,592	888,191	—	3,450,783
Telecommunication Services	1,888,475	5,004,073	—	6,892,548
Utilities	3,404,084	535,173	—	3,939,257
Preferred Stock	—	380,165	—	380,165
Rights	—	—	7,977	7,977
Warrants	—	—	772	772
Fixed Income Investments (j)				
Corporate Bonds	—	25,031,122	—	25,031,122
Asset-Backed	—	503,007	—	503,007
Mortgage-Backed Securities Pass-Throughs	—	1,383,099	—	1,383,099
Commercial Mortgage-Backed Securities	—	1,821,397	—	1,821,397
Collateralized Mortgage Obligations	—	2,201,550	—	2,201,550
Government & Agency Obligations	—	23,181,373	—	23,181,373
Short-Term U.S. Treasury Obligations	—	813,294	—	813,294
Municipal Bonds and Notes	—	144,179	—	144,179
Convertible Bond	—	—	235,294	235,294
Exchange-Traded Funds	18,246,411	—	—	18,246,411
Short-Term Investments (j)	11,908,999	—	—	11,908,999
Derivatives (k)				
Futures Contracts	61,191	—	—	61,191
Credit Default Swap Contracts	—	246,366	—	246,366
Interest Rate Swap Contracts	—	1,235,677	—	1,235,677
Forward Foreign Currency Exchange Contracts	—	3,011,460	—	3,011,460
Total	**$ 96,517,416**	**$100,188,155**	**$ 251,631**	**$196,957,202**

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivatives (k)				
Futures Contracts	$ (276,462)	$ —	$ —	$ (276,462)
Interest Rate Swap Contracts	—	(36,235)	—	(36,235)
Forward Foreign Currency Exchange Contracts	—	(1,820,952)	—	(1,820,952)
Total	**$ (276,462)**	**$ (1,857,187)**	**$ —**	**$ (2,133,649)**

There have been no transfers between fair value measurement levels during the year ended December 31, 2016.

(j) See Investment Portfolio for additional detailed categorizations.

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

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

Statement of Assets and Liabilities

as of December 31, 2016

Assets	
Investments:	
Investments in non-affiliated securities, at value (cost $169,312,236) — including $9,099,320 of securities loaned	$ 180,493,509
Investment in Government & Agency Securities Portfolio (cost $9,315,773)*	9,315,773
Investments in Deutsche Central Cash Management Government Fund (cost $2,593,226)	2,593,226
Total investments in securities, at value (cost $181,221,235)	192,402,508
Foreign currency, at value (cost $621,227)	619,456
Deposit from broker on bilateral swap contracts	2,110,000
Receivable for investments sold	760
Receivable for Fund shares sold	178,819
Dividends receivable	236,575
Interest receivable	526,677
Receivable for variation margin on futures contracts	37,581
Unrealized appreciation on forward foreign currency exchange contracts	3,011,460
Foreign taxes recoverable	77,658
Other assets	8,654
Total assets	199,210,148
Liabilities	
Cash overdraft	181,684
Payable upon return of securities loaned	9,315,773
Payable for investments purchased	388,488
Payable for Fund shares redeemed	14,509
Payable for variation margin on centrally cleared swaps	116,501
Payable upon return of deposit for bilateral swap contracts	2,110,000
Unrealized depreciation on forward foreign currency exchange contracts	1,820,952
Accrued management fee	58,130
Accrued Trustees' fees	2,860
Other accrued expenses and payables	181,206
Total liabilities	14,190,103
Net assets, at value	**$ 185,020,045**
Net Assets Consist of	
Undistributed net investment income	4,038,796
Net unrealized appreciation (depreciation) on:	
Investments	11,181,273
Swap contracts	1,445,808
Futures	(215,271)
Foreign currency	1,181,058
Accumulated net realized gain (loss)	(6,246,463)
Paid-in capital	173,634,844
Net assets, at value	**$ 185,020,045**
Class A	
Net Asset Value, offering and redemption price per share ($185,020,045 ÷ 7,873,905 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 23.50**

* 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, 2016

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $176,266)	$	4,532,750
Interest (net of foreign taxes withheld of $606)		1,456,701
Income distributions — Deutsche Central Cash Management Government Fund		39,912
Securities lending income, net of borrower rebates		60,245
Other income		143,738
Total income		6,233,346
Expenses:		
Management fee		702,468
Administration fee		189,856
Services to shareholders		1,443
Custodian fee		50,480
Professional fees		98,128
Reports to shareholders		59,668
Trustees' fees and expenses		9,416
Other		63,140
Total expenses		1,174,599
Net investment income		**5,058,747**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		3,615
Swap contracts		45,729
Futures		(438,677)
Written options		3,245
Foreign currency		186,043
		(200,045)
Change in net unrealized appreciation (depreciation) on:		
Investments		6,028,993
Swap contracts		965,618
Futures		(278,669)
Written options		(102,473)
Foreign currency		726,030
		7,339,499
Net gain (loss)		**7,139,454**
Net increase (decrease) in net assets resulting from operations	**$**	**12,198,201**

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

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2016	2015
Operations:		
Net investment income	$ 5,058,747	$ 6,650,199
Net realized gain (loss)	(200,045)	(5,329,330)
Change in net unrealized appreciation (depreciation)	7,339,499	(4,092,770)
Net increase (decrease) in net assets resulting from operations	12,198,201	(2,771,901)
Distributions to shareholders from:		
Net investment income: Class A	(7,851,269)	(7,355,308)
Net realized gains: Class A	—	(6,214,133)
Total distributions	(7,851,269)	(13,569,441)
Fund share transactions:		
Class A		
Proceeds from shares sold	3,626,943	5,276,855
Shares issued to shareholders in reinvestment of distributions	7,851,269	13,569,441
Payments for shares redeemed	(32,401,979)	(48,078,303)
Net increase (decrease) in net assets from Class A share transactions	(20,923,767)	(29,232,007)
Increase (decrease) in net assets	(16,576,835)	(45,573,349)
Net assets at beginning of period	201,596,880	247,170,229
Net assets at end of period (including undistributed net investment income of $4,038,796 and $7,214,311, respectively)	**$ 185,020,045**	**$ 201,596,880**

Other Information		
Class A		
Shares outstanding at beginning of period	8,792,358	10,040,081
Shares sold	157,470	219,508
Shares issued to shareholders in reinvestment of distributions	348,017	562,580
Shares redeemed	(1,423,940)	(2,029,811)
Net increase (decrease) in Class A shares	(918,453)	(1,247,723)
Shares outstanding at end of period	7,873,905	8,792,358

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

Financial Highlights

Class A	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data					
Net asset value, beginning of period	**$22.93**	**$24.62**	**$27.30**	**$23.90**	**$21.49**
Income (loss) from investment operations:					
Net investment income[a]	.61	.68	.72	.78	.57
Net realized and unrealized gain (loss)	.91	(.97)	.25	3.14	2.20
Total from investment operations	1.52	(.29)	.97	3.92	2.77
Less distributions from:					
Net investment income	(.95)	(.76)	(.85)	(.52)	(.36)
Net realized gains	—	(.64)	(2.80)	—	—
Total distributions	(.95)	(1.40)	(3.65)	(.52)	(.36)
Net asset value, end of period	**$23.50**	**$22.93**	**$24.62**	**$27.30**	**$23.90**
Total Return (%)	6.81	(1.44)[b]	3.83	16.63	12.98
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	185	202	247	269	260
Ratio of expenses before expense reductions (%)	.62	.60	.62	.60	.59
Ratio of expenses after expense reductions (%)	.62	.58	.62	.60	.59
Ratio of net investment income (loss) (%)	2.66	2.85	2.83	3.07	2.48
Portfolio turnover rate (%)	135	92	88	182	188

[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 ("U.S. GAAP") which require the use of management estimates. Actual results could differ from those estimates. The Fund qualifies as an investment company under Topic 946 of Accounting Standards Codification of U.S. GAAP. The policies described below are followed consistently by the Fund in the preparation of its financial statements.

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

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

Equity securities and Exchange-Traded Funds ("ETFs") are valued at the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade. 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. 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 its securities lending agreement. During the term of the loans, the Fund 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 securities lending agreement. As of period end, any securities on loan were collateralized by cash. During the year ended December 31, 2016, the Fund invested the cash collateral into a joint trading account in affiliated money market funds managed by Deutsche Investment Management Americas Inc. As of December 31, 2016, the Fund invested the cash collateral in Government & Agency Securities Portfolio. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.09% annualized effective rate as of December 31, 2016) on the cash collateral invested in Government & Agency Securities Portfolio. 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 at any time, and the borrower, after notice, is required to return borrowed securities within a standard time period. 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, 2016, the Fund had securities on loan, which were classified as common stocks, corporate bonds and exchange-traded funds in the Investment Portfolio. The value of the related collateral exceeded the value of the securities loaned at period end.

Remaining Contractual Maturity of the Agreements As of December 31, 2016

	Overnight and Continuous	<30 days	Between 30 & 90 days	>90 days	Total
Securities Lending Transactions					
Common Stocks	$ 281,865	$ —	$ —	$ —	$ 281,865
Corporate Bonds	995,395	—	—	—	995,395
Exchange-Traded Fund	8,038,513	—	—	—	8,038,513
Total Borrowings	**$ 9,315,773**	**$ —**	**$ —**	**$ —**	**$ 9,315,773**
Gross amount of recognized liabilities for securities lending transactions					$ 9,315,773

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.

At December 31, 2016, the Fund had $6,015,000 of tax basis capital loss carryforwards, which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($3,135,000) and long-term losses ($2,880,000).

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, 2016 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, 2016, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 5,621,922
Capital loss carryforwards	$ (6,015,000)
Unrealized appreciation (depreciation) on investments	$ 10,697,478

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

	Years Ended December 31, 2016	2015
Distributions from ordinary income*	$ 7,851,269	$ 11,705,848
Distributions from long-term capital gains	$ —	$ 1,863,593

* 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, 2016, 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, 2016 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2016, the investment in interest rate swap contracts had a total notional amount generally indicative of a range from $23,200,000 to $31,640,000.

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, 2016, 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, 2016 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2016, the investment in credit default swap contracts purchased had a total notional value generally indicative of a range from $0 to approximately $16,300,000, 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 $7,700,000.

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, 2016, 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 and entered into equity index futures as a means of gaining exposure to the equity asset class without investing directly into such asset class.

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, 2016 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2016, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $14,228,000 to $39,622,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from $0 to approximately $20,120,000.

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, 2016, 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.

There were no open written or purchased option contracts as of December 31, 2016. For the year ended December 31, 2016, the investment in written option contracts had a total value generally indicative of a range from $0 to $19,400,000.

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, 2016, 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 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, 2016 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2016, the investment in forward currency contracts short vs. U.S. dollars had a total contract value generally indicative of a range from approximately $5,584,000 to $101,877,000, and the investment in forward currency contracts long vs. U.S. dollars had a total contract value generally indicative of a range from approximately $1,067,000 to $99,446,000. The investment in forward currency contracts long vs. other foreign currencies sold had a total contract value generally indicative of a range from $0 to approximately $1,251,000.

The following tables summarize the value of the Fund's derivative instruments held as of December 31, 2016 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)	$ —	$ 1,235,677	$ 61,191	$ 1,296,868
Credit Contracts (a)	—	246,366	—	246,366
Foreign Exchange Contracts (b)	3,011,460	—	—	3,011,460
	$ 3,011,460	**$ 1,482,043**	**$ 61,191**	**$ 4,554,694**

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

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

(b) Unrealized appreciation on forward foreign currency exchange contracts

Liability Derivatives	**Forward Contracts**	**Swap Contracts**	**Futures Contracts**	**Total**
Equity Contracts (a)	$ —	$ —	$ (55,542)	$ (55,542)
Interest Rate Contracts (a)	—	(36,235)	(220,920)	(257,155)
Foreign Exchange Contracts (b)	(1,820,952)	—	—	(1,820,952)
	$ (1,820,952)	**$ (36,235)**	**$ (276,462)**	**$ (2,133,649)**

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) 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, 2016 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)	$ 3,245	$ —	$ (147,880)	$ (438,677)	$ (583,312)
Credit Contracts (a)	—	—	193,609	—	193,609
Foreign Exchange Contracts (b)	—	198,087	—	—	198,087
	$ 3,245	**$ 198,087**	**$ 45,729**	**$ (438,677)**	**$ (191,616)**

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
Equity Contracts (a)	$ —	$ —	$ —	$ (55,542)	$ (55,542)
Interest Rate Contracts (a)	(102,473)	—	361,028	(223,127)	35,428
Credit Contracts (a)	—	—	604,590	—	604,590
Foreign Exchange Contracts (b)	—	725,458	—	—	725,458
	$ (102,473)	**$ 725,458**	**$ 965,618**	**$ (278,669)**	**$ 1,309,934**

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, 2016, 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 (a)	Non-Cash Collateral Received	Net Amount of Derivative Assets
Australia & New Zealand Banking Group Ltd.	$ 108,028	$ (428)	$ —	$ —	$ 107,600
Barclays Bank PLC	195,955	(120,094)	—	—	75,861
Goldman Sachs & Co.	674,210	(216,688)	—	—	457,522
JPMorgan Chase Securities, Inc.	29,170	(29,170)	—	—	—
Morgan Stanley	1,371,504	—	(1,371,504)	—	—
Societe Generale	632,593	—	(550,000)	—	82,593
	$ 3,011,460	**$ (366,380)**	**$ (1,921,504)**	**$ —**	**$ 723,576**

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.	$ 428	$ (428)	$ —	$ —	$ —
Bank of America	57,490	—	—	(36,879)	20,611
Barclays Bank PLC	120,094	(120,094)	—	—	—
Citigroup, Inc	227,206	—	—	(135,878)	91,328
Goldman Sachs & Co.	216,688	(216,688)	—	—	—
JPMorgan Chase Securities, Inc.	139,827	(29,170)	—	—	110,657
State Street Bank & Trust Co.	983,188	—	—	(983,188)	—
Toronto-Dominion Bank	76,031	—	—	—	76,031
	$ 1,820,952	**$ (366,380)**	**$ —**	**$ (1,155,945)**	**$ 298,627**

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

C. Purchases and Sales of Securities

During the year ended December 31, 2016, purchases and sales of investment transactions (excluding short-term investments and U.S. Treasury obligations) aggregated $208,353,997 and $236,259,650, respectively. Purchases and sales of U.S. Treasury obligations aggregated $33,400,444 and $20,452,114, respectively.

For the year ended December 31, 2016, transactions for written options on interest rate swap contracts were as follows:

	Contract Amount	Premium
Outstanding, beginning of period	19,400,000	$ 236,825
Options closed	(5,500,000)	(88,852)
Options exercised	(3,400,000)	(63,920)
Options expired	(10,500,000)	(84,053)
Outstanding, end of period	—	$ —

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, 2016, 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, 2016 through September 30, 2017, 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, 2016, the Administration Fee was $189,856, of which $15,711 is unpaid.

Service Provider Fees. Deutsche AM 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, 2016, the amounts charged to the Fund by DSC aggregated $405, of which $103 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, 2016, the amount charged to the Fund by DIMA included in the Statement of Operations under “Reports to shareholders” aggregated $17,490, of which $8,025 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 Deutsche Central Cash Management Government Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. 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. Deutsche Central Cash Management Government 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. Deutsche Central Cash Management Government 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, 2016, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $5,038.

E. Ownership of the Fund

At December 31, 2016, two participating insurance companies were owners of record of 10% or more of the total outstanding shares of the Fund, each owning 49% and 20%.

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, 2016.

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, 2016, 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, 2016, 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, 2016, 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 14, 2017

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, 2016 to December 31, 2016).

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, 2016

Actual Fund Return	**Class A**
Beginning Account Value 7/1/16	$1,000.00
Ending Account Value 12/31/16	$1,034.80
Expenses Paid per $1,000*	$ 3.02
Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 7/1/16	$1,000.00
Ending Account Value 12/31/16	$1,022.17
Expenses Paid per $1,000*	$ 3.00

* 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 366.

Annualized Expense Ratio	**Class A**
Deutsche Variable Series II — Deutsche Global Income Builder VIP	.59%

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, 17% of the ordinary dividends (i.e., income dividends plus short-term capital gains) paid during the Fund's fiscal year ended December 31, 2016 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 most recent 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 (hereinafter referred to as the "Board" or "Trustees") approved the renewal of Deutsche Global Income Builder VIP's (the "Fund") investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2016.

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

— During the entire process, all of the Fund's Trustees were independent of DIMA and its affiliates (the "Independent Trustees").

— The Board 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 extensive 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 Management ("Deutsche AM") division. Deutsche AM 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 Board 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 invest in Deutsche AM and seek to enhance Deutsche AM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AM 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 and the resources made available to such personnel. 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, 2015, the Fund's performance (Class A shares) was in the 1st quartile of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in the three- and five-year periods and has underperformed its benchmark in the one-year period ended December 31, 2015.

Fees and Expenses. The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Broadridge Financial Solutions, Inc. ("Broadridge") 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 Broadridge peer group (based on Broadridge data provided as of December 31, 2015). 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 Broadridge expense universe (based on Broadridge data provided as of December 31, 2015, and analyzing Broadridge expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Broadridge 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 AM. The Board noted that DIMA indicated that Deutsche AM 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, seniority and time commitment of the individuals serving as DIMA's and the Fund's chief compliance officers; (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 Independent 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 Keith R. Fox, Deutsche Funds Board Chair, c/o Thomas R. Hiller, Ropes & Gray LLP, Prudential Tower, 800 Boylston Street, Boston, MA 02199-3600. 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
Keith R. Fox, CFA (1954) Chairperson since 2017,[2] and 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)	98	—
Kenneth C. Froewiss (1945) Vice Chairperson since 2017,[2] Board Member since 2001, and Chairperson (2013–December 31, 2016)	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)	98	—
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.[3] (population well-being and wellness services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International	98	Portland General Electric[3] (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); The Pew Charitable Trusts (charitable organization); former Directorships: Becton Dickinson and Company[3] (medical technology company); Belo Corporation[3] (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)	98	—
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: Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: ICI Mutual Insurance Company (2007–2015); Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	98	—
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	98	—

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; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006)	98	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004, and Vice Chairperson (2013–December 31, 2016)	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	98	—
Rebecca W. Rimel (1951) Board Member since 1995	President, Chief Executive Officer and Director, The Pew Charitable Trusts (charitable organization) (1994–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[3] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	98	Director, Becton Dickinson and Company[3] (medical technology company) (2012–present); Director, BioTelemetry Inc.[3] (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[3] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	98	—
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); former Directorships: The William and Flora Hewlett Foundation (charitable organization) (2000–2015); Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	98	—

Officers[5]

Name, Year of Birth, Position with the Fund and Length of Time Served[6]	Business Experience and Directorships During the Past Five Years
Brian E. Binder[9] (1972) President and Chief Executive Officer, 2013–present	Managing Director[4] and Head of US Product and Fund Administration, Deutsche Asset Management (2013–present); Director and President, Deutsche AM Service Company (since 2016); Director and Vice President, Deutsche AM Distributors, Inc. (since 2016); Director and President, DB Investment Managers, Inc. (since 2016); formerly, Head of Business Management and Consulting at Invesco, Ltd. (2010–2012)
John Millette[8] (1962) Vice President and Secretary, 1999–present	Director,[4] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (2015–present); and Director and Vice President, Deutsche AM Trust Company (since 2016)
Hepsen Uzcan[7] (1974) Vice President, since 2016 Assistant Secretary, 2013–present	Director,[4] Deutsche Asset Management
Paul H. Schubert[7] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[4] Deutsche Asset Management, and Chairman, Director and President, Deutsche AM Trust Company (since 2013); Vice President, Deutsche AM Distributors, Inc. (since 2016); formerly, Director, Deutsche AM Trust Company (2004–2013)
Caroline Pearson[8] (1962) Chief Legal Officer, 2010–present	Managing Director,[4] Deutsche Asset Management; Secretary, Deutsche AM Distributors, Inc.; and Secretary, Deutsche AM Service Company

Name, Year of Birth, Position with the Fund and Length of Time Served[6]	Business Experience and Directorships During the Past Five Years
Scott D. Hogan[8] (1970) Chief Compliance Officer, since 2016	Director,[4] Deutsche Asset Management
Wayne Salit[7] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[4] Deutsche Asset Management; AML Compliance Officer, Deutsche AM Distributors, Inc.; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Paul Antosca[8] (1957) Assistant Treasurer, 2007–present	Director,[4] Deutsche Asset Management
Diane Kenneally[8] (1966) Assistant Treasurer, 2007–present	Director,[4] 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 Effective as of January 1, 2017.

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

4 Executive title, not a board directorship.

5 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.

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

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

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

9 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

Notes

Notes

Deutsche
Asset Management

VS2GIB-2 (R-025825-6 2/17)

Deutsche
Asset Management

December 31, 2016

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 and less liquid 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.

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

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NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY

Performance Summary

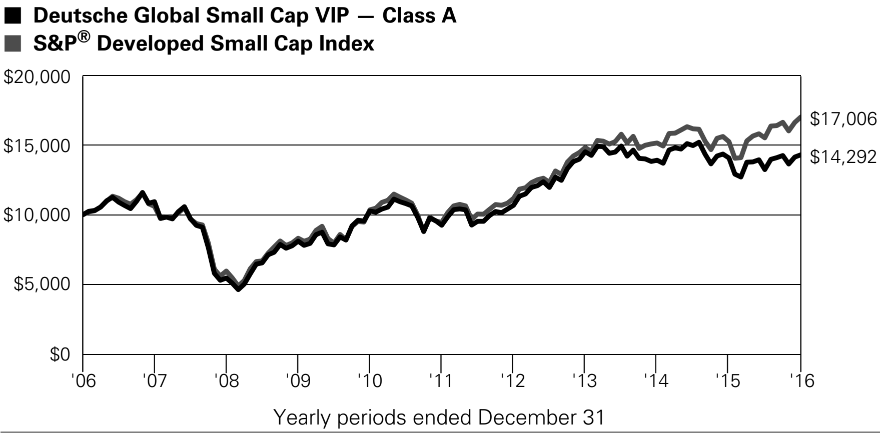
December 31, 2016 (Unaudited)

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, 2016 are 1.12% 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.

Generally accepted accounting principles require adjustments to be made to the net assets of the Fund at period end for financial reporting purposes only, and as such, the total return based on the unadjusted net asset value per share may differ from the total return reported in the financial highlights.

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	$10,157	$9,851	$15,450	$14,292
	Average annual total return	1.57%	–0.50%	9.09%	3.64%
S&P Developed Small Cap Index	Growth of $10,000	$11,159	$11,480	$17,969	$17,006
	Average annual total return	11.59%	4.71%	12.44%	5.45%

Deutsche Global Small Cap VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,134	$9,779	$15,258	$13,898
	Average annual total return	1.34%	–0.74%	8.82%	3.35%
S&P Developed Small Cap Index	Growth of $10,000	$11,159	$11,480	$17,969	$17,006
	Average annual total return	11.59%	4.71%	12.44%	5.45%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2016 (Unaudited)

Deutsche Global Small Cap VIP returned 1.57% in 2016 (Class A shares, unadjusted for contract charges), underperforming the 11.59% return of the S&P® Developed SmallCap Index.[1]

Although we use a bottom-up approach to picking stocks for the portfolio, top-down factors can have an impact on our results as well. During the past year, our performance was hurt by significant underweight positions in the strong-performing utilities and materials sectors.[2] As growth-oriented investors, we tend to have a lower allocation to sectors where we find it more difficult to identify growth companies. Since the benchmark comprises both growth and value stocks, the Fund often lags when slower-growth companies outperform. The Fund was also negatively affected by an overweight in the United Kingdom, as the unexpected result of the Brexit vote fueled underperformance for both U.K. stocks and the British pound, depressing returns for U.S.-based investors.

Stock selection was an additional detractor, with our investments in health care having the largest negative effect.[3] The sector lagged the broader market by a wide margin due to the prospect of increased government scrutiny on pricing practices. Our results in health care were also hurt by the challenges faced by two individual holdings, Flamel Technologies SA and Pacira Pharmaceuticals, Inc. The technology sector proved to be a difficult area for the Fund as well, with United Internet AG, Parrot SA and VeriFone Systems, Inc.* representing the most significant detractors.

On the positive side, we added value through our stock selection in the consumer discretionary sector.[4] The WhiteWave Foods Company,* a producer of natural foods and beverages, was one of the leading contributors to performance. The stock jumped during the summer after the global food giant Danone announced its intention to acquire the company for a substantial premium. Outside of consumer discretionary, United States Steel Corp. and Cognex Corp. were the largest individual contributors.

Our stock-by-stock decisions resulted in some notable changes at both the regional and sector levels during 2016. With regard to the former, we reviewed all of the portfolio's holdings following the Brexit referendum to assess their exposure to the potential shifts brought about by the vote. A number of our stocks were vulnerable to the longer-term implications of the United Kingdom's departure from the European Union, so we trimmed or eliminated positions accordingly. We redeployed the bulk of the proceeds to U.S. equities, causing the Fund's long-standing overweight in Europe vs. the United States to shrink as the year progressed.

At the sector level, we added to technology and health care, although the Fund's weighting in the latter group declined due to the impact of market movements. In both areas, we found an abundance of companies which we believe have the potential to generate steady growth with minimal dependence on broader economic conditions. We made corresponding reductions to industrials, where slow global growth weighed on the earnings outlooks for certain companies, and to consumer staples, where valuations had become less attractive.

The past year was difficult for bottom-up investors such as us given the primacy of macroeconomic factors over company fundamentals as the key driver of returns. On a longer-term basis, however, we believe an emphasis on owning good companies with favorable earnings prospects can translate to positive relative performance. With this as background, we maintained a steady approach of investing in small-cap companies that we believe have the potential to thrive in any environment by virtue of their healthy organic growth.

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 Contribution and detraction incorporate both an investment's total return and its weighting in the fund.

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

* Not held in the portfolio as of December 31, 2016.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/16**	**12/31/15**
Common Stocks	97%	98%
Cash Equivalents	3%	2%
Convertible Preferred Stock	0%	0%
Warrant	0%	0%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/16**	**12/31/15**
United States	55%	42%
Japan	10%	10%
United Kingdom	8%	13%
Germany	4%	7%
France	3%	4%
Ireland	3%	5%
Canada	2%	2%
Italy	2%	2%
Netherlands	2%	3%
Hong Kong	1%	2%
Malaysia	0%	2%
Other	10%	8%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/16**	**12/31/15**
Consumer Discretionary	23%	26%
Industrials	19%	22%
Information Technology	19%	15%
Health Care	12%	13%
Financials	11%	11%
Materials	5%	1%
Consumer Staples	5%	7%
Energy	5%	3%
Real Estate	1%	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 96.9%		
Australia 0.7%		
Austal Ltd. (Cost $528,329)	529,709	**666,661**
Bermuda 1.0%		
Lazard Ltd. "A" (a) (Cost $549,757)	22,449	**922,429**
Canada 2.2%		
Detour Gold Corp.*	33,100	450,898
Quebecor, Inc. "B"	30,781	855,582
SunOpta, Inc.* (b)	100,054	705,381
(Cost $1,792,216)		**2,011,861**
China 0.7%		
Minth Group Ltd. (Cost $70,637)	215,036	**669,496**
Finland 1.1%		
Cramo Oyj (Cost $834,274)	39,353	**984,941**
France 2.5%		
Altran Technologies SA*	75,964	1,110,153
Flamel Technologies SA (ADR)*	114,494	1,189,593
(Cost $2,357,282)		**2,299,746**
Germany 3.4%		
M.A.X. Automation AG	78,909	477,699
PATRIZIA Immobilien AG*	42,562	709,309
Rational AG	1,247	557,306
United Internet AG (Registered)	23,979	936,879
VIB Vermoegen AG	22,000	456,097
(Cost $1,277,294)		**3,137,290**
Hong Kong 1.0%		
Techtronic Industries Co., Ltd. (Cost $302,134)	245,041	**879,126**
India 1.0%		
WNS Holdings Ltd. (ADR)* (Cost $989,045)	34,321	**945,544**
Indonesia 1.0%		
PT Arwana Citramulia Tbk	8,241,409	318,622
PT Matahari Department Store Tbk	515,300	578,641
(Cost $1,085,394)		**897,263**
Ireland 2.4%		
Greencore Group PLC	193,191	588,514
Paddy Power Betfair PLC	6,450	690,249
Ryanair Holdings PLC*	59,579	913,775
(Cost $939,515)		**2,192,538**
Israel 1.0%		
Mellanox Technologies Ltd.* (a) (Cost $973,428)	22,498	**920,168**
Italy 2.0%		
Moncler SpA	53,800	936,705
Prysmian SpA	36,037	925,811
(Cost $1,560,897)		**1,862,516**
Japan 9.2%		
Ai Holdings Corp.	37,317	741,970
Anicom Holdings, Inc. (b)	26,300	545,062
Daikyonishikawa Corp.	76,300	980,557

	Shares	Value ($)
Kusuri no Aoki Holdings Co., Ltd.	15,458	687,757
MISUMI Group, Inc.	20,774	341,822
Nippon Seiki Co., Ltd.	28,964	617,199
Optex Co., Ltd.	28,000	612,620
Syuppin Co., Ltd.	55,900	715,658
Topcon Corp.	28,200	424,311
United Arrows Ltd.	24,557	677,915
Universal Entertainment Corp.*	15,314	442,605
UT Group Co., Ltd.* (b)	103,924	854,613
Zenkoku Hosho Co., Ltd.	25,500	818,919
(Cost $6,464,530)		**8,461,008**
Korea 1.0%		
i-SENS, Inc.	19,340	470,770
Vieworks Co., Ltd.*	9,522	471,449
(Cost $1,128,175)		**942,219**
Malaysia 0.3%		
Tune Protect Group Bhd. (Cost $435,302)	855,914	**271,030**
Netherlands 1.9%		
Brunel International NV	25,115	407,005
Core Laboratories NV (b) (c)	6,197	743,888
SBM Offshore NV	35,997	565,680
(Cost $1,425,956)		**1,716,573**
Panama 0.9%		
Banco Latinoamericano de Comercio Exterior SA "E" (Cost $632,388)	26,626	**783,869**
Spain 1.0%		
Talgo SA 144A*	109,400	520,292
Telepizza Group SA 144A*	79,606	378,345
(Cost $1,156,824)		**898,637**
Sweden 1.1%		
Nobina AB 144A (Cost $738,909)	176,497	**985,911**
Taiwan 0.6%		
Basso Industry Corp. (Cost $467,474)	172,000	**499,900**
United Kingdom 7.6%		
Arrow Global Group PLC	158,762	581,273
Auto Trader Group PLC 144A	91,274	460,786
Babcock International Group PLC	72,531	852,261
Cardtronics PLC "A"* (a)	22,575	1,231,918
Clinigen Healthcare Ltd.*	75,548	663,249
Domino's Pizza Group PLC	128,186	571,311
Electrocomponents PLC	154,300	907,701
Hargreaves Lansdown PLC	27,923	417,497
Polypipe Group PLC	123,640	493,055
Scapa Group PLC	187,102	769,144
(Cost $5,088,801)		**6,948,195**
United States 53.3%		
Advance Auto Parts, Inc.	4,033	682,061
Affiliated Managers Group, Inc.*	7,800	1,133,340
Akorn, Inc.*	19,588	427,606
AZZ, Inc.	15,239	973,772
Belden, Inc.	9,100	680,407
Berry Plastics Group, Inc.*	17,171	836,743

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

	Shares	Value ($)
BioScrip, Inc.* (b)	246,700	256,568
Casey's General Stores, Inc.	12,546	1,491,468
Cognex Corp.	14,819	942,785
Cynosure, Inc. "A"*	11,400	519,840
Del Taco Restaurants, Inc.*	90,698	1,280,656
Deluxe Corp.	11,100	794,871
Diamondback Energy, Inc.*	10,712	1,082,555
Dolby Laboratories, Inc. "A"	13,400	605,546
FCB Financial Holdings, Inc. "A"*	18,879	900,528
Fox Factory Holding Corp.*	32,204	893,661
Gentherm, Inc.*	31,493	1,066,038
Gibraltar Industries, Inc.*	21,573	898,515
Hain Celestial Group, Inc.*	14,946	583,342
Harman International Industries, Inc.	4,142	460,425
HD Supply Holdings, Inc.*	10,700	454,857
Helen of Troy Ltd.*	11,200	945,840
Horizon Global Corp.*	36,900	885,600
Inphi Corp.*	17,115	763,671
Jack in the Box, Inc.	11,253	1,256,285
Kindred Healthcare, Inc.	49,509	388,646
Knowles Corp.* (b)	60,776	1,015,567
Leucadia National Corp.	39,618	921,118
Ligand Pharmaceuticals, Inc.*	4,480	455,213
Manitowoc Foodservice, Inc.*	56,940	1,100,650
Masonite International Corp.*	10,632	699,586
Matador Resources Co.*	34,637	892,249
MAXIMUS, Inc.	12,612	703,623
Middleby Corp.*	7,106	915,324
Molina Healthcare, Inc.*	18,606	1,009,562
NETGEAR, Inc.*	13,300	722,855
Neurocrine Biosciences, Inc.*	11,274	436,304
On Assignment, Inc.*	15,670	691,987
Pacira Pharmaceuticals, Inc.*	20,097	649,133
PAREXEL International Corp.*	14,950	982,514
Patterson-UTI Energy, Inc.	27,600	742,992
Primoris Services Corp.	53,145	1,210,643
Providence Service Corp.*	26,138	994,551
Retrophin, Inc.*	56,926	1,077,609
Sinclair Broadcast Group, Inc. "A"	33,245	1,108,721
South State Corp.	8,387	733,024
Super Micro Computer, Inc.*	22,238	623,776
Teladoc, Inc.* (b)	44,900	740,850
Tenneco, Inc.*	15,938	995,647
TiVo Corp.*	21,408	447,427
Trinseo SA	22,445	1,330,988
TriState Capital Holdings, Inc.*	41,337	913,548
United States Steel Corp.	26,596	877,934
Urban Outfitters, Inc.*	25,245	718,978
WABCO Holdings, Inc.*	10,820	1,148,543
WEX, Inc.*	7,161	799,168
Xactly Corp.*	48,020	528,220
Zions Bancorp.	25,682	1,105,353
Zoe's Kitchen, Inc.* (b)	14,102	338,307
(Cost $38,925,729)		**48,837,590**
Total Common Stocks (Cost $69,724,290)		**88,734,511**

Convertible Preferred Stock 0.2%

United States

	Shares	Value ($)
Providence Service Corp. (Cost $196,900)	1,969	**187,865**

Warrant 0.0%

France

	Shares	Value ($)
Parrot SA, Expiration Date 12/22/2022* (Cost $0)	26,460	**11,874**

Securities Lending Collateral 5.0%

	Shares	Value ($)
Government & Agency Securities Portfolio "Deutsche Government Cash Institutional Shares", 0.42% (d) (e) (Cost $4,586,846)	4,586,846	**4,586,846**

Cash Equivalents 2.8%

	Shares	Value ($)
Deutsche Central Cash Management Government Fund, 0.49% (e) (Cost $2,544,314)	2,544,314	**2,544,314**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $77,052,350)†	104.9	**96,065,410**
Other Assets and Liabilities, Net	(4.9)	**(4,464,256)**
Net Assets	100.0	**91,601,154**

* Non-income producing security.

† The cost for federal income tax purposes was $78,131,528. At December 31, 2016, net unrealized appreciation for all securities based on tax cost was $17,933,882. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $21,890,954 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $3,957,072.

(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, 2016 amounted to $4,429,627, which is 4.8% of net assets.

(c) Listed on the New York Stock Exchange.

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

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

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

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, 2016 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	$ —	$ 666,661	$ —	$ 666,661
Bermuda	922,429	—	—	922,429
Canada	2,011,861	—	—	2,011,861
China	—	669,496	—	669,496
Finland	—	984,941	—	984,941
France	1,189,593	1,110,153	—	2,299,746
Germany	—	3,137,290	—	3,137,290
Hong Kong	—	879,126	—	879,126
India	945,544	—	—	945,544
Indonesia	—	897,263	—	897,263
Ireland	—	2,192,538	—	2,192,538
Israel	920,168	—	—	920,168
Italy	—	1,862,516	—	1,862,516
Japan	—	8,461,008	—	8,461,008
Korea	—	942,219	—	942,219
Malaysia	—	271,030	—	271,030
Netherlands	743,888	972,685	—	1,716,573
Panama	783,869	—	—	783,869
Spain	—	898,637	—	898,637
Sweden	—	985,911	—	985,911
Taiwan	—	499,900	—	499,900
United Kingdom	1,231,918	5,716,277	—	6,948,195
United States	48,837,590	—	—	48,837,590
Convertible Preferred Stock	—	—	187,865	187,865
Warrant	—	—	11,874	11,874
Short-Term Investments (f)	7,131,160	—	—	7,131,160
Total	**$ 64,718,020**	**$ 31,147,651**	**$ 199,739**	**$ 96,065,410**

(f) 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**	**Warrants**	**Total**
Balance as of December 31, 2015	$ 907,524	$ 231,659	$ 25,056	**$ 1,164,239**
Realized gains (loss)	(76,542)	—	—	**(76,542)**
Change in unrealized appreciation (depreciation)	36,523	(43,794)	(13,182)	**(20,453)**
Purchases	—	—	—	**—**
(Sales)	(867,505)	—	—	**(867,505)**
Transfer into Level 3	—	—	—	**—**
Transfer (out) of Level 3	—	—	—	**—**
Balance as of December 31, 2016	**$ —**	**$ 187,865**	**$ 11,874**	**$ 199,739**
Net change in unrealized appreciation (depreciation) from investments still held as of December 31, 2016	**$ —**	**$ (43,794)**	**$ (13,182)**	**$ (56,976)**

There have been no transfers between fair value measurement levels during the year ended December 31, 2016.

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

Statement of Assets and Liabilities

as of December 31, 2016

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $69,921,190) — including $4,429,627 of securities loaned	$	88,934,250
Investment in Government & Agency Securities Portfolio (cost $4,586,846)*		4,586,846
Investment in Deutsche Central Cash Management Government Fund (cost $2,544,314)		2,544,314
Total investments in securities, at value (cost $77,052,350)		96,065,410
Foreign currency, at value (cost $152,983)		148,650
Receivable for investments sold		1,088,874
Receivable for Fund shares sold		7,401
Dividends receivable		44,185
Interest receivable		10,528
Foreign taxes recoverable		31,576
Other assets		2,079
Total assets		97,398,703
Liabilities		
Payable upon return of securities loaned		4,586,846
Payable for investments purchased		947,511
Payable for Fund shares redeemed		101,032
Accrued management fee		59,732
Accrued Trustees' fees		2,142
Other accrued expenses and payables		100,286
Total liabilities		5,797,549
Net assets, at value	**$**	**91,601,154**
Net Assets Consist of		
Distributions in excess of net investment income		(433,580)
Net unrealized appreciation (depreciation) on:		
Investments		19,013,060
Foreign currency		(10,737)
Accumulated net realized gain (loss)		7,578,814
Paid-in capital		65,453,597
Net assets, at value	**$**	**91,601,154**
Class A		
Net Asset Value, offering and redemption price per share ($89,029,120 ÷ 7,559,752 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**11.78**
Class B		
Net Asset Value, offering and redemption price per share ($2,572,034 ÷ 224,620 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$**	**11.45**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2016

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $95,639)	$	991,743
Income distributions — Deutsche Central Cash Management Government Fund		12,184
Securities lending income, net of borrower rebates		141,757
Total income		1,145,684
Expenses:		
Management fee		824,046
Administration fee		92,590
Services to shareholders		2,668
Record keeping fee (Class B)		949
Distribution service fee (Class B)		6,271
Custodian fee		57,183
Professional fees		68,482
Reports to shareholders		25,977
Trustees' fees and expenses		6,935
Other		7,658
Total expenses before expense reductions		1,092,759
Expense reductions		(138,174)
Total expenses after expense reductions		954,585
Net investment income (loss)		**191,099**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		8,692,127
Foreign currency		(25,984)
		8,666,143
Change in net unrealized appreciation (depreciation) on:		
Investments		(8,353,372)
Foreign currency		5,379
		(8,347,993)
Net gain (loss)		**318,150**
Net increase (decrease) in net assets resulting from operations	**$**	**509,249**

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

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2016	2015
Operations:		
Net investment income (loss)	$ 191,099	$ 539,119
Net realized gain (loss)	8,666,143	11,501,605
Change in net unrealized appreciation (depreciation)	(8,347,993)	(9,986,449)
Net increase (decrease) in net assets resulting from operations	509,249	2,054,275
Distributions to shareholders from:		
Net investment income:		
Class A	(351,519)	(1,276,149)
Class B	(3,345)	(19,017)
Net realized gains:		
Class A	(10,844,338)	(13,898,697)
Class B	(308,285)	(305,692)
Total distributions	(11,507,487)	(15,499,555)
Fund share transactions:		
Class A		
Proceeds from shares sold	4,096,927	4,131,476
Reinvestment of distributions	11,195,858	15,174,846
Payments for shares redeemed	(19,689,215)	(36,780,664)
Net increase (decrease) in net assets from Class A share transactions	(4,396,430)	(17,474,342)
Class B		
Proceeds from shares sold	238,868	564,366
Reinvestment of distributions	311,629	324,709
Payments for shares redeemed	(366,666)	(706,649)
Net increase (decrease) in net assets from Class B share transactions	183,831	182,426
Increase (decrease) in net assets	(15,210,837)	(30,737,196)
Net assets at beginning of period	106,811,991	137,549,187
Net assets at end of period (including distributions in excess of net investment income of $433,580 and $906,116, respectively)	**$ 91,601,154**	**$ 106,811,991**

Other Information		
Class A		
Shares outstanding at beginning of period	7,905,300	9,224,528
Shares sold	354,371	286,903
Shares issued to shareholders in reinvestment of distributions	973,553	1,081,600
Shares redeemed	(1,673,472)	(2,687,731)
Net increase (decrease) in Class A shares	(345,548)	(1,319,228)
Shares outstanding at end of period	**7,559,752**	**7,905,300**
Class B		
Shares outstanding at beginning of period	207,982	194,372
Shares sold	20,941	41,126
Shares issued to shareholders in reinvestment of distributions	27,824	23,684
Shares redeemed	(32,127)	(51,200)
Net increase (decrease) in Class B shares	16,638	13,610
Shares outstanding at end of period	**224,620**	**207,982**

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

Financial Highlights

Class A	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data					
Net asset value, beginning of period	**$13.17**	**$14.61**	**$17.31**	**$13.78**	**$12.67**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.03	.06	.04	.04	.09
Net realized and unrealized gain (loss)	.15	.21	(.69)	4.66	1.83
Total from investment operations	.18	.27	(.65)	4.70	1.92
Less distributions from:					
Net investment income	(.05)	(.14)	(.15)	(.10)	(.09)
Net realized gains	(1.52)	(1.57)	(1.90)	(1.07)	(.72)
Total distributions	(1.57)	(1.71)	(2.05)	(1.17)	(.81)
Net asset value, end of period	**$11.78**	**$13.17**	**$14.61**	**$17.31**	**$13.78**
Total Return (%)[b]	1.57	1.16	(4.13)	35.94	15.37
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	89	104	135	154	124
Ratio of expenses before expense reductions (%)	1.17	1.12	1.13	1.14	1.11
Ratio of expenses after expense reductions (%)	1.02	.99	.97	.94	.98
Ratio of net investment income (loss) (%)	.22	.41	.27	.28	.69
Portfolio turnover rate (%)	41	27	33	39	36

a Based on average shares outstanding during the period.

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

Class B	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data					
Net asset value, beginning of period	**$12.85**	**$14.29**	**$16.97**	**$13.52**	**$12.45**
Income (loss) from investment operations:					
Net investment income (loss)[a]	(.03)	.02	.00*	.01	.06
Net realized and unrealized gain (loss)	.17	.21	(.67)	4.57	1.79
Total from investment operations	.14	.23	(.67)	4.58	1.85
Less distributions from:					
Net investment income	(.02)	(.10)	(.11)	(.06)	(.06)
Net realized gains	(1.52)	(1.57)	(1.90)	(1.07)	(.72)
Total distributions	(1.54)	(1.67)	(2.01)	(1.13)	(.78)
Net asset value, end of period	**$11.45**	**$12.85**	**$14.29**	**$16.97**	**$13.52**
Total Return (%)[b]	1.34	.86	(4.33)	35.67	15.01
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	3	3	3	3	2
Ratio of expenses before expense reductions (%)	1.47	1.41	1.41	1.34	1.43
Ratio of expenses after expense reductions (%)	1.30	1.24	1.25	1.15	1.23
Ratio of net investment income (loss) (%)	(.23)	.15	.02	.07	.44
Portfolio turnover rate (%)	41	27	33	39	36

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 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 ("U.S. GAAP") which require the use of management estimates. Actual results could differ from those estimates. The Fund qualifies as an investment company under Topic 946 of Accounting Standards Codification of U.S. GAAP. 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. Brown Brothers Harriman & Co., as lending agent, lends securities of the Fund to certain financial institutions under the terms of its securities lending agreement. During the term of the loans, the Fund 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 securities lending agreement. As of period end, any securities on loan were collateralized by cash. During the year ended December 31, 2016, the Fund invested the cash collateral into a joint trading account in affiliated money market funds managed by Deutsche Investment Management Americas Inc. As of December 31, 2016, the Fund invested the cash collateral in Government & Agency Securities Portfolio. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.09% annualized effective rate as of December 31, 2016) on the cash collateral invested in Government & Agency Securities Portfolio. 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 at any time, and the borrower, after notice, is required to return borrowed securities within a standard time period. 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, 2016, the Fund had securities on loan, which were classified as common stock in the Investment Portfolio. The value of the related collateral exceeded the value of the securities loaned at period end. As of period end, the remaining contractual maturity of the collateral agreements were overnight and continuous.

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, 2016 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, 2016, the Fund's components of distributable earnings (accumulated losses) on a tax basis are as follows:

Undistributed long-term capital gains	$ 8,224,413
Net unrealized appreciation (depreciation) on investments	$ 17,933,882

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

	Years Ended December 31,	
	2016	**2015**
Distributions from ordinary Income*	$ 325,380	$ 1,295,166
Distributions from long-term capital gains	$ 11,182,107	$ 14,204,389

* 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, 2016, purchases and sales of investment securities (excluding short-term investments) aggregated $37,264,851 and $51,582,167, 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, 2016, 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, 2016 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	.99%
Class B	1.24%

For the period from May 1, 2016 through September 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	1.07%
Class B	1.36%

Effective October 1, 2016 through September 30, 2017, 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	1.27%

For the year ended December 31, 2016, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 133,949
Class B	4,225
	$ 138,174

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, 2016, the Administration Fee was $92,590, of which $7,806 is unpaid.

Service Provider Fees. Deutsche AM 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, 2016, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	**Total Aggregated**	**Unpaid at December 31, 2016**
Class A	$ 475	$ 119
Class B	183	45
	$ 658	**$ 164**

Distribution Service Agreement. Deutsche AM Distributors, Inc. ("DDI"), also an affiliate of the Advisor, is the Trust's 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, 2016, the Distribution Service Fee aggregated $6,271, of which $541 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, 2016, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $12,121, of which $4,941 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 Deutsche Central Cash Management Government Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. 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. Deutsche Central Cash Management Government 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. Deutsche Central Cash Management Government 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, 2016, three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 39%, 16% and 14%, 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 69% 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, 2016.

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 (the “Fund”) at December 31, 2016 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, 2016 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 14, 2017

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, 2016 to December 31, 2016).

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, 2016

Actual Fund Return	Class A	Class B
Beginning Account Value 7/1/16	$1,000.00	$1,000.00
Ending Account Value 12/31/16	$1,079.80	$1,079.20
Expenses Paid per $1,000*	$ 5.38	$ 6.90

Hypothetical 5% Fund Return	Class A	Class B
Beginning Account Value 7/1/16	$1,000.00	$1,000.00
Ending Account Value 12/31/16	$1,019.96	$1,018.50
Expenses Paid per $1,000*	$ 5.23	$ 6.70

* 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 366.

Annualized Expense Ratios	Class A	Class B
Deutsche Variable Series I — Deutsche Global Small Cap VIP	1.03%	1.32%

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 $1.52 per share from net long-term capital gains during its year ended December 31, 2016.

Pursuant to Section 852 of the Internal Revenue Code, the Fund designates $9,108,000 as capital gain dividends for its year ended December 31, 2016.

For corporate shareholders of the Fund, 55% of the ordinary dividends (i.e., income dividends plus short-term capital gains) paid during the Fund's fiscal year ended December 31, 2016 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 most recent 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 (hereinafter referred to as the "Board" or "Trustees") approved the renewal of Deutsche Global Small Cap VIP's (the "Fund") investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2016.

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

— During the entire process, all of the Fund's Trustees were independent of DIMA and its affiliates (the "Independent Trustees").

— The Board 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 extensive 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 Management ("Deutsche AM") division. Deutsche AM 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 Board 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 invest in Deutsche AM and seek to enhance Deutsche AM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AM 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 and the resources made available to such personnel. 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, 2015, the Fund's performance (Class A shares) was in the 2nd quartile, 2nd quartile and 3rd quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in the one-year period and has underperformed its benchmark in the three- and five-year periods ended December 31, 2015. 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.

Fees and Expenses. The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Broadridge Financial Solutions, Inc. ("Broadridge") 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 Broadridge peer group (based on Broadridge data provided as of December 31, 2015). 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 Broadridge expense universe (based on Broadridge data provided as of December 31, 2015, and analyzing Broadridge expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Broadridge Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Broadridge 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 also observed that the Broadridge 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 AM. The Board noted that DIMA indicated that Deutsche AM manages an institutional account comparable to the Fund, but that Deutsche AM 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, seniority and time commitment of the individuals serving as DIMA's and the Fund's chief compliance officers; (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 Independent 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 Keith R. Fox, Deutsche Funds Board Chair, c/o Thomas R. Hiller, Ropes & Gray LLP, Prudential Tower, 800 Boylston Street, Boston, MA 02199-3600. 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
Keith R. Fox, CFA (1954) Chairperson since 2017,[2] and 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)	98	—
Kenneth C. Froewiss (1945) Vice Chairperson since 2017,[2] Board Member since 2001, and Chairperson (2013–December 31, 2016)	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)	98	—
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.[3] (population well-being and wellness services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International	98	Portland General Electric[3] (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); The Pew Charitable Trusts (charitable organization); former Directorships: Becton Dickinson and Company[3] (medical technology company); Belo Corporation[3] (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)	98	—
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: Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: ICI Mutual Insurance Company (2007–2015); Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	98	—
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	98	—

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; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006)	98	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004, and Vice Chairperson (2013–December 31, 2016)	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	98	—
Rebecca W. Rimel (1951) Board Member since 1995	President, Chief Executive Officer and Director, The Pew Charitable Trusts (charitable organization) (1994–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[3] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	98	Director, Becton Dickinson and Company[3] (medical technology company) (2012–present); Director, BioTelemetry Inc.[3] (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[3] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	98	—
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); former Directorships: The William and Flora Hewlett Foundation (charitable organization) (2000–2015); Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	98	—

Officers[5]

Name, Year of Birth, Position with the Fund and Length of Time Served[6]	Business Experience and Directorships During the Past Five Years
Brian E. Binder[9] (1972) President and Chief Executive Officer, 2013–present	Managing Director[4] and Head of US Product and Fund Administration, Deutsche Asset Management (2013–present); Director and President, Deutsche AM Service Company (since 2016); Director and Vice President, Deutsche AM Distributors, Inc. (since 2016); Director and President, DB Investment Managers, Inc. (since 2016); formerly, Head of Business Management and Consulting at Invesco, Ltd. (2010–2012)
John Millette[8] (1962) Vice President and Secretary, 1999–present	Director,[4] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (2015–present); and Director and Vice President, Deutsche AM Trust Company (since 2016)
Hepsen Uzcan[7] (1974) Vice President, since 2016 Assistant Secretary, 2013–present	Director,[4] Deutsche Asset Management
Paul H. Schubert[7] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[4] Deutsche Asset Management, and Chairman, Director and President, Deutsche AM Trust Company (since 2013); Vice President, Deutsche AM Distributors, Inc. (since 2016); formerly, Director, Deutsche AM Trust Company (2004–2013)
Caroline Pearson[8] (1962) Chief Legal Officer, 2010–present	Managing Director,[4] Deutsche Asset Management; Secretary, Deutsche AM Distributors, Inc.; and Secretary, Deutsche AM Service Company

Name, Year of Birth, Position with the Fund and Length of Time Served[6]	Business Experience and Directorships During the Past Five Years
Scott D. Hogan[8] (1970) Chief Compliance Officer, since 2016	Director,[4] Deutsche Asset Management
Wayne Salit[7] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[4] Deutsche Asset Management; AML Compliance Officer, Deutsche AM Distributors, Inc.; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Paul Antosca[8] (1957) Assistant Treasurer, 2007–present	Director,[4] Deutsche Asset Management
Diane Kenneally[8] (1966) Assistant Treasurer, 2007–present	Director,[4] 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 Effective as of January 1, 2017.

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

4 Executive title, not a board directorship.

5 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.

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

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

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

9 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

Notes

Deutsche
Asset Management

VS1glosc-2 (R-025821-6 2/17)

Deutsche
Asset Management

December 31, 2016

Annual Report

Deutsche Variable Series II

Deutsche Government & Agency Securities VIP

Contents

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

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.

Deutsche AM 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

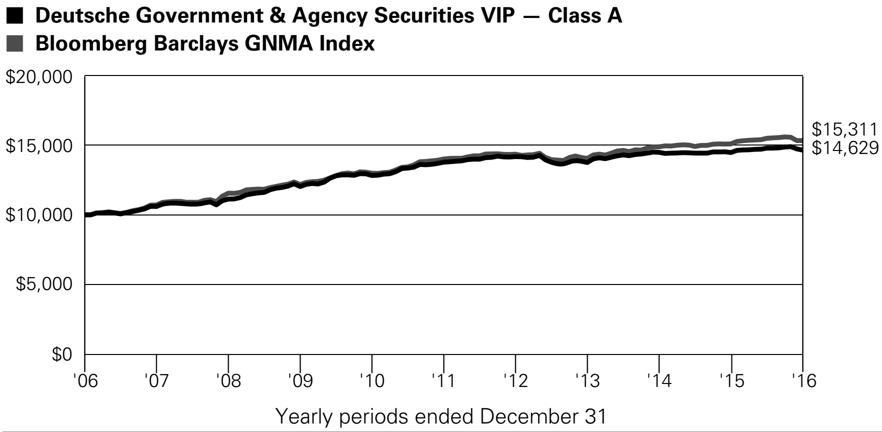
December 31, 2016 (Unaudited)

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, 2016 are 0.74% 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.

Generally accepted accounting principles require adjustments to be made to the net assets of the Fund at period end for financial reporting purposes only, and as such, the total return based on the unadjusted net asset value per share may differ from the total return reported in the financial highlights.

Growth of an Assumed $10,000 Investment in Deutsche Government & Agency Securities VIP



The Bloomberg Barclays GNMA Index is an unmanaged, market-value-weighted measure of all fixed-rate securities backed by mortgage pools of the Government National Mortgage Association.

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

Comparative Results

Deutsche Government & Agency Securities VIP		**1-Year**	**3-Year**	**5-Year**	**10-Year**
Class A	Growth of $10,000	$10,115	$10,648	$10,626	$14,629
	Average annual total return	1.15%	2.11%	1.22%	3.88%
Bloomberg Barclays GNMA Index	Growth of $10,000	$10,156	$10,912	$10,940	$15,311
	Average annual total return	1.56%	2.95%	1.81%	4.35%

Deutsche Government & Agency Securities VIP		**1-Year**	**3-Year**	**5-Year**	**10-Year**
Class B	Growth of $10,000	$10,079	$10,539	$10,450	$14,129
	Average annual total return	0.79%	1.77%	0.88%	3.52%
Bloomberg Barclays GNMA Index	Growth of $10,000	$10,156	$10,912	$10,940	$15,311
	Average annual total return	1.56%	2.95%	1.81%	4.35%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2016 (Unaudited)

Following the U.S. Federal Reserve Board's (the Fed) 25-basis-point rate hike (one percent equals 100 basis points) in December of 2015, markets were expecting a series of additional, modest rate increases to be enacted at upcoming Fed meetings. However, this outlook was upended as 2016 opened with a resurgence of concerns around slowing growth in China and weakness in energy prices, sending interest rates and credit-based assets lower. Sentiment would rally from mid-February on, as investors were encouraged by the outlook for even more gradual Fed policy normalization and increased efforts by overseas central banks to stimulate growth, along with a rebound in oil prices off their January lows. In late June, markets were surprised by the results of a U.K. referendum which resulted in a vote to leave the European Union, leading to an investor flight to safety which pushed U.S. Treasury yields down to historical lows. However, credit-sensitive areas of the market would quickly resume their outperformance against a backdrop of supportive central banks and continued strength in commodity prices. Bond returns would turn negative in the wake of the November 8th U.S. elections, as interest rates moved up in anticipation of higher growth and inflation under unified Republican control of the government.

During the 12-month period ended December 31, 2016, the Fund provided a total return of 1.15% (Class A shares, unadjusted for contract charges) compared with the 1.56% return of its benchmark, the Bloomberg Barclays GNMA Index.[1]

Within the Fund's core mortgage-backed securities (MBS) allocation, we have maintained a significant position in older-vintage, higher-coupon mortgage pools, with a focus on characteristics that suggest a muted outlook for prepayments in most environments. While lagging the broader MBS market for much of the period, these higher-coupon holdings ultimately benefited performance, as their shorter duration profile was preferred as interest rates spiked post-election. In order to balance the allocation to higher-coupon, lower-duration MBS, we maintained a long stance with respect to the Fund's Treasury yield curve exposure, which acted as a constraint on returns as rates rose late in the period. The Fund had an allocation to higher-yielding, collateralized mortgage obligations (CMOs) structured to provide different risk/reward trade-offs in a shifting rate environment as compared to pass-through MBS. Security selection within this position benefited from exposure to interest-only and longer-duration instruments. The managers used derivatives as part of implementing the Fund's positioning along the yield curve as well to hedge against certain risks, with a modest negative impact on performance. We remain constructive on the outlook for MBS relative to many other areas of the bond market, and are maintaining above-benchmark MBS exposure entering 2017. We continue to favor higher-coupon, shorter-duration MBS, and have an overall preference for pass-through securities over CMOs.

Gregory M. Staples, CFA
Scott Agi, CFA
Portfolio Managers

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

1 The Bloomberg 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)	12/31/16	12/31/15
Mortgage-Backed Securities Pass-Throughs	94%	76%
Collateralized Mortgage Obligations	16%	22%
Government & Agency Obligations	7%	5%
Corporate Bond	2%	—
Commercial Mortgage-Backed Securities	1%	2%
Cash Equivalents and Other Assets and Liabilities, net	–20%	–5%
	100%	100%

Coupons*	12/31/16	12/31/15
Less than 3.5%	27%	9%
3.5%–4.49%	35%	39%
4.5%–5.49%	20%	32%
5.5%–6.49%	17%	18%
6.5%–7.49%	1%	2%
7.5% and Greater	0%	0%
	100%	100%

Interest Rate Sensitivity	12/31/16	12/31/15
Effective Maturity	9.9 years	6.9 years
Effective Duration	4.2 years	3.7 years

* Excludes Cash Equivalents and U.S. Treasury Bills.

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 ($)(a)	Value ($)
Mortgage-Backed Securities Pass-Throughs 93.8%		
Federal Home Loan Mortgage Corp.:		
3.0%, 7/1/2044 (b)	6,200,000	6,156,441
3.5%, with various maturities from 2/1/2044 until 6/1/2046 (b)	4,979,035	5,099,505
Federal National Mortgage Association:		
3.0%, 4/1/2044 (b)	300,000	298,024
3.5%, 3/1/2045	1,698,814	1,750,081
4.0%, with various maturities from 3/1/2042 until 4/1/2046 (b)	2,150,628	2,263,874
Government National Mortgage Association:		
3.0%, 11/1/2044 (b)	5,300,000	5,366,353
3.5%, with various maturities from 4/15/2042 until 10/15/2046 (b)	7,475,448	7,794,304
4.0%, with various maturities from 9/20/2040 until 6/20/2043	3,519,844	3,774,809
4.5%, with various maturities from 6/20/2033 until 10/15/2041	3,669,647	3,994,125
4.55%, 1/15/2041	225,334	244,510
4.625%, 5/15/2041	101,924	110,574
5.0%, with various maturities from 12/15/2032 until 4/15/2042	3,635,702	4,014,588
5.5%, with various maturities from 10/15/2032 until 7/20/2040	4,189,143	4,699,669
6.0%, with various maturities from 2/15/2034 until 2/15/2039	3,982,615	4,623,935
6.5%, with various maturities from 9/15/2036 until 2/15/2039	440,488	500,934
7.0%, with various maturities from 2/20/2027 until 11/15/2038	107,360	111,117
7.5%, 10/20/2031	4,159	4,760
Total Mortgage-Backed Securities Pass-Throughs (Cost $50,113,940)		**50,807,603**

	Principal Amount ($)(a)	Value ($)
Collateralized Mortgage Obligations 15.7%		
Federal Home Loan Mortgage Corp.:		
"OA", Series 3179, Principal Only, Zero Coupon, 7/15/2036	104,427	93,641
"YI", Series 3936, Interest Only, 3.0%, 6/15/2025	38,161	1,387
"AI", Series 4016, Interest Only, 3.0%, 9/15/2025	601,009	35,424
"WI", Series 3939, Interest Only, 3.0%, 10/15/2025	195,749	9,736
"EI", Series 3953, Interest Only, 3.0%, 11/15/2025	289,999	16,200
"IO", Series 3974, Interest Only, 3.0%, 12/15/2025	107,739	7,396
"DI", Series 4010, Interest Only, 3.0%, 2/15/2027	87,490	7,418
"IK", Series 4048, Interest Only, 3.0%, 5/15/2027	935,470	86,469
"CZ", Series 4113, 3.0%, 9/15/2042	341,266	311,423
"PL", Series 4627, 3.0%, 10/15/2046	500,000	477,445
"IK", Series 3754, Interest Only, 3.5%, 6/15/2025	446,273	26,457
"22", Series 243, Interest Only, 3.852%*, 6/15/2021	63,080	1,380
"PI", Series 3940, Interest Only, 4.0%, 2/15/2041	356,840	52,648
"C1", Series 329, Interest Only, 4.0%, 12/15/2041	1,053,922	189,072
"UA", Series 4298, 4.0%, 2/15/2054	164,595	165,824
"C32", Series 303, Interest Only, 4.5%, 12/15/2042	1,086,946	229,588
"C28", Series 303, Interest Only, 4.5%, 1/15/2043	1,311,361	278,087
"MI", Series 3871, Interest Only, 6.0%, 4/15/2040	64,427	6,456
"IJ", Series 4472, Interest Only, 6.0%, 11/15/2043	453,057	108,288
"DS", Series 3199, Interest Only, 6.446%*, 8/15/2036	1,210,732	236,653
"A", Series 172, Interest Only, 6.5%, 1/1/2024	10,166	1,572
"C22", Series 324, Interest Only, 6.5%, 4/15/2039	605,485	149,735
"S", Series 2416, Interest Only, 7.396%*, 2/15/2032	150,582	31,815
"ST", Series 2411, Interest Only, 8.046%*, 6/15/2021	41,468	1,878
"KS", Series 2064, Interest Only, 9.446%*, 5/15/2022	143,346	24,031
Federal National Mortgage Association:		
"DI", Series 2011-136, Interest Only, 3.0%, 1/25/2026	94,427	5,729
"IB", Series 2013-35, Interest Only, 3.0%, 4/25/2033	609,532	97,520
"Z", Series 2013-44, 3.0%, 5/25/2043	99,822	92,661
"HI", Series 2010-123, Interest Only, 3.5%, 3/25/2024	85,264	1,713
"KI", Series 2011-72, Interest Only, 3.5%, 3/25/2025	246,671	3,915
''IO", Series 2012-146, Interest Only, 3.5%, 1/25/2043	1,323,029	256,077
"4", Series 406, Interest Only, 4.0%, 9/25/2040	251,853	49,789
"25", Series 351, Interest Only, 4.5%, 5/25/2019	41,089	1,465
"21", Series 334, Interest Only, 5.0%, 3/25/2018	9,130	168
"20", Series 334, Interest Only, 5.0%, 3/25/2018	14,483	262
''23", Series 339, Interest Only, 5.0%, 6/25/2018	20,462	400
"26", Series 381, Interest Only, 5.0%, 12/25/2020	18,678	1,099
"IO", Series 2016-26, Interest Only, 5.0%, 5/25/2046	1,189,891	236,425
"PJ", Series 2004-46, Interest Only, 5.244%*, 3/25/2034	184,804	22,166
"30", Series 381, Interest Only, 5.5%, 11/25/2019	90,203	4,869
"PI", Series 2009-14, Interest Only, 5.5%, 3/25/2024	2,029,376	155,587

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

	Principal Amount ($)(a)	Value ($)
"UI", Series 2010-126, Interest only, 5.5%, 10/25/2040	489,379	102,852
"IO", Series 2014-70, Interest Only, 5.5%, 10/25/2044	637,807	158,345
"BI", Series 2015-97, Interest Only, 5.5%, 1/25/2046	534,507	119,769
"WI", Series 2011-59, Interest Only, 6.0%, 5/25/2040	113,408	7,439
"SJ", Series 2007-36, Interest Only, 6.014%*, 4/25/2037	92,379	13,788
"101", Series 383, Interest Only, 6.5%, 9/25/2022	452,889	50,467
"SA", Series G92-57, IOette, 78.551%*, 10/25/2022	17,633	27,102
Government National Mortgage Association:		
"PB", Series 2012-90, 2.5%, 7/20/2042	515,988	454,279
"JI", Series 2013-10, Interest Only, 3.5%, 1/20/2043	589,625	104,575
"ID", Series 2013-70, Interest only, 3.5%, 5/20/2043	286,248	50,674
"BI", Series 2014-22, Interest Only, 4.0%, 2/20/2029	572,305	58,863
"IP", Series 2015-50, Interest Only, 4.0%, 9/20/2040	1,269,035	125,760
"PI", Series 2015-40, Interest Only, 4.0%, 4/20/2044	369,117	55,490
"LI", Series 2009-104, Interest Only, 4.5%, 12/16/2018	46,401	1,490
"NI", Series 2010-44, Interest Only, 4.5%, 10/20/2037	99,092	2,595
"CI", Series 2010-87, Interest Only, 4.5%, 11/20/2038	1,251,588	153,405
"PI", Series 2014-108, Interest Only, 4.5%, 12/20/2039	285,327	47,588
"MI", Series 2010-169, Interest Only, 4.5%, 8/20/2040	364,978	45,955
"IP", Series 2014-115, Interest Only, 4.5%, 2/20/2044	195,534	35,218
"GZ", Series 2005-24, 5.0%, 3/20/2035	602,092	678,852
"ZA", Series 2005-75, 5.0%, 10/16/2035	677,344	761,290
"MZ", Series 2009-98, 5.0%, 10/16/2039	1,215,396	1,410,770
"BS", Series 2011-93, Interest Only, 5.393%*, 7/16/2041	740,865	123,467
"AI", Series 2008-46, Interest Only, 5.5%, 5/16/2023	46,037	1,883
"GI", Series 2003-19, Interest Only, 5.5%, 3/16/2033	414,961	80,029
"IB", Series 2010-130, Interest Only, 5.5%, 2/20/2038	105,198	18,834
"IA", Series 2012-64, Interest Only, 5.5%, 5/16/2042	245,425	55,999
"SA", Series 2012-84, Interest Only, 5.561%*, 12/20/2038	708,320	64,865
"QA", Series 2007-57, Interest Only, 5.761%*, 10/20/2037	159,230	27,688
"DI", Series 2009-10, Interest Only, 6.0%, 4/16/2038	170,217	28,278
"IP", Series 2009-118, Interest Only, 6.5%, 12/16/2039	42,776	10,605
"SK", Series 2003-11, Interest Only, 6.993%*, 2/16/2033	273,983	43,229
"IC", Series 1997-4, Interest Only, 7.5%, 3/16/2027	327,656	74,384
Total Collateralized Mortgage Obligations (Cost $7,701,470)		**8,475,695**

Commercial Mortgage-Backed Security 1.1%

	Principal Amount ($)(a)	Value ($)
FHLMC Multifamily Structured Pass-Through Certificates, "A2", Series K050, 3.334%, 8/25/2025 (Cost $597,399)	580,000	**600,922**

Corporate Bond 1.8%

Financials

	Principal Amount ($)(a)	Value ($)
National Australia Bank Ltd., 144A, 2.4%, 12/7/2021 (Cost $997,710)	1,000,000	**994,654**

Government & Agency Obligations 6.0%

Other Government Related (c) 1.2%

	Principal Amount ($)(a)	Value ($)
Province of New Brunswick Canada, 3.8%, 8/14/2045 CAD	800,000	**621,446**

U.S. Government Sponsored Agency 1.1%

	Principal Amount ($)(a)	Value ($)
Federal Home Loan Mortgage Corp., 6.25%, 7/15/2032	450,000	**619,263**

U.S. Treasury Obligation 3.7%

	Principal Amount ($)(a)	Value ($)
U.S. Treasury Note, 0.75%, 10/31/2017 (d)	2,000,000	**1,998,204**
Total Government & Agency Obligations (Cost $3,280,828)		**3,238,913**

Short-Term U.S. Treasury Obligation 1.6%

	Principal Amount ($)(a)	Value ($)
U.S. Treasury Bill, 0.4%**, 2/9/2017 (e) (Cost $879,619)	880,000	**879,595**

Cash Equivalents 16.7%

	Shares	Value ($)
Deutsche Central Cash Management Government Fund, 0.49% (f) (Cost $9,017,503)	9,017,503	**9,017,503**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $72,588,469)†	136.7	**74,014,885**
Other Assets and Liabilities, Net	(36.7)	**(19,879,518)**
Net Assets	100.0	**54,135,367**

* These securities are shown at their current rate as of December 31, 2016.

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

† The cost for federal income tax purposes was $72,588,469. At December 31, 2016, net unrealized appreciation for all securities based on tax cost was $1,426,416. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $2,103,989 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $677,573.

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

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

(b) When-issued or delayed delivery securities included.

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

(d) At December 31, 2016, this security has been pledged, in whole or in part, to cover initial margin requirements for open centrally cleared swap contracts.

(e) At December 31, 2016, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

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

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

Interest Only: Interest Only (IO) bonds represent the "interest only" portion of payments on a pool of underlying mortgages or mortgage-backed securities. IO securities are subject to prepayment risk of the pool of underlying mortgages.

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.

Principal Only: Principal Only (PO) bonds represent the "principal only" portion of payments on a pool of underlying mortgages or mortgage-backed securities.

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

At December 31, 2016, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation ($)
Ultra 10 Year U.S. Treasury Note	USD	3/22/2017	13	1,742,813	**23,235**

At December 31, 2016, open futures contracts sold were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation/ (Depreciation) ($)
10 Year U.S. Treasury Note	USD	3/22/2017	6	745,688	(591)
2 Year U.S. Treasury Note	USD	3/31/2017	22	4,767,125	3,394
Federal Republic of Germany Euro-Bund	EUR	3/8/2017	13	2,246,303	(23,828)
U.S. Treasury Long Bond	USD	3/22/2017	11	1,657,219	17,250
Ultra Long U.S. Treasury Bond	USD	3/22/2017	10	1,602,500	(11,265)
Total net unrealized depreciation					**(15,040)**

At December 31, 2016, open interest rate swap contracts were as follows:

Centrally Cleared Swaps

Effective/ Expiration Dates	Notional Amount	Currency	Cash Flows Paid by the Fund	Cash Flows Received by the Fund	Value ($)	Unrealized Depreciation ($)
9/16/2015 9/17/2017	7,500,000	USD	Fixed — 1.0%	Floating — 3-Month LIBOR	(13,117)	(24,449)
3/15/2017 3/15/2027	200,000	USD	Fixed — 1.75%	Floating — 3-Month LIBOR	11,022	(533)
3/15/2017 3/15/2047	300,000	USD	Fixed — 2.25%	Floating — 3-Month LIBOR	22,067	(5,177)
12/14/2016 12/14/2046	640,000	CAD	Fixed — 2.386%	Floating — 3-Month CDOR	(4,994)	(4,994)
6/15/2016 6/15/2026	1,000,000	USD	Floating — 3-Month LIBOR	Fixed — 2.25%	(5,709)	(57,332)
Total unrealized depreciation						**(92,485)**

Bilateral Swaps

Effective/ Expiration Dates	Notional Amount	Currency	Cash Flows Paid by the Fund	Cash Flows Received by the Fund	Value ($)	Upfront Payments Paid/ (Received) ($)	Unrealized Depreciation ($)
12/23/2016 12/23/2026	13,500,000[1]	SEK	Fixed — 1.173%	Floating — 3-Month STIBOR	(12,823)	—	**(12,823)**

CDOR: Canadian Dollar Offered Rate; 3-Month CDOR rate at December 31, 2016 is 0.95%.

LIBOR: London Interbank Offered Rate; 3-Month LIBOR rate at December 31, 2016 is 1.00%.

STIBOR: Stockholm Interbank Offered Rates; 3-Month STIBOR rate at December 31, 2016 is –0.59%.

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

At December 31, 2016, open total return swap contracts were as follows:

Bilateral Swaps

Expiration Date	Notional Amount ($)	Fixed Cash Flows Received	Pay/Receive Return of the Reference Index	Value ($)	Upfront Payments Paid/(Received) ($)	Unrealized Depreciation ($)
1/12/2041	481,445[2]	4.0%	Markit IOS INDEX FN30.400.10	(152)	—	(152)
1/12/2041	481,445[3]	4.0%	Markit IOS INDEX FN30.400.10	(152)	—	(152)
Total unrealized depreciation						**(304)**

Counterparties:

1 Danske Bank AS

2 Credit Suisse

3 Goldman Sachs & Co.

As of December 31, 2016, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
EUR	898,955	USD	967,842	2/17/2017	**19,305**	Nomura International PLC

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
USD	962,487	EUR	898,955	2/17/2017	(13,950)	Barclays Bank PLC
CAD	910,714	USD	678,079	2/17/2017	(600)	Merrill Lynch & Co., Inc.
Total unrealized depreciation					**(14,550)**	

Currency Abbreviations

CAD	Canadian Dollar	USD	United States Dollar	EUR	Euro	SEK	Swedish Krona

For information on the Fund's policy and additional disclosures regarding futures contracts, interest rate swap contracts, total return swap contracts and forward foreign currency exchange 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, 2016 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Fixed-Income Investments (g)				
Mortgage-Backed Securities Pass-Throughs	$ —	$ 50,807,603	$ —	$ 50,807,603
Collateralized Mortgage Obligations	—	8,475,695	—	8,475,695
Commercial Mortgage-Backed Securities	—	600,922	—	600,922
Corporate Bond	—	994,654	—	994,654
Government & Agency Obligations	—	3,238,913	—	3,238,913
Short-Term U.S. Treasury Obligations	—	879,595	—	879,595
Short-Term Investments	9,017,503	—	—	9,017,503
Derivatives (h)				
Futures Contracts	43,879	—	—	43,879
Forward Foreign Currency Exchange Contracts	—	19,305	—	19,305
Total	**$ 9,061,382**	**$ 65,016,687**	**$ —**	**$ 74,078,069**

Liabilities	Level 1	Level 2	Level 3	Total
Derivatives (h)				
Futures Contracts	$ (35,684)	$ —	$ —	$ (35,684)
Interest Rate Swap Contracts	—	(105,308)	—	(105,308)
Total Return Swap Contracts	—	(304)	—	(304)
Forward Foreign Currency Exchange Contracts	—	(14,550)	—	(14,550)
Total	**$ (35,684)**	**$ (120,162)**	**$ —**	**$ (155,846)**

There have been no transfers between fair value measurement levels during the year ended December 31, 2016.

(g) See Investment Portfolio for additional detailed categorizations.

(h) Derivatives include unrealized appreciation (depreciation) on open futures contracts, interest rate swap contracts, total return swap contracts and forward foreign currency exchange contracts.

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

Statement of Assets and Liabilities

as of December 31, 2016

Assets		
Investments		
Investments in non-affiliated securities, at value (cost $63,570,966)	$	64,997,382
Investment in Deutsche Central Cash Management Government Fund (cost $9,017,503)		9,017,503
Total investments in securities, at value (cost $72,588,469)		74,014,885
Cash		7,502
Foreign currency, at value (cost $42,010)		42,156
Receivable for investments sold		2,498
Receivable for investments sold — when-issued/delayed delivery securities		3,045,342
Receivable for Fund shares sold		3,035
Interest receivable		283,011
Receivable for variation margin on centrally cleared swaps		4,686
Unrealized appreciation on forward foreign currency exchange contracts		19,305
Other assets		1,748
Total assets		77,424,168
Liabilities		
Payable for investments purchased — when-issued/delayed delivery securities		23,041,258
Payable for Fund shares redeemed		49,857
Payable for variation margin on futures contracts		15,683
Unrealized depreciation on bilateral swap contracts		13,127
Unrealized depreciation on forward foreign currency exchange contracts		14,550
Accrued management fee		31,846
Accrued Trustees' fees		1,576
Other accrued expenses and payables		120,904
Total liabilities		23,288,801
Net assets, at value	**$**	**54,135,367**
Net Assets Consist of		
Undistributed net investment income		1,284,868
Unrealized appreciation (depreciation) on:		
Investments		1,426,416
Swap contracts		(105,612)
Futures		8,195
Foreign currency		4,885
Accumulated net realized gain (loss)		(850,765)
Paid-in capital		52,367,380
Net assets, at value	**$**	**54,135,367**
Class A		
Net Asset Value, offering and redemption price per share ($51,740,865 ÷ 4,598,638 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**11.25**
Class B		
Net Asset Value, offering and redemption price per share ($2,394,502 ÷ 213,112 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**11.24**

Statement of Operations

for the year ended December 31, 2016

Investment Income		
Income:		
Interest (net of foreign taxes withheld of $71)	$	1,658,916
Income distributions — Deutsche Central Cash Management Government Fund		36,035
Securities lending income, net of borrower rebates		1,344
Other income		28,966
Total income		1,725,261
Expenses:		
Management fee		276,720
Administration fee		61,493
Services to shareholders		1,339
Record keeping fees (Class B)		2,553
Distribution service fees (Class B)		6,570
Custodian fee		30,639
Professional fees		81,943
Reports to shareholders		25,338
Trustees' fees and expenses		4,519
Other		48,682
Total expenses before expense reductions		539,796
Expense reductions		(173,536)
Total expenses after expense reductions		366,260
Net investment income		**1,359,001**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		693,234
Swap contracts		(247,778)
Futures		(854,282)
Written options		28,320
Foreign currency		584
Payment by affiliate (see Note G)		9,350
		(370,572)
Change in net unrealized appreciation (depreciation) on:		
Investments		(885,000)
Swap contracts		637,779
Futures		100,175
Written options		(28,320)
Foreign currency		4,885
		(170,481)
Net gain (loss)		**(541,053)**
Net increase (decrease) in net assets resulting from operations	**$**	**817,948**

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

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2016	2015
Operations:		
Net investment income	$ 1,359,001	$ 1,915,259
Net realized gain (loss)	(370,572)	360,503
Change in net unrealized appreciation (depreciation)	(170,481)	(2,269,736)
Net increase (decrease) in net assets resulting from operations	817,948	6,026
Distributions to shareholders from:		
Net investment income:		
Class A	(1,846,498)	(2,287,159)
Class B	(72,152)	(68,234)
Total distributions	(1,918,650)	(2,355,393)
Fund share transactions:		
Class A		
Proceeds from shares sold	2,898,041	7,621,170
Reinvestment of distributions	1,846,498	2,287,159
Payments for shares redeemed	(18,364,955)	(27,899,252)
Net increase (decrease) in net assets from Class A share transactions	(13,620,416)	(17,990,923)
Class B		
Proceeds from shares sold	226,087	247,684
Reinvestment of distributions	72,152	68,234
Payments for shares redeemed	(503,123)	(610,489)
Net increase (decrease) in net assets from Class B share transactions	(204,884)	(294,571)
Increase (decrease) in net assets	(14,926,002)	(20,634,861)
Net assets at beginning of period	69,061,369	89,696,230
Net assets at end of period (including undistributed net investment income of $1,284,868 and $1,956,284, respectively)	**$ 54,135,367**	**$ 69,061,369**

Other Information		
Class A		
Shares outstanding at beginning of period	5,786,470	7,344,193
Shares sold	253,037	659,618
Shares issued to shareholders in reinvestment of distributions	163,697	199,403
Shares redeemed	(1,604,566)	(2,416,744)
Net increase (decrease) in Class A shares	(1,187,832)	(1,557,723)
Shares outstanding at end of period	**4,598,638**	**5,786,470**
Class B		
Shares outstanding at beginning of period	231,100	256,223
Shares sold	19,740	21,476
Shares issued to shareholders in reinvestment of distributions	6,391	5,944
Shares redeemed	(44,119)	(52,543)
Net increase (decrease) in Class B shares	(17,988)	(25,123)
Shares outstanding at end of period	**213,112**	**231,100**

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

Financial Highlights

Class A	2016	2015	2014	2013	2012
			Years Ended December 31,		
Selected Per Share Data					
Net asset value, beginning of period	**$11.48**	**$11.80**	**$11.47**	**$12.69**	**$13.12**
Income (loss) from investment operations:					
Net investment income[a]	.25	.27	.29	.24	.34
Net realized and unrealized gain (loss)	(.13)	(.26)	.31	(.59)	.03
Total from investment operations	.12	.01	.60	(.35)	.37
Less distributions from:					
Net investment income	(.35)	(.33)	(.27)	(.37)	(.52)
Net realized gains	—	—	—	(.50)	(.28)
Total distributions	(.35)	(.33)	(.27)	(.87)	(.80)
Net asset value, end of period	**$11.25**	**$11.48**	**$11.80**	**$11.47**	**$12.69**
Total Return (%)[b]	1.06	.06	5.29	(3.04)	2.93
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	52	66	87	96	121
Ratio of expenses before expense reductions (%)	.86	.74	.72	.71	.68
Ratio of expenses after expense reductions (%)	.58	.68	.70	.67	.66
Ratio of net investment income (%)	2.22	2.33	2.49	2.05	2.65
Portfolio turnover rate (%)	521	376	393	794	796

a Based on average shares outstanding during the period.

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

Class B	2016	2015	2014	2013	2012
			Years Ended December 31,		
Selected Per Share Data					
Net asset value, beginning of period	**$11.46**	**$11.79**	**$11.46**	**$12.67**	**$13.10**
Income (loss) from investment operations:					
Net investment income[a]	.21	.23	.25	.20	.29
Net realized and unrealized gain (loss)	(.12)	(.27)	.31	(.59)	.03
Total from investment operations	.09	(.04)	.56	(.39)	.32
Less distributions from:					
Net investment income	(.31)	(.29)	(.23)	(.32)	(.47)
Net realized gains	—	—	—	(.50)	(.28)
Total distributions	(.31)	(.29)	(.23)	(.82)	(.75)
Net asset value, end of period	**$11.24**	**$11.46**	**$11.79**	**$11.46**	**$12.67**
Total Return (%)[b]	.79	(.36)	4.95	(3.25)	2.48
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	2	3	3	4	5
Ratio of expenses before expense reductions (%)	1.21	1.09	1.06	1.06	1.03
Ratio of expenses after expense reductions (%)	.93	1.03	1.03	.99	1.01
Ratio of net investment income (%)	1.88	1.99	2.16	1.71	2.29
Portfolio turnover rate (%)	521	376	393	794	796

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 ("U.S. GAAP") which require the use of management estimates. Actual results could differ from those estimates. The Fund qualifies as an investment company under Topic 946 of Accounting Standards Codification of U.S. GAAP. 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.

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 its securities lending agreement. During the term of the loans, the Fund 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 securities lending agreement. During the year ended December 31, 2016, the Fund invested the cash collateral into a joint trading account in affiliated money market funds, including Government & Agency Securities Portfolio, managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.09% annualized effective rate as of December 31, 2016) on the cash collateral invested in Government & Agency Securities Portfolio. 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 at any time, and the borrower, after notice, is required to return borrowed securities within a standard time period. 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, 2016, the Fund had no securities on loan.

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, 2016, the Fund had net tax basis capital loss carryforwards of approximately $843,000 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, 2016 and has determined that no provision for income tax and/or uncertain tax provisions is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

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

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

At December 31, 2016, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 1,270,530
Capital loss carryforward	$ (843,000)
Unrealized appreciation (depreciation) on investments	$ 1,426,416

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

	Years Ended December 31, 2016	2015
Distributions from ordinary income*	$ 1,918,650	$ 2,355,393

* 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.

Total Return Swap Contracts. Total return swaps involve commitments to pay interest in exchange for a market-linked return based on a notional amount. One counterparty pays out the total return of the reference security or index underlying the total return swap, and in return receives a fixed or variable rate. As a receiver, the Fund would receive payments based on any positive total return and would owe payments in the event of a negative total return. As the payer, the Fund would owe payments on any net positive total return, and would receive payments in the event of a negative total return. For the year ended December 31, 2016, the Fund entered into total return swap transactions as a means of gaining exposure to a particular asset class without investing directly in such asset class.

A summary of the open total return swap contracts as of December 31, 2016 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2016, the investment in total return swap contracts had a total notional amount generally indicative of a range from $0 to approximately $2,357,000.

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, 2016, 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, 2016 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2016, the investment in interest rate swap contracts had a total notional amount generally indicative of a range from $8,500,000 to $45,034,000.

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, 2016, 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 purchased or written option contracts as of December 31, 2016. For the year ended December 31, 2016, the investment in written option contracts had a total value of $0.

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, 2016, 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, 2016, is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2016, the investment in futures contracts purchased had a total notional value generally indicative of a range from $0 to approximately $12,578,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from $6,231,000 to approximately $16,972,000.

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, 2016, the Fund entered into forward currency contracts in order to hedge its exposure to changes in foreign currency exchange rates on its foreign currency denominated portfolio holdings and 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, 2016 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2016, 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 $1,646,000, 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 $962,000.

The following tables summarize the value of the Fund's derivative instruments held as of December 31, 2016 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivatives	**Forward Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (a)	$ —	$ 43,879	$ 43,879
Foreign Exchange Contracts (b)	19,305	—	19,305
	$ 19,305	**$ 43,879**	**$ 63,184**

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

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

(b) Unrealized appreciation on forward foreign currency exchange contracts

Liability Derivatives	**Forward Contracts**	**Swap Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (a) (b)	$ —	$ (105,612)	$ (35,684)	$ (141,296)
Foreign Exchange Contracts (c)	(14,550)	—	—	(14,550)
	$ (14,550)	**$ (105,612)**	**$ (35,684)**	**$ (155,846)**

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) Unrealized depreciation on bilateral swap contracts

(c) Unrealized depreciation on forward foreign currency exchange contracts

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the year ended December 31, 2016 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	Written Options	Swap Contracts	Futures Contracts	Total
Interest Rate Contracts (a)	$ 28,320	$ (247,778)	$ (854,282)	$ (1,073,740)

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

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

Change in Net Unrealized Appreciation (Depreciation)	Written Options	Forward Contracts	Swap Contracts	Futures Contracts	Total
Interest Rate Contracts (a)	$ (28,320)	$ —	$ 637,779	$ 100,175	$ 709,634
Foreign Exchange Contracts (b)	—	4,755	—	—	4,755
	$ (28,320)	**$ 4,755**	**$ 637,779**	**$ 100,175**	**$ 714,389**

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

(a) Change in net unrealized appreciation (depreciation) from 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, 2016, 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
Nomura International PLC	**$ 19,305**	**$ —**	**$ —**	**$ 19,305**

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
Barclays Bank PLC	$ 13,950	$ —	$ —	$ 13,950
Credit Suisse	152	—	—	152
Danske Bank AS	12,823	—	—	12,823
Goldman Sachs & Co.	152	—	—	152
Merrill Lynch & Co., Inc.	600	—	—	600
	$ 27,677	**$ —**	**$ —**	**$ 27,677**

C. Purchases and Sales of Securities

During the year ended December 31, 2016, purchases and sales of investment securities (excluding short-term investments and U.S. Treasury securities) aggregated $356,216,507 and $362,548,280, respectively. Purchases and sales of U.S. Treasury securities aggregated $16,670,360 and $17,575,479, respectively.

For the year ended December 31, 2016, transactions for written options on interest rate swap contracts were as follows:

	Contract Amount	Premiums
Outstanding, beginning of period	2,400,000	$ 28,320
Options expired	(2,400,000)	(28,320)
Outstanding, end of period	**—**	**$ —**

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, 2016, 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, 2016 through April 30, 2017, 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	.58%
Class B	.93%

For the year ended December 31, 2016, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 166,135
Class B	7,401
	$ 173,536

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, 2016, the Administration Fee was $61,493, of which $4,649 is unpaid.

Service Provider Fees. Deutsche AM 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, 2016, the amounts charged to the Fund by DSC were as follows:

	Total Aggregated	Unpaid at December 31, 2016
Class A	$ 272	$ 68
Class B	52	13
	$ 324	**$ 81**

Distribution Service Agreement. Under the Fund's Class B 12b-1 plan, Deutsche AM 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, 2016, the Distribution Service Fee aggregated $6,570, of which $507 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, 2016, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $12,996, of which $5,241 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 Deutsche Central Cash Management Government Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. 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. Deutsche Central Cash Management Government 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. Deutsche Central Cash Management Government 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, 2016, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $116.

E. Ownership of the Fund

At December 31, 2016, 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 34%. One participating insurance company was the owner of record of 10% or more of the total outstanding Class B shares of the Fund, owning 95%.

F. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if 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, 2016.

G. Payment by Affiliate

During the year ended December 31, 2016, the Advisor agreed to reimburse the Fund $9,350 for a loss incurred on a trade executed incorrectly. The amount of the loss was 0.015% of the Fund's average net assets.

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, 2016, 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, 2016, 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, 2016, 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 14, 2017

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, 2016 to December 31, 2016).

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, 2016

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/16	$1,000.00	$1,000.00
Ending Account Value 12/31/16	$ 990.30	$ 989.40
Expenses Paid per $1,000*	$ 2.90	$ 4.65
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/16	$1,000.00	$1,000.00
Ending Account Value 12/31/16	$1,022.22	$1,020.46
Expenses Paid per $1,000*	$ 2.95	$ 4.72

* 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 366.

Annualized Expense Ratios	**Class A**	**Class B**
Deutsche Variable Series II — Deutsche Government & Agency Securities VIP	.58%	.93%

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 most recent 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 (hereinafter referred to as the "Board" or "Trustees") approved the renewal of Deutsche Government & Agency Securities VIP's (the "Fund") investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2016.

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

— During the entire process, all of the Fund's Trustees were independent of DIMA and its affiliates (the "Independent Trustees").

— The Board 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 extensive 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 Management ("Deutsche AM") division. Deutsche AM 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 Board 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 invest in Deutsche AM and seek to enhance Deutsche AM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AM 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 and the resources made available to such personnel. 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, 2015, the Fund's performance (Class A shares) was in the 4th 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 underperformed its benchmark in the one-, three- and five-year periods ended December 31, 2015. 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 Broadridge Financial Solutions, Inc. ("Broadridge") 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 Broadridge peer group (based on Broadridge data provided as of December 31, 2015). 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 Broadridge expense universe (based on Broadridge data provided as of December 31, 2015, and analyzing Broadridge expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Broadridge Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Broadridge 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 AM. The Board noted that DIMA indicated that Deutsche AM 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, seniority and time commitment of the individuals serving as DIMA's and the Fund's chief compliance officers; (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 Independent 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 Keith R. Fox, Deutsche Funds Board Chair, c/o Thomas R. Hiller, Ropes & Gray LLP, Prudential Tower, 800 Boylston Street, Boston, MA 02199-3600. 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
Keith R. Fox, CFA (1954) Chairperson since 2017,[2] and 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)	98	—
Kenneth C. Froewiss (1945) Vice Chairperson since 2017,[2] Board Member since 2001, and Chairperson (2013–December 31, 2016)	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)	98	—
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.[3] (population well-being and wellness services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International	98	Portland General Electric[3] (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); The Pew Charitable Trusts (charitable organization); former Directorships: Becton Dickinson and Company[3] (medical technology company); Belo Corporation[3] (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)	98	—
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: Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: ICI Mutual Insurance Company (2007–2015); Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	98	—
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	98	—

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; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006)	98	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004, and Vice Chairperson (2013–December 31, 2016)	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	98	—
Rebecca W. Rimel (1951) Board Member since 1995	President, Chief Executive Officer and Director, The Pew Charitable Trusts (charitable organization) (1994–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[3] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	98	Director, Becton Dickinson and Company[3] (medical technology company) (2012–present); Director, BioTelemetry Inc.[3] (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[3] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	98	—
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); former Directorships: The William and Flora Hewlett Foundation (charitable organization) (2000–2015); Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	98	—

Officers[5]

Name, Year of Birth, Position with the Fund and Length of Time Served[6]	Business Experience and Directorships During the Past Five Years
Brian E. Binder[9] (1972) President and Chief Executive Officer, 2013–present	Managing Director[4] and Head of US Product and Fund Administration, Deutsche Asset Management (2013–present); Director and President, Deutsche AM Service Company (since 2016); Director and Vice President, Deutsche AM Distributors, Inc. (since 2016); Director and President, DB Investment Managers, Inc. (since 2016); formerly, Head of Business Management and Consulting at Invesco, Ltd. (2010–2012)
John Millette[8] (1962) Vice President and Secretary, 1999–present	Director,[4] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (2015–present); and Director and Vice President, Deutsche AM Trust Company (since 2016)
Hepsen Uzcan[7] (1974) Vice President, since 2016 Assistant Secretary, 2013–present	Director,[4] Deutsche Asset Management
Paul H. Schubert[7] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[4] Deutsche Asset Management, and Chairman, Director and President, Deutsche AM Trust Company (since 2013); Vice President, Deutsche AM Distributors, Inc. (since 2016); formerly, Director, Deutsche AM Trust Company (2004–2013)
Caroline Pearson[8] (1962) Chief Legal Officer, 2010–present	Managing Director,[4] Deutsche Asset Management; Secretary, Deutsche AM Distributors, Inc.; and Secretary, Deutsche AM Service Company

Name, Year of Birth, Position with the Fund and Length of Time Served[6]	Business Experience and Directorships During the Past Five Years
Scott D. Hogan[8] (1970) Chief Compliance Officer, since 2016	Director,[4] Deutsche Asset Management
Wayne Salit[7] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[4] Deutsche Asset Management; AML Compliance Officer, Deutsche AM Distributors, Inc.; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Paul Antosca[8] (1957) Assistant Treasurer, 2007–present	Director,[4] Deutsche Asset Management
Diane Kenneally[8] (1966) Assistant Treasurer, 2007–present	Director,[4] 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 Effective as of January 1, 2017.

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

4 Executive title, not a board directorship.

5 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.

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

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

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

9 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

Notes

Deutsche
Asset Management

VS2GAS-2 (R-025831-6 2/17)

Deutsche
Asset Management

December 31, 2016

Annual Report

Deutsche Variable Series II

Deutsche Government Money Market VIP

(formerly Deutsche Money Market VIP)

Contents

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

An investment in this Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or by any other government agency. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the Fund. The share price of money market funds can fall below the $1.00 share price. You should not rely on or expect the Advisor to enter into support agreements or take other actions to maintain the Fund's $1.00 share price. The credit quality of the Fund's holdings can change rapidly in certain markets, and the default of a single holding could have an adverse impact on the Fund's share price. The Fund's share price can also be negatively affected during periods of high redemption pressures and/or illiquid markets. The actions of a few large investors in the Fund may have a significant adverse effect on the share price of the Fund. See the prospectus for specific details regarding the Fund's risk profile.

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

Deutsche AM 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, 2016 (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.

You could lose money by investing in the Fund. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Fund's sponsor has no legal obligation to provide financial support to the Fund, and you should not expect that the sponsor will provide financial support to the Fund at any time.

Generally accepted accounting principles require adjustments to be made to the net assets of the Fund at period end for financial reporting purposes only, and as such, the total return based on the unadjusted net asset value per share may differ from the total return reported in the financial highlights.

	7-Day Current Yield
December 31, 2016	.04%*
December 31, 2015	.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, 2016, the Fund provided a total return of 0.05% (Class A shares, unadjusted for contract charges). All performance is historical and does not guarantee future results. Yields fluctuate and are not guaranteed. On May 2, 2016, the fund changed its name to Deutsche Government Money Market VIP. The Fund now operates as a government money market fund and invests most of its assets in short-term government securities, repurchase agreements that are collateralized by government securities, and cash investments.

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] In December 2015, the Fed had taken its first step in the normalization of U.S. short-term rates as the central bank raised the federal funds rate by 25 basis points. In May 2016, comments from Fed officials were seen as hawkish, and at least two rate hikes in 2016 seemed imminent. However, in June, the government's non-farm payroll jobs report was extremely weak and short-term rates that had risen in anticipation of a federal funds rate increase came back down. In late June, the decision by British voters to leave the European Union shocked investors and rattled global markets. However, reassurances from central banks and the swift installation of a new British prime minister calmed investment markets. By the end of the third quarter, improved economic data had paved the way for an eventual Fed rate hike in December. Uncertainty regarding the U.S. presidential election rattled investment markets in the lead-up to November 8, but did not have a strong impact on short-term debt instruments. In the lead-up to the SEC's money market reform, enacted in mid-October, a gradual transfer of approximately $1 trillion in assets from prime money market funds to government money funds took place, which caused the money market yield curve to steepen dramatically. The transfer, although orderly, created a squeeze on short-term government money market supply and drove down the yields of short-term government securities.

We were able to maintain a competitive yield for the Fund during the annual period ended December 31, 2016. With government money market yields at increasingly low levels, the Fund held a large percentage of portfolio assets in agency and Treasury floating-rate securities linked to LIBOR in order to take advantage of an incremental rise in those rates.[2] At the same time, the Fund invested in overnight agency repurchase agreements for liquidity and looked for yield opportunities from six-month agency and Treasury securities.[3]

Within government money markets, we believe that heavy demand will persist and that near-term supply will be variable. In the weeks leading up to the March 15, 2017 deadline for the U.S. government's debt ceiling to be raised, short-term Treasury supply could potentially be reduced by $200 billion if an increase in the debt ceiling is not passed by Congress. In anticipation of the deadline, the Treasury Department has been scaling back its Treasury bill auctions to investors. We think that Congress will likely raise the debt ceiling, and that following the deadline, the Treasury Department will ramp up short-term Treasury supply and relieve some of the downward pressure on government money market yields. In addition, our current forecast is for the federal funds rate to be raised two to three additional times during 2017, which should create some upward pressure on short-term rates.

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 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 potential.

3 A repurchase agreement, or "overnight repo," is an agreement between a seller and a buyer, usually of government securities, where the seller agrees to repurchase the securities at a given price and usually at a stated time. Repos are widely used money market instruments that serve as an interest-bearing, short-term "parking place" for large sums of money.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio)	**12/31/16**	**12/31/15**
Government & Agency Obligations	58%	6%
Repurchase Agreements	42%	9%
Commercial Paper	—	40%
Certificates of Deposit and Bank Notes	—	23%
Municipal Bonds and Notes	—	13%
Short-Term Notes	—	5%
Time Deposits	—	4%
	100%	100%

Weighted Average Maturity	**12/31/16**	**12/31/15**
Deutsche Variable Series II — Deutsche Government Money Market VIP	29 days	29 days
Government & Agency Retail Money Fund Average*	36 days	33 days

* The Fund is compared to its respective iMoneyNet Category: Government & Agency Retail Money Fund Average — Category includes the most broadly based of the government retail funds. These funds may invest in U.S. Treasury securities, securities issued or guaranteed by the U.S. Government or its agencies or instrumentalities.

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.

Prior to May 2, 2016, this fund was known as Deutsche Money Market VIP. The Fund's strategy also changed at that time.

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.

Investment Portfolio

December 31, 2016

	Principal Amount ($)	Value ($)
Government & Agency Obligations 57.2%		
U.S. Government Sponsored Agencies 42.9%		
Federal Farm Credit Bank:		
0.801%*, 8/29/2017	2,000,000	2,001,024
0.824%*, 3/22/2017	1,500,000	1,499,983
0.854%*, 9/21/2017	500,000	500,000
Federal Home Loan Bank:		
0.3%**, 1/5/2017	2,000,000	1,999,934
0.356%**, 1/18/2017	1,500,000	1,499,752
0.455%*, 5/4/2017	1,750,000	1,750,000
0.458%**, 2/2/2017	2,500,000	2,499,000
0.458%**, 2/10/2017	1,000,000	999,500
0.554%**, 3/22/2017	1,500,000	1,498,183
0.554%**, 3/23/2017	2,500,000	2,496,934
0.569%**, 4/5/2017	1,500,000	1,497,807
0.585%**, 3/16/2017	1,000,000	998,818
0.59%**, 5/12/2017	1,500,000	1,496,834
0.624%*, 3/8/2018	750,000	750,000
0.661%**, 5/23/2017	500,000	498,718
0.671%*, 5/18/2017	1,000,000	1,000,000
0.771%*, 5/30/2018	1,000,000	1,000,000
0.839%*, 2/22/2017	2,000,000	2,000,679
Federal Home Loan Mortgage Corp.:		
0.376%**, 2/14/2017	2,500,000	2,498,869
0.396%*, 4/11/2017	1,500,000	1,500,000
0.397%**, 1/19/2017	1,500,000	1,499,708
0.478%**, 3/1/2017	3,000,000	2,997,689
0.483%**, 3/3/2017	1,500,000	1,498,793
0.488%**, 5/1/2017	1,000,000	998,400
0.489%*, 5/8/2017	1,500,000	1,500,000
0.508%**, 5/17/2017	1,000,000	998,111
0.567%*, 5/16/2017	1,200,000	1,200,000
0.716%*, 2/22/2018	1,000,000	1,000,000
0.914%*, 12/21/2017	4,500,000	4,500,000
Federal National Mortgage Association:		
0.417%**, 1/3/2017	1,500,000	1,499,966
0.417%**, 2/1/2017	1,000,000	999,647
0.442%**, 2/1/2017	2,000,000	1,999,251
Financing Corp., 0.797%**, 10/6/2017	1,816,000	1,805,011
		52,482,611
U.S. Treasury Obligations 14.3%		
U.S. Treasury Bills:		
0.4%**, 2/2/2017	2,000,000	1,999,301
0.428%**, 1/19/2017	500,000	499,895
0.437%**, 1/19/2017	500,000	499,893
0.498%**, 3/23/2017	1,000,000	998,898
U.S. Treasury Floating Rate Notes:		
0.63%*, 4/30/2017	4,000,000	3,998,668
0.633%*, 7/31/2017	2,500,000	2,499,066
0.746%*, 4/30/2018	2,500,000	2,500,083
0.828%*, 1/31/2018	2,500,000	2,501,008
U.S. Treasury Note, 0.875%, 2/28/2017	2,000,000	2,001,187
		17,497,999
Total Government & Agency Obligations (Cost $69,980,610)		**69,980,610**
Repurchase Agreements 41.7%		
Merrill Lynch & Co., Inc., 0.5%, dated 12/30/2016, to be repurchased at $20,101,117 on 1/3/2017 (a)	20,100,000	20,100,000
Nomura Securities International, 0.51%, dated 12/30/2016, to be repurchased at $8,000,453 on 1/3/2017 (b)	8,000,000	8,000,000
Wells Fargo Bank, 0.5%, dated 12/30/2016, to be repurchased at $23,001,278 on 1/3/2017 (c)	23,000,000	23,000,000
Total Repurchase Agreements (Cost $51,100,000)		**51,100,000**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $121,080,610)†	98.9	**121,080,610**
Other Assets and Liabilities, Net	1.1	**1,325,074**
Net Assets	100.0	**122,405,684**

* 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, 2016.

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

† The cost for federal income tax purposes was $121,080,610.

(a) Collateralized by $19,400,000 U.S. Treasury Inflation-Indexed Note, 0.125%, maturing on 4/15/2018 with a value of $20,502,052.

(b) Collateralized by $7,504,142 Federal National Mortgage Association with the various coupon rates from 2.39%–6.5%, with various maturity dates on 11/1/2026–12/1/2046 with a value of $8,160,000.

(c) Collateralized by $22,300,000 Federal National Mortgage Association, 4.0%, maturing on 1/1/2047 with a value of $23,460,001.

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. 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, 2016 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 (d)	$ —	$ 69,980,610	$ —	$ 69,980,610
Repurchase Agreements	—	51,100,000	—	51,100,000
Total	**$ —**	**$121,080,610**	**$ —**	**$121,080,610**

There have been no transfers between fair value measurement levels during the year ended December 31, 2016.

(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, 2016

Assets		
Investments:		
Investments in securities, valued at amortized cost	$	69,980,610
Repurchase agreements, valued at amortized cost		51,100,000
Total investments in securities, valued at amortized cost		121,080,610
Cash		1,536,210
Receivable for Fund shares sold		146,118
Interest receivable		26,795
Due from Advisor		1,177
Other assets		2,665
Total assets		122,793,575
Liabilities		
Payable for Fund shares redeemed		243,397
Distributions payable		2,029
Accrued management fee		2,704
Accrued Trustees' fees		2,391
Other accrued expenses and payables		137,370
Total liabilities		387,891
Net assets, at value	**$**	**122,405,684**
Net Assets Consist of		
Undistributed net investment income		14,915
Paid-in capital		122,390,769
Net assets, at value	**$**	**122,405,684**
Class A		
Net Asset Value, offering and redemption price per share ($122,405,684 ÷ 122,474,485 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**1.00**

Statement of Operations

for the year ended December 31, 2016

Investment Income		
Income:		
Interest	$	565,955
Other income		45,964
Total income		611,919
Expenses:		
Management fee		316,027
Administration fee		125,502
Services to shareholders		3,079
Custodian fee		12,397
Professional fees		51,426
Reports to shareholders		110,231
Trustees' fee and expenses		6,814
Other		15,638
Total expenses before expense reductions		641,114
Expense reductions		(92,895)
Total expenses after expense reductions		548,219
Net investment income		**63,700**
Net realized gain (loss) from investments		**14,243**
Net increase (decrease) in net assets resulting from operations	**$**	**77,943**

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

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2016	2015
Operations:		
Net investment income	$ 63,700	$ 15,996
Net realized gain (loss)	14,243	(122)
Net increase (decrease) in net assets resulting from operations	77,943	15,874
Distributions to shareholders from:		
Net investment income		
Class A	(63,706)	(15,989)
Fund share transactions:		
Class A		
Proceeds from shares sold	122,352,015	150,185,171
Reinvestment of distributions	62,278	16,193
Cost of shares redeemed	(134,243,063)	(193,027,682)
Net increase (decrease) in net assets from Class A share transactions	(11,828,770)	(42,826,318)
Increase (decrease) in net assets	(11,814,533)	(42,826,433)
Net assets at beginning of period	134,220,217	177,046,650
Net assets at end of period (including undistributed net investment income of $14,915 and $800, respectively)	**$ 122,405,684**	**$ 134,220,217**

Other Information		
Class A		
Shares outstanding at beginning of period	134,303,255	177,129,573
Shares sold	122,352,015	150,185,171
Shares issued to shareholders in reinvestment of distributions	62,278	16,193
Shares redeemed	(134,243,063)	(193,027,682)
Net increase (decrease) in Class A shares	(11,828,770)	(42,826,318)
Shares outstanding at end of period	**122,474,485**	**134,303,255**

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

Financial Highlights

Class A	Years Ended December 31, 2016	2015	2014	2013	2012
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	.001[b]	.000[*]	.000[*]	.000[*]	.000[*]
Net realized gain (loss)	.000[*]	(.000)[*]	.000[*]	.000[*]	.000[*]
Total from investment operations	.001	.000[*]	.000[*]	.000[*]	.000[*]
Less distributions from:					
Net investment income	(.001)	(.000)[*]	(.000)[*]	(.000)[*]	(.000)[*]
Net asset value, end of period	**$ 1.00**	**$ 1.00**	**$ 1.00**	**$ 1.00**	**$ 1.00**
Total Return (%)[a]	.05[b]	.01	.01	.01	.01
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	122	134	177	174	196
Ratio of expenses before expense reductions (%)	.51	.49	.49	.49	.45
Ratio of expenses after expense reductions (%)	.44	.25	.18	.20	.31
Ratio of net investment income (%)	.05[b]	.01	.01	.01	.01

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

b Includes a non-recurring payment for overbilling of prior years' custodian out-of-pocket fees. Excluding this payment, net investment income per share, total return, and ratio of net investment income to average net assets would have been reduced by $0.0004, 0.04%, and 0.04%, respectively.

* Amount is less than $.0005.

Notes to Financial Statements

A. Organization and Significant Accounting Policies

Deutsche Government Money Market VIP (formerly 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 ("U.S. GAAP") which require the use of management estimates. Actual results could differ from those estimates. The Fund qualifies as an investment company under Topic 946 of Accounting Standards Codification of U.S. GAAP. 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, 2016, the Fund held repurchase agreements with a gross value of $51,100,000. 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, 2016 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, 2016, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income	$	14,915

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

	Years Ended December 31, 2016	2015
Distributions from ordinary income	$ 63,706	$ 15,989

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.

Prior to May 1, 2016, under the Investment Management Agreement, the Fund paid the Advisor a monthly management fee based on its 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%

Effective May 1, 2016, under the Investment Management Agreement, the Fund pays the Advisor a monthly management fee based on its average daily net assets, computed and accrued daily and payable monthly, at the following annual rates:

First $500 million	.235%
Next $500 million	.220%
Next $1.0 billion	.205%
Over $2.0 billion	.190%

For the period from January 1, 2016 through September 30, 2017, 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, 2016, the fee pursuant to the Investment Management Agreement aggregated $316,027, of which $90,577 was waived, resulting in an annual effective rate of 0.18% 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, 2016, the Administration Fee was $125,502, of which $9,994 is unpaid.

Service Provider Fees. Deutsche AM 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, 2016, the amounts charged to the Fund by DSC aggregated $2,318, 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, 2016, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $11,431, of which $4,617 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, 2016, the Fund engaged in securities sales of $1,500,000 with an affiliated fund in compliance with Rule 17a-7 under the 1940 Act.

C. Ownership of the Fund

At December 31, 2016, 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%, 21% 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, 2016.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Deutsche Variable Series II and the Shareholders of Deutsche Government Money Market VIP:

We have audited the accompanying statement of assets and liabilities, including the investment portfolio, of Deutsche Government Money Market VIP (formerly: Deutsche Money Market VIP) (one of the funds constituting Deutsche Variable Series II) (the Fund) as of December 31, 2016, 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, 2016, 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 Government Money Market VIP (formerly: Deutsche Money Market VIP) (one of the funds constituting Deutsche Variable Series II) at December 31, 2016, 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 14, 2017

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, 2016 to December 31, 2016).

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, 2016

Actual Fund Return	**Class A**
Beginning Account Value 7/1/16	$1,000.00
Ending Account Value 12/31/16	$1,000.46
Expenses Paid per $1,000*	$ 2.11
Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 7/1/16	$1,000.00
Ending Account Value 12/31/16	$1,023.03
Expenses Paid per $1,000*	$ 2.14

* 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 366.

Annualized Expense Ratio	**Class A**
Deutsche Variable Series II — Deutsche Government Money Market VIP	.42%

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 most recent 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 (hereinafter referred to as the "Board" or "Trustees") approved the renewal of Deutsche Government Money Market VIP's (the "Fund") investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2016.

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

— During the entire process, all of the Fund's Trustees were independent of DIMA and its affiliates (the "Independent Trustees").

— The Board 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 extensive 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 Management ("Deutsche AM") division. Deutsche AM 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 Board 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 invest in Deutsche AM and seek to enhance Deutsche AM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AM 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 and the resources made available to such personnel. 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, 2015, the Fund's gross performance (Class A shares) was in the 1st quartile and 2nd quartile, respectively, of the applicable iMoneyNet universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board noted that the Fund's strategy was changed during the year in order to permit the Fund to operate as a “government money market fund” under applicable Securities and Exchange Commission rules.

Fees and Expenses. The Board considered the Fund’s investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Broadridge Financial Solutions, Inc. (“Broadridge”) 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 Broadridge peer group (based on Broadridge data provided as of December 31, 2015). The Board considered that the Fund’s management fee was reduced by 0.05% at all breakpoint levels in connection with the restructuring of the Fund 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 Broadridge expense universe (based on Broadridge data provided as of December 31, 2015, and analyzing Broadridge expense universe Class A (net) expenses less any applicable 12b-1 fees) (“Broadridge 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 AM. The Board noted that DIMA indicated that Deutsche AM 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, seniority and time commitment of the individuals serving as DIMA’s and the Fund’s chief compliance officers; (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 Independent 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 Keith R. Fox, Deutsche Funds Board Chair, c/o Thomas R. Hiller, Ropes & Gray LLP, Prudential Tower, 800 Boylston Street, Boston, MA 02199-3600. 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
Keith R. Fox, CFA (1954) Chairperson since 2017,[2] and 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)	98	—
Kenneth C. Froewiss (1945) Vice Chairperson since 2017,[2] Board Member since 2001, and Chairperson (2013–December 31, 2016)	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)	98	—
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.[3] (population well-being and wellness services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International	98	Portland General Electric[3] (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); The Pew Charitable Trusts (charitable organization); former Directorships: Becton Dickinson and Company[3] (medical technology company); Belo Corporation[3] (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)	98	—
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: Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: ICI Mutual Insurance Company (2007–2015); Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	98	—
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	98	—

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; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006)	98	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004, and Vice Chairperson (2013–December 31, 2016)	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	98	—
Rebecca W. Rimel (1951) Board Member since 1995	President, Chief Executive Officer and Director, The Pew Charitable Trusts (charitable organization) (1994–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[3] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	98	Director, Becton Dickinson and Company[3] (medical technology company) (2012–present); Director, BioTelemetry Inc.[3] (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[3] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	98	—
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); former Directorships: The William and Flora Hewlett Foundation (charitable organization) (2000–2015); Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	98	—

Officers[5]

Name, Year of Birth, Position with the Fund and Length of Time Served[6]	Business Experience and Directorships During the Past Five Years
Brian E. Binder[9] (1972) President and Chief Executive Officer, 2013–present	Managing Director[4] and Head of US Product and Fund Administration, Deutsche Asset Management (2013–present); Director and President, Deutsche AM Service Company (since 2016); Director and Vice President, Deutsche AM Distributors, Inc. (since 2016); Director and President, DB Investment Managers, Inc. (since 2016); formerly, Head of Business Management and Consulting at Invesco, Ltd. (2010–2012)
John Millette[8] (1962) Vice President and Secretary, 1999–present	Director,[4] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (2015–present); and Director and Vice President, Deutsche AM Trust Company (since 2016)
Hepsen Uzcan[7] (1974) Vice President, since 2016 Assistant Secretary, 2013–present	Director,[4] Deutsche Asset Management
Paul H. Schubert[7] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[4] Deutsche Asset Management, and Chairman, Director and President, Deutsche AM Trust Company (since 2013); Vice President, Deutsche AM Distributors, Inc. (since 2016); formerly, Director, Deutsche AM Trust Company (2004–2013)
Caroline Pearson[8] (1962) Chief Legal Officer, 2010–present	Managing Director,[4] Deutsche Asset Management; Secretary, Deutsche AM Distributors, Inc.; and Secretary, Deutsche AM Service Company

Name, Year of Birth, Position with the Fund and Length of Time Served[6]	Business Experience and Directorships During the Past Five Years
Scott D. Hogan[8] (1970) Chief Compliance Officer, since 2016	Director,[4] Deutsche Asset Management
Wayne Salit[7] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[4] Deutsche Asset Management; AML Compliance Officer, Deutsche AM Distributors, Inc.; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Paul Antosca[8] (1957) Assistant Treasurer, 2007–present	Director,[4] Deutsche Asset Management
Diane Kenneally[8] (1966) Assistant Treasurer, 2007–present	Director,[4] 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 Effective as of January 1, 2017.

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

4 Executive title, not a board directorship.

5 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.

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

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

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

9 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

Notes

Deutsche
Asset Management

VS2GMM-2 (R-025834-6 2/17)

Deutsche
Asset Management

December 31, 2016

Annual Report

Deutsche Variable Series II

Deutsche High Income VIP

Contents

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

Bond investments are subject to interest-rate, credit, liquidity and market risks to varying degrees. When interest rates rise, bond prices generally fall. Credit risk refers to the ability of an issuer to make timely payments of principal and interest. Investments in lower-quality ("junk bonds") and non-rated securities present greater risk of loss than investments in higher-quality securities. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. The Fund may lend securities to approved institutions. See the prospectus for details.

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

Deutsche AM 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

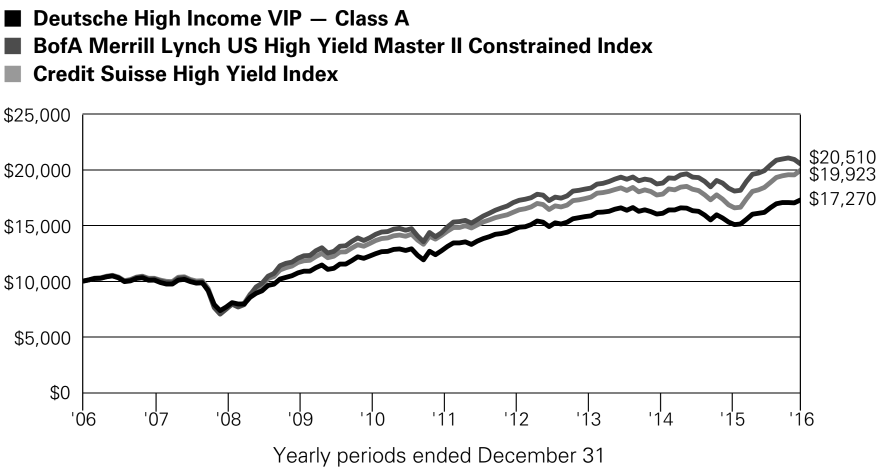
December 31, 2016 (Unaudited)

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, 2016 are 0.75% and 1.14% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

Generally accepted accounting principles require adjustments to be made to the net assets of the Fund at period end for financial reporting purposes only, and as such, the total return based on the unadjusted net asset value per share may differ from the total return reported in the financial highlights.

Growth of an Assumed $10,000 Investment in Deutsche High Income VIP



BofA Merrill Lynch US High Yield Master II Constrained Index tracks the performance of US dollar denominated below investment grade corporate debt publicly issued in the US domestic market.

The Credit Suisse High Yield Index tracks the performance of the global high-yield debt market.

On June 1, 2016, the BofA Merrill Lynch US High Yield Master II Constrained Index replaced the Credit Suisse High Yield Index as the fund's comparative broad-based securities market index because the Advisor believes the BofA Merrill Lynch US High Yield Master II Constrained Index more closely reflects the fund's investment strategies.

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	$11,287	$10,945	$13,572	$17,270
	Average annual total return	12.87%	3.05%	6.30%	5.62%
BofA Merrill Lynch US High Yield Master II Constrained Index	Growth of $10,000	$11,749	$11,488	$14,258	$20,510
	Average annual total return	17.49%	4.73%	7.35%	7.45%
Credit Suisse High Yield Index	Growth of $10,000	$11,826	$11,452	$14,126	$19,923
	Average annual total return	18.26%	4.62%	7.15%	7.14%

Deutsche High Income VIP		**1-Year**	**3-Year**	**5-Year**	**10-Year**
Class B	Growth of $10,000	$11,267	$10,841	$13,359	$16,748
	Average annual total return	12.67%	2.73%	5.96%	5.29%
BofA Merrill Lynch US High Yield Master II Constrained Index	Growth of $10,000	$11,749	$11,488	$14,258	$20,510
	Average annual total return	17.49%	4.73%	7.35%	7.45%
Credit Suisse High Yield Index	Growth of $10,000	$11,826	$11,452	$14,126	$19,923
	Average annual total return	18.26%	4.62%	7.15%	7.14%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2016 (Unaudited)

High-yield bonds gained 17.49% in 2016 based on the performance of the BofA Merrill Lynch US High Yield Master II Constrained Index, as the combination of recovering energy prices, improving economic growth and low global bond yields fueled hearty demand for higher-risk, income-producing securities.[1] Additionally, the market benefited from the combination of robust investment inflows and a decline in new issuance. While the Fund produced a strong absolute return of 12.87% during 2016 (Class A shares, unadjusted for contract charges), it nonetheless finished behind the benchmark.

The Fund's shortfall vs. the index stemmed from a mixture of sector allocation and individual security selection. The substantial gain of the high-yield market was largely driven by a recovery in higher-risk market segments, particularly the commodity-related energy and mining industries. While Fund performance was helped by selective exposure in the energy exploration and production industry, an underweight in the more speculative oil field equipment and services industry detracted.[2] The prices of many bonds rated CCC and below also surged during 2016, so the Fund's underweight in these lower-rated, higher-risk issues contributed to its underperformance.

The bonds of the mining company Teck Resources, Ltd. — which gained ground behind the rally in commodity prices and favorable moves by Teck's management to reduce debt — was one of our largest individual contributors.[3] The bonds of the energy exploration and production company Continental Resources, Inc. traded stronger, thanks to the improvement in oil prices and the company's effort to improve its credit quality by reducing debt. Bonds of the cable and satellite operator Cequel Communications Holdings I LLC, which reported improving financial results, also outperformed. On the negative side, the largest detractors were our underweight positions in ArcelorMittal SA* and Chesapeake Energy Corp., together with a zero weighting in the energy services company Transocean, Inc.

We believe the U.S. high-yield market was on a solid footing at the close of the year. The use of new-issue proceeds was dominated by refinancing during 2016, which substantially reduced concerns about near-term maturities for high-yield issuers and contributed to decreasing default expectations. In addition, we believe the backdrop of modest global growth can support commodity prices and drive a search for yield that helps risk assets. Although it appears the U.S. Federal Reserve Board (the Fed) is likely to begin tightening policy, we also think that well-communicated, measured and data-driven Fed rate moves can provide a favorable backdrop for high yield when accompanied by accelerating growth. Not least, we anticipate that absolute yields will remain attractive enough to fuel continued investor demand. Possible disruptions to this favorable outlook include more aggressive Fed actions, volatility in U.S. Treasuries and lingering geopolitical/macroeconomic issues.

The Fund employed derivatives during the period to manage its currency exposure and overall positioning. We used derivatives in order to hedge the Fund's exposure to the euro back into U.S. dollars, a positive given the relative weakness in the European currency. In addition, we used derivatives as a means to gain market exposure in a more liquid and efficient manner than buying securities outright.

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 BofA Merrill Lynch US High Yield Master II Constrained Index tracks the performance of U.S. dollar-denominated below-investment-grade corporate debt publicly issued in the U.S. domestic market. 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 Contribution and detraction incorporate both an investment's total return and its weighting in the Fund.

* Not held in the portfolio as of December 31, 2016.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/16**	**12/31/15**
Corporate Bonds	93%	92%
Cash Equivalents	5%	4%
Convertible Bond	1%	1%
Government & Agency Obligations	1%	1%
Common Stocks	0%	0%
Warrant	0%	0%
Preferred Security	—	1%
Loan Participations and Assignments	—	1%
Preferred Stock	—	0%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Government & Agency Obligations, Cash Equivalents and Securities Lending Collateral)	**12/31/16**	**12/31/15**
Consumer Discretionary	27%	29%
Energy	18%	10%
Materials	16%	9%
Telecommunication Services	13%	14%
Industrials	7%	12%
Health Care	6%	9%
Utilities	4%	3%
Information Technology	3%	5%
Consumer Staples	2%	4%
Real Estate	2%	1%
Financials	2%	4%
	100%	100%

Quality (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/16**	**12/31/15**
AAA	1%	1%
BBB	9%	3%
BB	57%	50%
B	30%	41%
CCC	3%	4%
Not Rated	0%	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 ($)(a)	Value ($)
Corporate Bonds 91.3%		
Consumer Discretionary 24.9%		
Adient Global Holdings Ltd., 144A, 4.875%, 8/15/2026	340,000	333,200
Allison Transmission, Inc., 144A, 5.0%, 10/1/2024	240,000	242,400
Ally Financial, Inc., 4.125%, 3/30/2020	285,000	287,850
Altice Financing SA:		
144A, 6.5%, 1/15/2022	200,000	208,500
144A, 7.5%, 5/15/2026	785,000	816,400
Altice U.S. Finance I Corp., 144A, 5.5%, 5/15/2026	480,000	489,600
AMC Entertainment Holdings, Inc., 5.875%, 2/15/2022	220,000	230,175
Asbury Automotive Group, Inc., 6.0%, 12/15/2024	885,000	904,912
Ashton Woods U.S.A. LLC, 144A, 6.875%, 2/15/2021	360,000	346,500
Beacon Roofing Supply, Inc., 6.375%, 10/1/2023	160,000	170,701
Block Communications, Inc., 144A, 7.25%, 2/1/2020	375,000	379,687
Boyd Gaming Corp., 6.875%, 5/15/2023	140,000	150,500
CalAtlantic Group, Inc., 5.25%, 6/1/2026	573,000	558,675
Caleres, Inc., 6.25%, 8/15/2023	110,000	115,500
Carlson Travel, Inc.:		
144A, 6.75%, 12/15/2023	400,000	416,000
144A, 9.5%, 12/15/2024	400,000	418,500
CCO Holdings LLC:		
144A, 5.125%, 5/1/2023	385,000	396,550
144A, 5.5%, 5/1/2026	1,330,000	1,356,600
144A, 5.875%, 4/1/2024	235,000	250,862
144A, 5.875%, 5/1/2027	480,000	498,000
Cequel Communications Holdings I LLC:		
144A, 5.125%, 12/15/2021	602,000	612,535
144A, 6.375%, 9/15/2020	940,000	968,200
Churchill Downs, Inc., 5.375%, 12/15/2021	135,000	140,063
Clear Channel Worldwide Holdings, Inc.:		
Series A, 6.5%, 11/15/2022	250,000	250,000
Series B, 6.5%, 11/15/2022	365,000	373,212
Series A, 7.625%, 3/15/2020	110,000	105,600
Cogeco Communications, Inc., 144A, 4.875%, 5/1/2020	20,000	20,575
CSC Holdings LLC:		
5.25%, 6/1/2024 (b)	585,000	571,837
144A, 5.5%, 4/15/2027	755,000	764,437
144A, 10.125%, 1/15/2023	400,000	462,000
144A, 10.875%, 10/15/2025	275,000	327,250
Dana, Inc., 5.5%, 12/15/2024	180,000	183,600
DISH DBS Corp.:		
5.875%, 7/15/2022	200,000	210,500
6.75%, 6/1/2021	450,000	488,250
7.875%, 9/1/2019	270,000	299,700
Dollar Tree, Inc., 5.25%, 3/1/2020	420,000	432,600
Fiat Chrysler Automobiles NV:		
4.5%, 4/15/2020	645,000	657,900
5.25%, 4/15/2023 (b)	245,000	249,483
Goodyear Tire & Rubber Co.:		
5.0%, 5/31/2026	165,000	164,248
5.125%, 11/15/2023	165,000	169,950
Group 1 Automotive, Inc.:		
5.0%, 6/1/2022	455,000	449,312
144A, 5.25%, 12/15/2023	545,000	539,550
HD Supply, Inc.:		
144A, 5.25%, 12/15/2021	275,000	290,125
144A, 5.75%, 4/15/2024	120,000	126,684
Hertz Corp., 6.75%, 4/15/2019	110,000	110,000
Hot Topic, Inc., 144A, 9.25%, 6/15/2021	140,000	147,350
Lennar Corp., 4.75%, 11/15/2022	400,000	410,000
Live Nation Entertainment, Inc., 144A, 5.375%, 6/15/2022	50,000	51,750
MDC Partners, Inc., 144A, 6.5%, 5/1/2024	195,000	175,500
Mediacom Broadband LLC, 6.375%, 4/1/2023	225,000	236,250
NCL Corp., Ltd.:		
144A, 4.625%, 11/15/2020	235,000	239,113
144A, 4.75%, 12/15/2021	160,000	159,901
Nielsen Finance LLC, 144A, 5.0%, 4/15/2022	155,000	157,906
Penske Automotive Group, Inc.:		
5.375%, 12/1/2024	310,000	309,225
5.5%, 5/15/2026	225,000	222,188
Quebecor Media, Inc., 5.75%, 1/15/2023	205,000	212,688
Rivers Pittsburgh Borrower LP, 144A, 6.125%, 8/15/2021	70,000	71,575
Sabre GLBL, Inc.:		
144A, 5.25%, 11/15/2023	55,000	56,478
144A, 5.375%, 4/15/2023	25,000	25,500
Sally Holdings LLC, 5.625%, 12/1/2025	195,000	202,800
Seminole Hard Rock Entertainment, Inc., 144A, 5.875%, 5/15/2021	125,000	123,750
SFR Group SA, 144A, 7.375%, 5/1/2026	840,000	861,000
Springs Industries, Inc., 6.25%, 6/1/2021	295,000	305,325
Suburban Propane Partners LP, 5.75%, 3/1/2025	145,000	147,175
Toll Brothers Finance Corp., 4.875%, 11/15/2025	520,000	510,900
TRI Pointe Group, Inc., 4.375%, 6/15/2019	145,000	147,538
Unitymedia Hessen GmbH & Co., KG, 144A, 5.5%, 1/15/2023	945,000	983,981
UPCB Finance IV Ltd., 144A, 5.375%, 1/15/2025	955,000	962,162
Viking Cruises Ltd.:		
144A, 6.25%, 5/15/2025	240,000	223,200
144A, 8.5%, 10/15/2022	205,000	212,688
Virgin Media Secured Finance PLC:		
144A, 5.25%, 1/15/2026	200,000	197,500
144A, 5.5%, 8/15/2026	215,000	214,463

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

	Principal Amount ($)(a)	Value ($)
WMG Acquisition Corp., 144A, 5.0%, 8/1/2023	105,000	105,525
		25,212,154
Consumer Staples 2.1%		
Cott Beverages, Inc.:		
5.375%, 7/1/2022	445,000	452,787
6.75%, 1/1/2020	180,000	186,525
FAGE International SA, 144A, 5.625%, 8/15/2026	420,000	421,050
JBS Investments GmbH, 144A, 7.25%, 4/3/2024	496,000	518,320
JBS U.S.A. LUX SA:		
144A, 5.75%, 6/15/2025	290,000	293,625
144A, 8.25%, 2/1/2020	160,000	164,000
Post Holdings, Inc., 144A, 6.75%, 12/1/2021	110,000	117,425
Smithfield Foods, Inc., 6.625%, 8/15/2022	9,000	9,484
		2,163,216
Energy 16.9%		
Antero Midstream Partners LP, 144A, 5.375%, 9/15/2024	170,000	171,700
Antero Resources Corp.:		
5.125%, 12/1/2022	330,000	333,300
5.375%, 11/1/2021	250,000	255,625
5.625%, 6/1/2023	205,000	209,869
Blue Racer Midstream LLC, 144A, 6.125%, 11/15/2022	405,000	405,000
Carrizo Oil & Gas, Inc., 6.25%, 4/15/2023 (b)	235,000	240,875
Cheniere Corpus Christi Holdings LLC:		
144A, 5.875%, 3/31/2025	225,000	229,570
144A, 7.0%, 6/30/2024	400,000	433,000
Chesapeake Energy Corp., 6.625%, 8/15/2020 (b)	400,000	404,000
Concho Resources, Inc., 4.375%, 1/15/2025	125,000	124,751
Continental Resources, Inc.:		
3.8%, 6/1/2024	200,000	184,500
4.5%, 4/15/2023	200,000	196,000
5.0%, 9/15/2022 (b)	568,000	573,334
Crestwood Midstream Partners LP, 6.25%, 4/1/2023	400,000	408,000
Diamondback Energy, Inc., 144A, 4.75%, 11/1/2024	340,000	333,200
EP Energy LLC, 144A, 8.0%, 11/29/2024	100,000	107,470
Gulfport Energy Corp.:		
144A, 6.0%, 10/15/2024	85,000	86,488
144A, 6.375%, 5/15/2025	140,000	141,778
6.625%, 5/1/2023	95,000	99,275
Hilcorp Energy I LP:		
144A, 5.0%, 12/1/2024	195,000	193,538
144A, 5.75%, 10/1/2025	335,000	339,187
Holly Energy Partners LP:		
144A, 6.0%, 8/1/2024	215,000	224,138
6.5%, 3/1/2020	105,000	108,413
Laredo Petroleum, Inc.:		
5.625%, 1/15/2022 (b)	100,000	100,750
6.25%, 3/15/2023 (b)	295,000	305,325
MEG Energy Corp.:		
144A, 6.375%, 1/30/2023	755,000	671,950
144A, 6.5%, 3/15/2021	100,000	92,500
Murphy Oil Corp., 6.875%, 8/15/2024	145,000	154,425
Newfield Exploration Co., 5.375%, 1/1/2026	655,000	667,838
Noble Holding International Ltd., 7.75%, 1/15/2024	435,000	409,161
Oasis Petroleum, Inc.:		
6.5%, 11/1/2021	55,000	56,031
6.875%, 3/15/2022	445,000	456,125
6.875%, 1/15/2023	80,000	82,000
Parsley Energy LLC, 144A, 5.375%, 1/15/2025	120,000	120,408
PDC Energy, Inc., 144A, 6.125%, 9/15/2024	210,000	214,725
Precision Drilling Corp., 144A, 7.75%, 12/15/2023	100,000	105,500
Range Resources Corp.:		
4.875%, 5/15/2025	340,000	329,375
144A, 5.0%, 8/15/2022	350,000	347,812
144A, 5.875%, 7/1/2022	195,000	202,800
Rice Energy, Inc., 7.25%, 5/1/2023	250,000	265,000
Rowan Companies, Inc., 7.375%, 6/15/2025	150,000	153,000
Sabine Pass Liquefaction LLC:		
144A, 5.0%, 3/15/2027	360,000	363,150
5.625%, 2/1/2021	1,190,000	1,273,300
5.625%, 4/15/2023	200,000	212,500
5.625%, 3/1/2025	390,000	417,300
144A, 5.875%, 6/30/2026	355,000	382,512
Sunoco LP:		
5.5%, 8/1/2020	130,000	132,600
6.375%, 4/1/2023	140,000	141,750
Tesoro Corp.:		
144A, 4.75%, 12/15/2023	340,000	342,337
144A, 5.125%, 12/15/2026	485,000	490,529
Tesoro Logistics LP:		
5.25%, 1/15/2025	715,000	730,194
6.375%, 5/1/2024	180,000	192,600
Weatherford International Ltd., 144A, 9.875%, 2/15/2024	415,000	442,232
Whiting Petroleum Corp.:		
5.0%, 3/15/2019	165,000	165,645
5.75%, 3/15/2021 (b)	560,000	557,670
WPX Energy, Inc.:		
5.25%, 9/15/2024 (b)	100,000	97,000
6.0%, 1/15/2022	100,000	102,500
7.5%, 8/1/2020	150,000	161,250
8.25%, 8/1/2023	295,000	329,663
		17,072,468
Financials 1.5%		
CIT Group, Inc.:		
5.0%, 8/15/2022	400,000	417,000
5.0%, 8/1/2023	200,000	206,500
CNO Financial Group, Inc., 5.25%, 5/30/2025	140,000	139,825
Dana Financing Luxembourg Sarl, 144A, 6.5%, 6/1/2026	385,000	402,325
Lincoln Finance Ltd., 144A, 7.375%, 4/15/2021	105,000	111,825
Seminole Tribe of Florida, Inc., 144A, 7.804%, 10/1/2020	220,000	218,900
		1,496,375

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	Principal Amount ($)(a)	Value ($)
Health Care 5.9%		
Alere, Inc., 144A, 6.375%, 7/1/2023	185,000	183,844
Concordia International Corp., 144A, 9.0%, 4/1/2022 (b)	120,000	101,700
Endo Finance LLC, 144A, 5.75%, 1/15/2022	220,000	194,150
Endo Ltd.:		
144A, 6.0%, 7/15/2023	195,000	170,869
144A, 6.5%, 2/1/2025	150,000	125,625
HCA, Inc.:		
4.5%, 2/15/2027	1,020,000	1,002,150
4.75%, 5/1/2023	500,000	511,875
5.25%, 6/15/2026	385,000	397,994
5.875%, 2/15/2026	530,000	545,900
Hologic, Inc., 144A, 5.25%, 7/15/2022	90,000	94,725
LifePoint Health, Inc.:		
144A, 5.375%, 5/1/2024	170,000	166,515
5.5%, 12/1/2021	275,000	286,000
5.875%, 12/1/2023	230,000	232,875
Mallinckrodt International Finance SA:		
144A, 4.875%, 4/15/2020 (b)	80,000	80,300
144A, 5.625%, 10/15/2023	135,000	125,887
Tenet Healthcare Corp.:		
4.463%**, 6/15/2020	180,000	181,350
144A, 7.5%, 1/1/2022	135,000	140,737
Valeant Pharmaceuticals International, Inc.:		
144A, 5.375%, 3/15/2020	365,000	308,425
144A, 5.875%, 5/15/2023	235,000	177,425
144A, 6.125%, 4/15/2025	405,000	304,256
144A, 7.5%, 7/15/2021	750,000	635,625
		5,968,227
Industrials 6.2%		
ADT Corp.:		
3.5%, 7/15/2022	150,000	142,875
6.25%, 10/15/2021	395,000	428,575
Allegion PLC, 5.875%, 9/15/2023	85,000	90,100
Artesyn Embedded Technologies, Inc., 144A, 9.75%, 10/15/2020	240,000	219,600
Belden, Inc., 144A, 5.5%, 9/1/2022	355,000	365,650
Bombardier, Inc.:		
144A, 5.75%, 3/15/2022	315,000	296,100
144A, 6.0%, 10/15/2022	265,000	249,100
144A, 8.75%, 12/1/2021	63,000	66,859
Covanta Holding Corp., 5.875%, 3/1/2024	220,000	211,750
EnerSys, 144A, 5.0%, 4/30/2023	45,000	45,225
Florida East Coast Holdings Corp., 144A, 6.75%, 5/1/2019	155,000	160,425
FTI Consulting, Inc., 6.0%, 11/15/2022	205,000	213,200
Garda World Security Corp., 144A, 7.25%, 11/15/2021	290,000	269,700
IHO Verwaltungs GmbH, 144A, 4.5%, 9/15/2023 (PIK)	200,000	195,500
Kenan Advantage Group, Inc., 144A, 7.875%, 7/31/2023	220,000	222,200
Manitowoc Foodservice, Inc., 9.5%, 2/15/2024	93,000	107,183
Masonite International Corp., 144A, 5.625%, 3/15/2023	220,000	227,150
Moog, Inc., 144A, 5.25%, 12/1/2022	165,000	168,300
Novelis Corp.:		
144A, 5.875%, 9/30/2026	415,000	419,150
144A, 6.25%, 8/15/2024	195,000	206,700
Oshkosh Corp., 5.375%, 3/1/2025	25,000	25,500
Ply Gem Industries, Inc., 6.5%, 2/1/2022	506,000	521,001
Prime Security Services Borrower LLC, 144A, 9.25%, 5/15/2023	25,000	27,219
Ritchie Bros Auctioneers, Inc., 144A, 5.375%, 1/15/2025	130,000	132,600
Summit Materials LLC:		
6.125%, 7/15/2023	275,000	282,216
8.5%, 4/15/2022	95,000	104,975
Titan International, Inc., 6.875%, 10/1/2020	170,000	166,387
United Rentals North America, Inc.:		
5.5%, 5/15/2027	150,000	148,875
6.125%, 6/15/2023	25,000	26,500
WESCO Distribution, Inc., 144A, 5.375%, 6/15/2024	190,000	190,475
XPO Logistics, Inc., 144A, 6.125%, 9/1/2023	85,000	88,825
ZF North America Capital, Inc., 144A, 4.75%, 4/29/2025	210,000	213,675
		6,233,590
Information Technology 2.6%		
Cardtronics, Inc., 5.125%, 8/1/2022	145,000	146,087
Diamond 1 Finance Corp., 144A, 5.875%, 6/15/2021	150,000	159,589
EarthLink Holdings Corp., 7.375%, 6/1/2020	245,000	258,475
Entegris, Inc., 144A, 6.0%, 4/1/2022	160,000	166,400
First Data Corp., 144A, 7.0%, 12/1/2023	275,000	292,875
Match Group, Inc., 6.375%, 6/1/2024	120,000	126,600
Micron Technology, Inc.:		
5.5%, 2/1/2025	100,000	99,500
144A, 7.5%, 9/15/2023	390,000	431,925
Netflix, Inc., 5.875%, 2/15/2025	165,000	177,994
Riverbed Technology, Inc., 144A, 8.875%, 3/1/2023	155,000	163,525
Western Digital Corp.:		
144A, 7.375%, 4/1/2023	350,000	385,000
144A, 10.5%, 4/1/2024	168,000	198,660
		2,606,630
Materials 13.6%		
AK Steel Corp.:		
7.5%, 7/15/2023	200,000	222,000
7.625%, 5/15/2020 (b)	320,000	326,400
Anglo American Capital PLC:		
144A, 4.125%, 9/27/2022 (b)	400,000	403,004
144A, 4.875%, 5/14/2025	600,000	608,250
Ardagh Packaging Finance PLC, 144A, 7.25%, 5/15/2024	290,000	305,587

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		Principal Amount ($)(a)	Value ($)
Axalta Coating Systems LLC, 144A, 4.875%, 8/15/2024		150,000	150,000
Ball Corp., 4.375%, 12/15/2020		110,000	114,950
Berry Plastics Corp., 5.5%, 5/15/2022		435,000	452,400
Cascades, Inc., 144A, 5.5%, 7/15/2022		145,000	147,175
Chemours Co.:			
6.625%, 5/15/2023		265,000	262,350
7.0%, 5/15/2025		80,000	78,800
Clearwater Paper Corp., 144A, 5.375%, 2/1/2025		175,000	173,250
Constellium NV:			
144A, 4.625%, 5/15/2021	EUR	150,000	152,335
144A, 5.75%, 5/15/2024		250,000	233,750
144A, 7.875%, 4/1/2021		500,000	537,500
Eagle Materials, Inc., 4.5%, 8/1/2026		130,000	129,675
Freeport-McMoRan, Inc.:			
3.55%, 3/1/2022		350,000	325,500
3.875%, 3/15/2023		300,000	275,250
4.0%, 11/14/2021		250,000	243,750
4.55%, 11/14/2024		400,000	375,000
144A, 6.5%, 11/15/2020		610,000	626,775
144A, 6.875%, 2/15/2023		200,000	210,000
Graphic Packaging International, Inc., 4.125%, 8/15/2024		495,000	472,725
Hexion, Inc., 6.625%, 4/15/2020		270,000	238,950
HudBay Minerals, Inc.:			
144A, 7.25%, 1/15/2023		45,000	46,575
144A, 7.625%, 1/15/2025		70,000	72,757
Huntsman International LLC, 4.25%, 4/1/2025	EUR	290,000	307,024
Kaiser Aluminum Corp., 5.875%, 5/15/2024		200,000	207,000
Plastipak Holdings, Inc., 144A, 6.5%, 10/1/2021		250,000	261,250
Platform Specialty Products Corp.:			
144A, 6.5%, 2/1/2022 (b)		230,000	231,725
144A, 10.375%, 5/1/2021		350,000	387,625
Reynolds Group Issuer, Inc.:			
144A, 5.125%, 7/15/2023		400,000	408,500
144A, 7.0%, 7/15/2024		45,000	47,841
Sealed Air Corp.:			
144A, 4.875%, 12/1/2022		115,000	118,163
144A, 5.125%, 12/1/2024		55,000	56,513
Teck Resources Ltd.:			
3.75%, 2/1/2023		400,000	378,000
4.5%, 1/15/2021		1,565,000	1,572,825
4.75%, 1/15/2022		165,000	165,412
6.125%, 10/1/2035		450,000	437,625
6.25%, 7/15/2041		450,000	433,656
Tronox Finance LLC:			
6.375%, 8/15/2020		500,000	467,500
144A, 7.5%, 3/15/2022		245,000	228,462
United States Steel Corp., 144A, 8.375%, 7/1/2021		510,000	563,820
Valvoline, Inc., 144A, 5.5%, 7/15/2024		90,000	93,150
WR Grace & Co-Conn:			
144A, 5.125%, 10/1/2021		90,000	93,825
144A, 5.625%, 10/1/2024		45,000	47,250
			13,691,874

	Principal Amount ($)(a)	Value ($)
Real Estate 2.0%		
CyrusOne LP, (REIT), 6.375%, 11/15/2022	310,000	326,275
Equinix, Inc.:		
(REIT), 5.375%, 1/1/2022	225,000	236,250
(REIT), 5.375%, 4/1/2023	725,000	752,187
(REIT), 5.75%, 1/1/2025	170,000	177,650
(REIT), 5.875%, 1/15/2026	135,000	142,088
MPT Operating Partnership LP:		
(REIT), 5.25%, 8/1/2026	50,000	49,000
(REIT), 6.375%, 3/1/2024	235,000	245,869
VEREIT Operating Partnership LP, (REIT), 4.875%, 6/1/2026	85,000	86,092
		2,015,411
Telecommunication Services 11.9%		
CenturyLink, Inc.:		
Series T, 5.8%, 3/15/2022	380,000	388,409
Series S, 6.45%, 6/15/2021	545,000	573,612
Series W, 6.75%, 12/1/2023	250,000	255,625
Series Y, 7.5%, 4/1/2024	635,000	666,750
Digicel Ltd.:		
144A, 6.75%, 3/1/2023	390,000	351,636
144A, 7.0%, 2/15/2020	200,000	188,328
Frontier Communications Corp.:		
6.25%, 9/15/2021 (b)	540,000	511,650
7.125%, 1/15/2023	605,000	547,525
10.5%, 9/15/2022	615,000	646,549
11.0%, 9/15/2025	430,000	443,975
Hughes Satellite Systems Corp., 7.625%, 6/15/2021	230,000	252,425
Intelsat Jackson Holdings SA, 144A, 8.0%, 2/15/2024 (b)	452,000	464,430
Sprint Communications, Inc.:		
144A, 7.0%, 3/1/2020	745,000	808,325
7.0%, 8/15/2020	350,000	371,039
Sprint Corp.:		
7.125%, 6/15/2024	1,345,000	1,385,350
7.625%, 2/15/2025	250,000	262,813
T-Mobile U.S.A., Inc.:		
6.0%, 4/15/2024	899,000	947,321
6.125%, 1/15/2022	110,000	116,050
6.375%, 3/1/2025	497,000	531,169
6.5%, 1/15/2026	15,000	16,219
Telesat Canada, 144A, 8.875%, 11/15/2024	180,000	187,650
Wind Acquisition Finance SA, 144A, 6.5%, 4/30/2020	195,000	202,800
Windstream Services LLC:		
7.75%, 10/15/2020	450,000	462,600
7.75%, 10/1/2021 (b)	500,000	514,000
Zayo Group LLC:		
6.0%, 4/1/2023	530,000	551,200
6.375%, 5/15/2025	386,000	403,370
		12,050,820
Utilities 3.7%		
AmeriGas Partners LP, 5.5%, 5/20/2025	325,000	328,250
Calpine Corp.:		
5.375%, 1/15/2023	240,000	234,600
5.75%, 1/15/2025	240,000	231,600
Dynegy, Inc., 7.625%, 11/1/2024	475,000	438,187

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	Principal Amount ($)(a)	Value ($)
NGL Energy Partners LP, 5.125%, 7/15/2019	190,000	188,575
NRG Energy, Inc.:		
6.25%, 7/15/2022	1,000,000	1,002,500
6.25%, 5/1/2024	770,000	748,825
144A, 6.625%, 1/15/2027	110,000	103,950
144A, 7.25%, 5/15/2026	385,000	383,075
7.875%, 5/15/2021	30,000	31,275
Talen Energy Supply LLC, 144A, 4.625%, 7/15/2019	95,000	90,013
		3,780,850
Total Corporate Bonds (Cost $90,160,488)		**92,291,615**

Government & Agency Obligation 1.1%

U.S. Treasury Obligation

U.S. Treasury Note, 0.75%, 10/31/2017 (Cost $1,100,429)	1,100,000	**1,099,012**

Convertible Bonds 1.5%

Energy 0.0%

Chesapeake Energy Corp., 2.5%, 5/15/2037	19,000	**19,071**

Materials 1.5%

GEO Specialty Chemicals, Inc., 144A, 7.5%, 10/30/2018 (PIK)	1,426,438	**1,459,104**
Total Convertible Bonds (Cost $1,422,510)		**1,478,175**

	Shares	Value ($)

Common Stocks 0.1%

Industrials 0.0%

Quad Graphics, Inc.	249	**6,693**

Materials 0.1%

	Shares	Value ($)
GEO Specialty Chemicals, Inc.*	144,027	56,560
GEO Specialty Chemicals, Inc. 144A*	2,206	866
		57,426
Total Common Stocks (Cost $292,150)		**64,119**

Warrant 0.0%

Materials

Hercules Trust II, Expiration Date 3/31/2029* (Cost $244,286)	1,100	**4,994**

Securities Lending Collateral 4.6%

Government & Agency Securities Portfolio "Deutsche Government Cash Institutional Shares", 0.42% (c) (d) (Cost $4,663,795)	4,663,795	**4,663,795**

Cash Equivalents 4.5%

Deutsche Central Cash Management Government Fund, 0.49% (c) (Cost $4,597,237)	4,597,237	**4,597,237**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $102,480,895)†	103.1	**104,198,947**
Other Assets and Liabilities, Net	(3.1)	**(3,086,949)**
Net Assets	100.0	**101,111,998**

* 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, 2016.

† The cost for federal income tax purposes was $102,480,895. At December 31, 2016, net unrealized appreciation for all securities based on tax cost was $1,718,052. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $3,337,205 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $1,619,153.

(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, 2016 amounted to $4,496,490, which is 4.4% of net assets.

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

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

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

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, 2016, open credit default swap contracts sold were as follows:

Bilateral Swaps

Expiration Dates	Notional Amount ($) (e)	Fixed Cash Flows Received	Underlying Debt Obligation/ Quality Rating (f)	Value ($)	Upfront Payments Paid ($)	Unrealized Appreciation ($)
3/20/2019	1,500,000[1]	5.0%	Sprint Communications, Inc., 7.0%, 8/15/2020, B	105,416	68,900	**36,516**

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

(e) The maximum potential amount of future undiscounted payments that the Fund could be required to make under a credit default swap contract would be the notional amount of the contract. These potential amounts would be partially offset by any recovery values of the referenced debt obligation or net amounts received from the settlement of buy protection credit default swap contracts entered into by the Fund for the same referenced debt obligation, if any.

(f) 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.

Counterparty:

1 Goldman Sachs & Co.

As of December 31, 2016, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
USD	216,529	EUR	204,955	1/31/2017	(427)	Merrill Lynch & Co., Inc.
EUR	653,509	USD	684,923	1/31/2017	(4,130)	Merrill Lynch & Co., Inc.
Total unrealized depreciation					**(4,557)**	

Currency Abbreviations			
EUR	Euro	USD	United States Dollar

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

Fair Value Measurements

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

The following is a summary of the inputs used as of December 31, 2016 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Fixed Income Investments (g)				
Corporate Bonds	$ —	$ 92,291,615	$ —	$ 92,291,615
Government & Agency Obligation	—	1,099,012	—	1,099,012
Convertible Bonds	—	19,071	1,459,104	1,478,175
Common Stocks (g)	6,693	—	57,426	64,119
Warrant	—	—	4,994	4,994
Short-Term Investments (g)	9,261,032	—	—	9,261,032
Derivatives (h)				
Credit Default Swap Contracts	—	36,516	—	36,516
Total	**$ 9,267,725**	**$ 93,446,214**	**$ 1,521,524**	**$104,235,463**

Liabilities	Level 1	Level 2	Level 3	Total
Derivatives (h)				
Forward Foreign Currency Exchange Contracts	$ —	$ (4,557)	$ —	$ (4,557)
Total	**$ —**	**$ (4,557)**	**$ —**	**$ (4,557)**

There have been no transfers between fair value measurement levels during the year ended December 31, 2016.

(g) See Investment Portfolio for additional detailed categorizations.

(h) Derivatives include unrealized appreciation (depreciation) on credit default swap contracts and forward foreign currency exchange contracts.

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

Level 3 Reconciliation

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

	Loan Participations and Assignments	Convertible Bonds	Common Stocks	Warrants	Total
Balance as of December 31, 2015	$ 0	$ 1,551,885	$ 93,597	$ 1,879	**$1,647,361**
Realized gains (loss)	(700,000)	—	31,908	—	**(668,092)**
Change in unrealized appreciation (depreciation)	700,000	(204,903)	17,182	3,115	**515,394**
Amortization of premium/accretion of discount	—	8,620	—	—	**8,620**
Purchases	—	103,502	—	—	**103,502**
(Sales)	0	—	(85,261)	—	**(85,261)**
Transfer into Level 3	—	—	—	—	—
Transfer (out) of Level 3	—	—	—	—	—
Balance as of December 31, 2016	**$ —**	**$ 1,459,104**	**$ 57,426**	**$ 4,994**	**$ 1,521,524**
Net change in unrealized appreciation (depreciation) from investments still held as of December 31, 2016	**$ —**	**$ (204,903)**	**$ (9,637)**	**$ 3,115**	**$ (211,425)**

Quantitative Disclosure About Significant Unobservable Inputs

Asset Class	Fair Value at 12/31/16	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Common Stocks				
Materials	$ 57,426	Market Approach	EV/EBITDA Multiple	6.13%
			Discount to public comparables	20%
			Discount for lack of marketability	20%
Warrants				
Materials	$ 4,994	Black Scholes Option Pricing Model	Implied Volatility	27.0%
			Illiquidity Discount	20%
Convertible Bonds				
Materials	$ 1,459,104	Convertible Bond Methodology	EV/EBITDA Multiple	6.13%
			Discount to public comparables	20%
			Discount for lack of marketability	20%

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 and convertible bond 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 warrants include volatility and discount for lack of marketability. A change in the volatility of the underlying asset as an input to the Black-Scholes model may have a significant change in the fair value measurement. A significant change in the discount for lack of marketability is unlikely to have a material impact to the fair value measurement.

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

Statement of Assets and Liabilities

as of December 31, 2016

Assets	
Investments:	
Investments in non-affiliated securities, at value (cost $93,219,863) — including $4,496,490 of securities loaned	$ 94,937,915
Investment in Government & Agency Securities Portfolio (cost $4,663,795)*	4,663,795
Investment in Deutsche Central Cash Management Government Fund (cost $4,597,237)	4,597,237
Total investments in securities, at value (cost $102,480,895)	104,198,947
Cash	9,999
Foreign currency, at value (cost $227,008)	226,428
Receivable for investments sold	4,800
Receivable for Fund shares sold	18,951
Interest receivable	1,486,311
Unrealized appreciation on bilateral swap contracts	36,516
Upfront payments paid on bilateral swap contracts	68,900
Foreign taxes recoverable	979
Other assets	1,750
Total assets	106,053,581
Liabilities	
Payable upon return of securities loaned	4,663,795
Payable for Fund shares redeemed	111,312
Unrealized depreciation on forward foreign currency exchange contracts	4,557
Accrued management fee	26,673
Accrued Trustees' fees	1,989
Other accrued expenses and payables	133,257
Total liabilities	4,941,583
Net assets, at value	**$ 101,111,998**
Net Assets Consist of	
Undistributed net investment income	5,781,669
Net unrealized appreciation (depreciation) on:	
Investments	1,718,052
Swap contracts	36,516
Foreign currency	(3,986)
Accumulated net realized gain (loss)	(26,965,433)
Paid-in capital	120,545,180
Net assets, at value	**$ 101,111,998**
Class A	
Net Asset Value, offering and redemption price per share ($99,511,676 ÷ 15,845,238 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 6.28**
Class B	
Net Asset Value, offering and redemption price per share ($1,600,322 ÷ 254,095 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 6.30**

* 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, 2016

Investment Income	
Interest	$ 6,073,275
Dividends	284
Income distributions — Deutsche Central Cash Management Government Fund	19,176
Securities lending income, net of borrower rebates	45,660
Other income	33,497
Total income	6,171,892
Expenses:	
Management fee	506,207
Administration fee	101,241
Distribution service fee (Class B)	2,364
Recordkeeping fees (Class B)	1,376
Services to shareholders	1,622
Custodian fee	17,118
Professional fees	92,509
Reports to shareholders	34,772
Trustees' fees and expenses	6,080
Other	49,148
Total expenses before expense reductions	812,437
Expense reductions	(80,908)
Total expenses after expense reductions	731,529
Net investment income (loss)	**5,440,363**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	(3,049,451)
Swap contracts	(135,510)
Foreign currency	21,196
	(3,163,765)
Change in net unrealized appreciation (depreciation) on:	
Investments	9,300,523
Swap contracts	593,956
Foreign currency	(3,986)
	9,890,493
Net gain (loss)	**6,726,728**
Net increase (decrease) in net assets resulting from operations	**$ 12,167,091**

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

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2016	2015
Operations:		
Net investment income	$ 5,440,363	$ 6,638,151
Net realized gain (loss)	(3,163,765)	(4,223,311)
Change in net unrealized appreciation (depreciation)	9,890,493	(7,046,460)
Net increase (decrease) in net assets resulting from operations	12,167,091	(4,631,620)
Distributions to shareholders from:		
Net investment income:		
Class A	(6,259,405)	(8,457,661)
Class B	(122,558)	(6,469)
Total distributions	(6,381,963)	(8,464,130)
Fund share transactions:		
Class A		
Proceeds from shares sold	15,011,086	17,956,787
Reinvestment of distributions	6,259,405	8,457,661
Payments for shares redeemed	(28,525,830)	(47,358,324)
Net increase (decrease) in net assets from Class A share transactions	(7,255,339)	(20,943,876)
Class B		
Proceeds from shares sold	5,848,785	29,829,991
Reinvestment of distributions	122,558	6,469
Payments for shares redeemed	(7,539,910)	(26,867,647)
Net increase (decrease) in net assets from Class B share transactions	(1,568,567)	2,968,813
Increase (decrease) in net assets	(3,038,778)	(31,070,813)
Net assets at beginning of period	104,150,776	135,221,589
Net assets at end of period (including undistributed net investment income of $5,781,669 and $6,775,642, respectively)	**$ 101,111,998**	**104,150,776**

Other Information	2016	2015
Class A		
Shares outstanding at beginning of period	17,025,372	20,495,541
Shares sold	2,525,843	2,794,697
Shares issued to shareholders in reinvestment of distributions	1,081,072	1,315,344
Shares redeemed	(4,787,049)	(7,580,210)
Net increase (decrease) in Class A shares	(1,180,134)	(3,470,169)
Shares outstanding at end of period	**15,845,238**	**17,025,372**
Class B		
Shares outstanding at beginning of period	530,185	3,764
Shares sold	990,197	4,790,954
Shares issued to shareholders in reinvestment of distributions	21,094	998
Shares redeemed	(1,287,381)	(4,265,531)
Net increase (decrease) in Class B shares	(276,090)	526,421
Shares outstanding at end of period	**254,095**	**530,185**

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

Financial Highlights

Class A	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data					
Net asset value, beginning of period	**$ 5.93**	**$ 6.60**	**$ 6.96**	**$ 6.93**	**$ 6.56**
Income (loss) from investment operations:					
Net investment income[a]	.32	.32	.36	.39	.45
Net realized and unrealized gain (loss)	.41	(.58)	(.25)	.14	.48
Total from investment operations	.73	(.26)	.11	.53	.93
Less distributions from:					
Net investment income	(.38)	(.41)	(.47)	(.50)	(.56)
Net asset value, end of period	**$ 6.28**	**$ 5.93**	**$ 6.60**	**$ 6.96**	**$ 6.93**
Total Return (%)	12.87[b]	(4.44)[b]	1.47[b]	7.91[b]	14.91
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	100	101	135	165	178
Ratio of expenses before expense reductions (%)	.80	.75	.75	.73	.72
Ratio of expenses after expense reductions (%)	.72	.72	.73	.72	.72
Ratio of net investment income (%)	5.38	5.09	5.21	5.69	6.68
Portfolio turnover rate (%)	77	47	52	58	58

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

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

Class B	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data					
Net asset value, beginning of period	**$ 5.94**	**$ 6.63**	**$ 6.99**	**$ 6.97**	**$ 6.59**
Income (loss) from investment operations:					
Net investment income[a]	.31	.32	.35	.36	.43
Net realized and unrealized gain (loss)	.41	(.61)	(.26)	.15	.49
Total from investment operations	.72	(.29)	.09	.51	.92
Less distributions from:					
Net investment income	(.36)	(.40)	(.45)	(.49)	(.54)
Net asset value, end of period	**$ 6.30**	**$ 5.94**	**$ 6.63**	**$ 6.99**	**$ 6.97**
Total Return (%)[b]	12.67	(4.95)	1.22	7.44	14.70
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	2	3	.03	.32	.09
Ratio of expenses before expense reductions (%)	1.21	1.14	1.13	1.10	.99
Ratio of expenses after expense reductions (%)	.98	1.02	.97	.97	.99
Ratio of net investment income (%)	5.15	4.86	5.09	5.29	6.42
Portfolio turnover rate (%)	77	47	52	58	58

[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 ("U.S. GAAP") which require the use of management estimates. Actual results could differ from those estimates. The Fund qualifies as an investment company under Topic 946 of Accounting Standards Codification of U.S. GAAP. The policies described below are followed consistently by the Fund in the preparation of its financial statements.

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

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

Debt securities and loan participations and assignments are valued at prices supplied by independent pricing services approved by the Fund's Board. Such services may use various pricing techniques which take into account appropriate factors such as yield, quality, coupon rate, maturity, type of issue, trading characteristics, prepayment speeds and other data, as well as broker quotes. If the pricing services are unable to provide valuations, debt securities are valued at the average of the most recent reliable bid quotations or evaluated prices, as applicable, obtained from broker-dealers and loan participations and assignments are valued at the mean of the most recent bid and ask quotations or evaluated prices, as applicable, obtained from broker-dealers. Certain securities may be valued on the basis of a price provided by a single source or broker-dealer. No active trading market may exist for some senior loans and they may be subject to restrictions on resale. The inability to dispose of senior loans in a timely fashion could result in losses. These securities are generally categorized as Level 2.

Equity securities are valued at the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade. Securities for which no sales are reported are valued at the calculated mean between the most recent bid and asked quotations on the relevant market or, if a mean cannot be determined, at the most recent bid quotation. Equity securities are generally categorized as Level 1 securities.

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

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

Swap contracts are valued daily based upon prices supplied by a Board approved pricing vendor, if available, and otherwise are valued at the price provided by the broker-dealer. Swap contracts are generally categorized as Level 2.

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

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

Foreign Currency Translations. The books and records of the Fund are maintained in U.S. dollars. Investment securities and other assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the prevailing exchange rates at period end. Purchases and sales of investment securities, income and expenses are translated into U.S. dollars at the prevailing exchange rates on the respective dates of the transactions.

Net realized and unrealized gains and losses on foreign currency transactions represent net gains and losses between trade and settlement dates on securities transactions, the acquisition and disposition of foreign currencies, and the difference between the amount of net investment income accrued and the U.S. dollar amount actually received. That portion of both realized and unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed but is included with net realized and unrealized gain/appreciation and loss/depreciation on investments.

Securities Lending. Deutsche Bank AG, as lending agent, lends securities of the Fund to certain financial institutions under the terms of its securities lending agreement. During the term of the loans, the Fund 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 securities lending agreement. As of period end, any securities on loan were collateralized by cash. During the year ended December 31, 2016, the Fund invested the cash collateral into a joint trading account in affiliated money market funds managed by Deutsche Investment Management Americas Inc. As of December 31, 2016, the Fund invested the cash collateral in Government & Agency Securities Portfolio. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.09% annualized effective rate as of December 31, 2016) on the cash collateral invested in Government & Agency Securities Portfolio. 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 at any time, and the borrower, after notice, is required to return borrowed securities within a standard time period. 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, 2016, the Fund had securities on loan, which were classified as corporate bonds in the Investment Portfolio. The value of the related collateral exceeded the value of the securities loaned at period end. As of period end, the remaining contractual maturity of the collateral agreements were overnight and continuous.

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, 2016, the Fund had a net tax basis capital loss carryforward of approximately $26,966,000, including $17,232,000 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 $9,734,000 of post-enactment long-term losses, which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($1,843,000) and long-term losses ($7,891,000).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2016 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, expiration of capital loss carryforward 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, 2016, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 5,813,628
Capital loss carryforwards	$ (26,966,000)
Unrealized appreciation (depreciation) on investments	$ 1,718,052

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

	Years Ended December 31,	
	2016	**2015**
Distributions from ordinary income*	$ 6,381,963	$ 8,464,130

* 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, 2016, 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, 2016 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2016, the Fund's investment in credit default swap contracts sold had a total notional value generally indicative of a range from $1,500,000 to $9,570,000.

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, 2016, the Fund entered into forward currency contracts in order to hedge its exposure to changes in foreign currency exchange rates on its foreign currency denominated portfolio holdings and to facilitate transactions in foreign currency denominated securities. Forward currency contracts are valued at the prevailing forward exchange rate of the underlying currencies and unrealized gain (loss) is recorded daily. On the settlement date of the forward currency contract, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value of the contract at the time it was closed. Certain risks may arise upon entering into forward currency contracts from the potential inability of counterparties to meet the terms of their contracts. The maximum counterparty credit risk to the Fund is measured by the unrealized gain on appreciated contracts. Additionally, when utilizing forward currency contracts to hedge, the Fund gives up the opportunity to profit from favorable exchange rate movements during the term of the contract.

A summary of the open forward currency contracts as of December 31, 2016 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2016, 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 $685,000, 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 $217,000.

The following tables summarize the value of the Fund's derivative instruments held as of December 31, 2016 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivative	**Swap Contracts**
Credit Contracts (a)	$ 36,516

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

(a) Unrealized appreciation on bilateral swap contracts

Liability Derivative	**Forward Contracts**
Foreign Exchange Contracts (a)	$ (4,557)

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

(a) Unrealized depreciation on foreign forward 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, 2016 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	**Forward Contracts**	**Swap Contracts**	**Total**
Credit Contracts (a)	$ —	$ (135,510)	$ (135,510)
Foreign Exchange Contracts (b)	24,078	—	24,078
	$ 24,078	**$ (135,510)**	**$ (111,432)**

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

(a) Net realized gain (loss) from swap contracts

(b) Net realized gain (loss) from foreign currency (Statement of Operations includes both forward currency contracts and foreign currency transactions)

Change in Net Unrealized Appreciation (Depreciation)	**Forward Contracts**	**Swap Contracts**	**Total**
Credit Contracts (a)	$ —	$ 593,956	$ 593,956
Foreign Exchange Contracts (b)	(4,557)	—	(4,557)
	$ (4,557)	**$ 593,956**	**$ 589,399**

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

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

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

As of December 31, 2016, 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
Goldman Sachs & Co.	$ 36,516	$ —	$ —	$ 36,516

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
Merrill Lynch & Co., Inc.	$ 4,557	$ —	$ —	$ 4,557

C. Purchases and Sales of Securities

During the year ended December 31, 2016, purchases and sales of investment transactions (excluding short-term investments and U.S. Treasury securities) aggregated $72,373,524 and $82,108,986, respectively. Purchases and sales of U.S. Treasury obligations aggregated $1,100,605 and $550,021, 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, 2016, 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, 2016 through April 30, 2017, 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 expense) of each class as follows:

Class A	.72%
Class B	.98%

For the year ended December 31, 2016, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 78,771
Class B	2,137
	$ 80,908

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, 2016, the Administration Fee was $101,241, of which $8,561 is unpaid.

Service Provider Fees. Deutsche AM 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, 2016, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	**Total Aggregated**	**Unpaid at December 31, 2016**
Class A	$ 284	$ 71
Class B	58	15
	$ 342	**$ 86**

Distribution Service Agreement. Under the Fund's Class B 12b-1 plans, Deutsche AM 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, 2016, the Distribution Service Fee was $2,364, of which 339 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, 2016, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $15,162, of which $5,913 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 Deutsche Central Cash Management Government Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. 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. Deutsche Central Cash Management Government 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. Deutsche Central Cash Management Government 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, 2016, the Fund incurred lending agent fees to Deutsche Bank AG for the amount of $3,910.

E. Investing in High-Yield Debt Securities

High-yield debt securities or junk bonds are generally regarded as speculative with respect to the issuer's continuing ability to meet principal and interest payments. The Fund's performance could be hurt if an issuer of a debt security suffers an adverse change in financial condition that results in the issuer not making timely payments of interest or principal, a security downgrade or an inability to meet a financial obligation. High-yield debt securities' total return and yield may generally be expected to fluctuate more than the total return and yield of investment-grade debt securities. A real or perceived economic downturn or an increase in market interest rates could cause a decline in the value of high-yield debt securities, result in increased redemptions and/or result in increased portfolio turnover, which could result in a decline in net asset value of the fund, reduce liquidity for certain investments and/or increase costs. High-yield debt securities are often thinly traded and can be more difficult to sell and value accurately than investment-grade debt securities as there may be no established secondary market. Investments in high yield debt securities could increase liquidity risk for the fund. In addition, the market for high-yield debt securities can experience sudden and sharp volatility which is generally associated more with investments in stocks.

F. Ownership of the Fund

At December 31, 2016, 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 31%. One participating insurance company was the owner of record of 10% or more of the total outstanding Class B shares of the Fund, owning 94%.

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, 2016.

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, 2016, 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, 2016, 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, 2016, 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 14, 2017

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, 2016 to December 31, 2016).

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, 2016

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/16	$1,000.00	$1,000.00
Ending Account Value 12/31/16	$1,068.00	$1,067.80
Expenses Paid per $1,000*	$ 3.74	$ 5.09
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/16	$1,000.00	$1,000.00
Ending Account Value 12/31/16	$1,021.52	$1,020.21
Expenses Paid per $1,000*	$ 3.66	$ 4.98

* 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 366.

Annualized Expense Ratios	**Class A**	**Class B**
Deutsche Variable Series II — Deutsche High Income VIP	.72%	.98%

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, 2016, 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 most recent 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 (hereinafter referred to as the "Board" or "Trustees") approved the renewal of Deutsche High Income VIP's (the "Fund") investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2016.

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

- During the entire process, all of the Fund's Trustees were independent of DIMA and its affiliates (the "Independent Trustees").
- The Board 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 extensive 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 Management ("Deutsche AM") division. Deutsche AM 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 Board 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 invest in Deutsche AM and seek to enhance Deutsche AM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AM 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 and the resources made available to such personnel. 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, 2015, the Fund's performance (Class A shares) was in the 3rd quartile of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in the one- and three-year periods and has underperformed its benchmark in the five-year period ended December 31, 2015. 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 Broadridge Financial Solutions, Inc. ("Broadridge") 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 Broadridge peer group (based on Broadridge data provided as of December 31, 2015). 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 Broadridge expense universe (based on Broadridge data provided as of December 31, 2015, and analyzing Broadridge expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Broadridge Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Broadridge 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 AM. The Board noted that DIMA indicated that Deutsche AM 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, seniority and time commitment of the individuals serving as DIMA's and the Fund's chief compliance officers; (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 Independent 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 Keith R. Fox, Deutsche Funds Board Chair, c/o Thomas R. Hiller, Ropes & Gray LLP, Prudential Tower, 800 Boylston Street, Boston, MA 02199-3600. 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
Keith R. Fox, CFA (1954) Chairperson since 2017,[2] and 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)	98	—
Kenneth C. Froewiss (1945) Vice Chairperson since 2017,[2] Board Member since 2001, and Chairperson (2013–December 31, 2016)	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)	98	—
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.[3] (population well-being and wellness services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International	98	Portland General Electric[3] (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); The Pew Charitable Trusts (charitable organization); former Directorships: Becton Dickinson and Company[3] (medical technology company); Belo Corporation[3] (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)	98	—
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: Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: ICI Mutual Insurance Company (2007–2015); Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	98	—
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	98	—

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; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006)	98	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004, and Vice Chairperson (2013–December 31, 2016)	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	98	—
Rebecca W. Rimel (1951) Board Member since 1995	President, Chief Executive Officer and Director, The Pew Charitable Trusts (charitable organization) (1994–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[3] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	98	Director, Becton Dickinson and Company[3] (medical technology company) (2012–present); Director, BioTelemetry Inc.[3] (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[3] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	98	—
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); former Directorships: The William and Flora Hewlett Foundation (charitable organization) (2000–2015); Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	98	—

Officers[5]

Name, Year of Birth, Position with the Fund and Length of Time Served[6]	Business Experience and Directorships During the Past Five Years
Brian E. Binder[9] (1972) President and Chief Executive Officer, 2013–present	Managing Director[4] and Head of US Product and Fund Administration, Deutsche Asset Management (2013–present); Director and President, Deutsche AM Service Company (since 2016); Director and Vice President, Deutsche AM Distributors, Inc. (since 2016); Director and President, DB Investment Managers, Inc. (since 2016); formerly, Head of Business Management and Consulting at Invesco, Ltd. (2010–2012)
John Millette[8] (1962) Vice President and Secretary, 1999–present	Director,[4] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (2015–present); and Director and Vice President, Deutsche AM Trust Company (since 2016)
Hepsen Uzcan[7] (1974) Vice President, since 2016 Assistant Secretary, 2013–present	Director,[4] Deutsche Asset Management
Paul H. Schubert[7] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[4] Deutsche Asset Management, and Chairman, Director and President, Deutsche AM Trust Company (since 2013); Vice President, Deutsche AM Distributors, Inc. (since 2016); formerly, Director, Deutsche AM Trust Company (2004–2013)
Caroline Pearson[8] (1962) Chief Legal Officer, 2010–present	Managing Director,[4] Deutsche Asset Management; Secretary, Deutsche AM Distributors, Inc.; and Secretary, Deutsche AM Service Company

Name, Year of Birth, Position with the Fund and Length of Time Served[6]	Business Experience and Directorships During the Past Five Years
Scott D. Hogan[8] (1970) Chief Compliance Officer, since 2016	Director,[4] Deutsche Asset Management
Wayne Salit[7] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[4] Deutsche Asset Management; AML Compliance Officer, Deutsche AM Distributors, Inc.; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Paul Antosca[8] (1957) Assistant Treasurer, 2007–present	Director,[4] Deutsche Asset Management
Diane Kenneally[8] (1966) Assistant Treasurer, 2007–present	Director,[4] 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 Effective as of January 1, 2017.

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

4 Executive title, not a board directorship.

5 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.

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

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

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

9 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

Notes

Deutsche
Asset Management

VS2HI-2 (R-025832-6 2/17)

Deutsche
Asset Management

December 31, 2016

Annual Report

Deutsche Variable Series II

Deutsche Large Cap Value VIP

Contents

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

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.

Deutsche AM 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

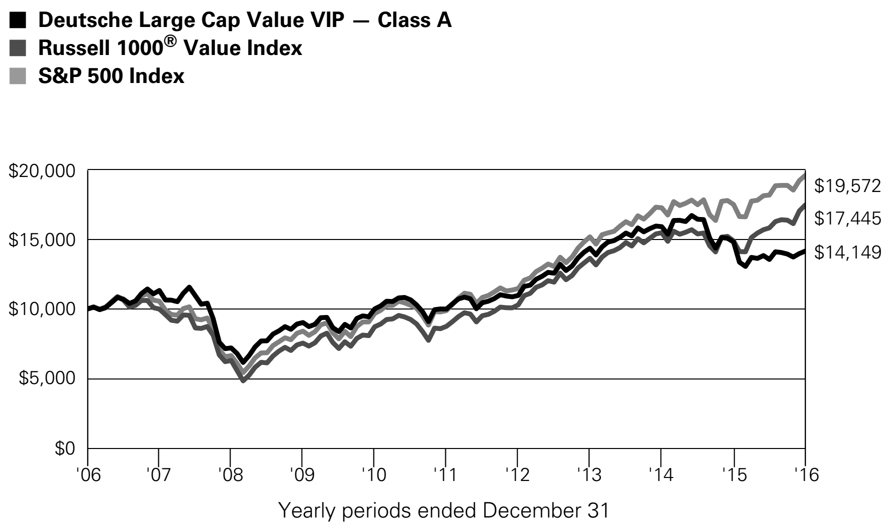
December 31, 2016 (Unaudited)

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, 2016 are 0.78% and 1.10% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

Generally accepted accounting principles require adjustments to be made to the net assets of the Fund at period end for financial reporting purposes only, and as such, the total return based on the unadjusted net asset value per share may differ from the total return reported in the financial highlights.

Growth of an Assumed $10,000 Investment in Deutsche Large Cap Value VIP



The Russell 1000® Value Index is an unmanaged index that consists of those stocks in the Russell 1000® Index with less-than-average growth orientation. The Russell 1000® Index is an unmanaged price-only index of the 1,000 largest capitalized companies that are domiciled in the U.S. and whose common stocks are traded.

Effective on or about October 3, 2016, the Standard & Poor's (S&P) 500 Index replaced the Russell 1000® Value Index as the comparative broad-based securities market index because the Advisor believes that the Standard & Poor's (S&P) 500 Index more closely reflects the fund's overall investments.

The Standard & Poor's 500 Index (S&P 500) 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

Deutsche Large Cap Value VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$9,561	$9,858	$14,167	$14,149
	Average annual total return	–4.39%	–0.47%	7.21%	3.53%
Russell 1000® Value Index	Growth of $10,000	$11,734	$12,803	$19,938	$17,445
	Average annual total return	17.34%	8.59%	14.80%	5.72%
S&P 500® Index	Growth of $10,000	$11,196	$12,905	$19,818	$19,572
	Average annual total return	11.96%	8.87%	14.66%	6.95%

Deutsche Large Cap Value VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$9,538	$9,772	$13,959	$13,714
	Average annual total return	–4.62%	–0.77%	6.90%	3.21%
Russell 1000® Value Index	Growth of $10,000	$11,734	$12,803	$19,938	$17,445
	Average annual total return	17.34%	8.59%	14.80%	5.72%
S&P 500® Index	Growth of $10,000	$11,196	$12,905	$19,818	$19,572
	Average annual total return	11.96%	8.87%	14.66%	6.95%

The growth of $10,000 is cumulative.

Management Summary

Deutsche Large Cap Value VIP returned –4.39% in 2016 (Class A shares, unadjusted for contract charges), compared with the 11.96% return of its benchmark the S&P 500® Index. The Russell 1000™ Value Index returned 17.34%.[1]

At the start of 2016, stocks performed poorly due to lingering concerns regarding global growth, but favorable actions by the world's central banks provided the spark for a rebound in mid-February. Stocks continued to rally through the spring and summer, as better-than-expected economic data fueled a steady recovery in market sentiment. During the period, the U.S. Federal Reserve Board reaffirmed its commitment to a gradual, data-dependent approach to its interest-rate policy. At the same time, investors grew more comfortable with the growth picture, as rebounding commodity prices, an improving outlook for China and steady economic data from developed markets allayed fears that the world economy would slip into a recession. Macroeconomic concerns returned in October, when the market rally lost steam amid growing uncertainty about the U.S. election. While stocks paused in the weeks leading up to the election, they staged a powerful relief rally in the final three weeks of November due to investors' favorable response to the removal of political uncertainty.

For the 12-month period, the Fund significantly underperformed the benchmark, and the largest detractor from performance was the Fund's tilt toward growth companies, as stocks with the biggest growth orientation underperformed, while more value-oriented stocks outperformed. High-dividend and low-volatility stocks also outperformed, and the Fund was underweighted in those areas as well. With regard to sectors, the Fund's overweight in health care and underweight in financials subtracted from returns. In terms of specific holdings, the timing of the Fund's position in Bank of America Corp.* detracted significantly from performance. Holdings in the generic drug maker Endo International plc* also detracted as the company lowered its earnings outlook. Conversely, the Fund's holdings in Darden Restaurants, Inc.* contributed to returns as the company has benefited from the excellent execution of core strategies within its restaurant chains. Additionally, the Fund's out-of-benchmark position in Southwest Airlines Co.* added to performance as the airline has enjoyed healthy earnings.[2]

In October 2016, Deutsche Large Cap Value VIP adopted the CROCI® (Cash Return on Capital Invested) strategy as its underlying investment thesis. Portfolio management will select stocks of companies that they believe offer economic value from among the largest U.S. companies, utilizing the CROCI® strategy as one factor, among other factors. The belief underpinning the CROCI® investment philosophy is that reported financial statement data is incomplete and often not comparable across industries, sectors, countries and regions. Furthermore, it is not adjusted for inflation, nor does it always reflect all information relevant to valuation calculations. The managers believe that a systematic adjustment of reported financial statement data can provide a more accurate assessment of corporate valuation, financial risk and cash returns, thereby leading to superior long-term investment performance. The team will also take additional measures to attempt to reduce portfolio turnover, market impact and transaction costs in connection with implementation of the strategy, by applying liquidity and trading controls, and managing the portfolio with tax efficiency in mind.

Di Kumble, CFA
John Moody
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 Standard & Poor's 500 Index (S&P 500) is an unmanaged, capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The S&P 500 Index became the fund's benchmark as of October 3, 2016. 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.

* Not held in the portfolio as of December 31, 2016.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/16**	**12/31/15**
Common Stocks	99%	99%
Cash Equivalents	1%	1%
	100%	100%

Sector Diversification (As a % of Common Stocks and Master Limited Partnership)	**12/31/16**	**12/31/15**
Utilities	21%	4%
Consumer Staples	17%	8%
Health Care	17%	31%
Consumer Discretionary	15%	16%
Industrials	12%	8%
Information Technology	12%	6%
Telecommunication Services	3%	—
Materials	3%	1%
Financials	—	17%
Energy	—	9%
	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, 2016

	Shares	Value ($)
Common Stocks 99.1%		
Consumer Discretionary 14.4%		
Auto Components 2.5%		
Goodyear Tire & Rubber Co.	187,572	**5,790,348**
Household Durables 2.3%		
D.R. Horton, Inc.	195,619	**5,346,267**
Leisure Products 2.2%		
Hasbro, Inc.	65,902	**5,126,516**
Media 5.1%		
Time Warner, Inc.	61,550	5,941,422
Twenty-First Century Fox, Inc. "A"	202,631	5,681,773
		11,623,195
Multiline Retail 2.3%		
Target Corp.	73,013	**5,273,729**
Consumer Staples 17.3%		
Beverages 7.5%		
Coca-Cola Co.	136,424	5,656,139
Dr. Pepper Snapple Group, Inc.	65,687	5,955,841
PepsiCo, Inc.	55,016	5,756,324
		17,368,304
Food & Staples Retailing 2.4%		
Wal-Mart Stores, Inc.	80,861	**5,589,112**
Household Products 5.0%		
Kimberly-Clark Corp.	49,591	5,659,325
Procter & Gamble Co.	68,188	5,733,247
		11,392,572
Personal Products 2.4%		
Estee Lauder Companies, Inc. "A"	72,788	**5,567,554**
Health Care 17.1%		
Biotechnology 4.8%		
Amgen, Inc.	38,649	5,650,870
Gilead Sciences, Inc.	75,160	5,382,208
		11,033,078
Health Care Equipment & Supplies 5.0%		
Medtronic PLC	76,605	5,456,574
Stryker Corp.	51,657	6,189,025
		11,645,599
Pharmaceuticals 7.3%		
Johnson & Johnson	49,617	5,716,375
Merck & Co., Inc.	90,716	5,340,451
Pfizer, Inc.	179,702	5,836,721
		16,893,547
Industrials 12.3%		
Aerospace & Defense 4.9%		
Raytheon Co.	38,561	5,475,662
United Technologies Corp.	52,840	5,792,321
		11,267,983
Industrial Conglomerates 5.0%		
General Electric Co.	182,486	5,766,557
Honeywell International, Inc.	50,248	5,821,231
		11,587,788
Machinery 2.4%		
Illinois Tool Works, Inc.	45,773	**5,605,362**
Information Technology 12.2%		
Communications Equipment 2.5%		
Cisco Systems, Inc.	187,608	**5,669,514**
IT Services 2.5%		
International Business Machines Corp.	34,737	**5,765,995**
Semiconductors & Semiconductor Equipment 2.3%		
KLA-Tencor Corp.	69,045	**5,432,461**
Software 2.4%		
Oracle Corp.	141,548	**5,442,520**
Technology Hardware, Storage & Peripherals 2.5%		
Apple, Inc.	50,522	**5,851,458**
Materials 2.5%		
Chemicals		
LyondellBasell Industries NV "A"	66,129	**5,672,545**
Telecommunication Services 2.7%		
Diversified Telecommunication Services		
Verizon Communications, Inc.	116,589	**6,223,521**
Utilities 20.6%		
Electric Utilities 10.2%		
American Electric Power Co., Inc.	95,788	6,030,812
Edison International	81,791	5,888,134
NextEra Energy, Inc.	49,621	5,927,725
PG&E Corp.	95,723	5,817,087
		23,663,758
Multi-Utilities 10.4%		
Consolidated Edison, Inc.	80,892	5,960,122
Dominion Resources, Inc.	78,335	5,999,678
DTE Energy Co.	60,972	6,006,352
Public Service Enterprise Group, Inc.	137,989	6,054,957
		24,021,109
Total Common Stocks (Cost $227,137,671)		**228,853,835**
Cash Equivalents 0.8%		
Deutsche Central Cash Management Government Fund, 0.50% (a) (Cost $1,823,475)	1,823,475	**1,823,475**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $228,961,146)†	99.9	**230,677,310**
Other Assets and Liabilities, Net	0.1	**159,514**
Net Assets	100.0	**230,836,824**

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

† The cost for federal income tax purposes was $229,050,047. At December 31, 2016, net unrealized appreciation for all securities based on tax cost was $1,627,263. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $7,354,677 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $5,727,414.

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

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, 2016 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Common Stocks (b)	$228,853,835	$ —	$ —	$228,853,835
Short-Term Investment	1,823,475	—	—	1,823,475
Total	**$230,677,310**	**$ —**	**$ —**	**$230,677,310**

There have been no transfers between fair value measurement levels during the year ended December 31, 2016.

(b) See Investment Portfolio for additional detailed categorizations.

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

Statement of Assets and Liabilities

as of December 31, 2016

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $227,137,671)	$	228,853,835
Investment in Deutsche Central Cash Management Government Fund (cost $1,823,475)		1,823,475
Total investments in securities, at value (cost $228,961,146)		230,677,310
Receivable for Fund shares sold		42,249
Dividends receivable		508,655
Interest receivable		380
Other assets		3,517
Total assets		231,232,111
Liabilities		
Payable for Fund shares redeemed		174,543
Accrued management fee		111,380
Accrued Trustees' fees		4,091
Other accrued expenses and payables		105,273
Total liabilities		395,287
Net assets, at value	**$**	**230,836,824**
Net Assets Consist of		
Undistributed net investment income		3,845,993
Net unrealized appreciation (depreciation) on investments		1,716,164
Accumulated net realized gain (loss)		(22,950,201)
Paid-in capital		248,224,868
Net assets, at value	**$**	**230,836,824**
Class A		
Net Asset Value, offering and redemption price per share ($227,325,587 ÷ 16,529,732 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**13.75**
Class B		
Net Asset Value, offering and redemption price per share ($3,511,237 ÷ 254,820 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**13.78**

Statement of Operations

for the year ended December 31, 2016

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $6,912)	$	5,674,829
Income distributions — Deutsche Central Cash Management Government Fund		16,482
Securities lending income, net of borrower rebates		56,072
Other income		47,515
Total income		5,794,898
Expenses:		
Management fee		1,572,759
Administration fee		242,022
Services to shareholders		4,306
Record keeping fees (Class B)		2,468
Distribution and service fees (Class B)		9,481
Custodian fee		8,404
Professional fees		72,832
Reports to shareholders		32,842
Trustees' fees and expenses		12,674
Other		15,740
Total expenses before expense reductions		1,973,528
Expense reductions		(179,874)
Total expenses after expense reductions		1,793,654
Net investment income	**$**	**4,001,244**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from investments		(20,531,633)
Change in net unrealized appreciation (depreciation) on investments		1,399,099
Net gain (loss)		**(19,132,534)**
Net increase (decrease) in net assets resulting from operations		**(15,131,290)**

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

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2016	2015
Operations:		
Net investment income	$ 4,001,244	$ 2,553,436
Net realized gain (loss)	(20,531,633)	10,078,803
Change in net unrealized appreciation (depreciation)	1,399,099	(38,128,300)
Net increase (decrease) in net assets resulting from operations	(15,131,290)	(25,496,061)
Distributions to shareholders from:		
Net investment income:		
Class A	(2,434,486)	(5,899,426)
Class B	(25,893)	(54,717)
Net realized gains:		
Class A	(12,035,759)	(17,852,466)
Class B	(185,570)	(214,368)
Total distributions	(14,681,708)	(24,020,977)
Fund share transactions:		
Class A		
Proceeds from shares sold	5,510,987	6,111,736
Reinvestment of distributions	14,470,245	23,751,892
Payments for shares redeemed	(56,264,127)	(118,444,533)
Net increase (decrease) in net assets from Class A share transactions	(36,282,895)	(88,580,905)
Class B		
Proceeds from shares sold	525,700	538,133
Reinvestment of distributions	211,463	269,085
Payments for shares redeemed	(1,258,566)	(881,598)
Net increase (decrease) in net assets from Class B share transactions	(521,403)	(74,380)
Increase (decrease) in net assets	(66,617,296)	(138,172,323)
Net assets at beginning of period	297,454,120	435,626,443
Net assets at end of period (including undistributed net investment income of $3,845,993 and $2,410,518, respectively)	**$ 230,836,824**	**$ 297,454,120**

Other Information		
Class A		
Shares outstanding at beginning of period	19,157,658	24,769,255
Shares sold	405,203	372,428
Shares issued to shareholders in reinvestment of distributions	1,079,869	1,389,812
Shares redeemed	(4,112,998)	(7,373,837)
Net increase (decrease) in Class A shares	(2,627,926)	(5,611,597)
Shares outstanding at end of period	**16,529,732**	**19,157,658**
Class B		
Shares outstanding at beginning of period	291,996	297,108
Shares sold	38,734	32,072
Shares issued to shareholders in reinvestment of distributions	15,722	15,690
Shares redeemed	(91,632)	(52,874)
Net increase (decrease) in Class B shares	(37,176)	(5,112)
Shares outstanding at end of period	**254,820**	**291,996**

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

Financial Highlights

Class A	2016	2015	2014	2013	2012
	Years Ended December 31,				
Selected Per Share Data					
Net asset value, beginning of period	**$15.29**	**$17.38**	**$15.97**	**$12.45**	**$11.56**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.23	.11	.24	.26	.25
Net realized and unrealized gain (loss)	(.93)	(1.20)	1.45	3.54	.87
Total from investment operations	(.70)	(1.09)	1.69	3.80	1.12
Less distributions from:					
Net investment income	(.14)	(.25)	(.28)	(.28)	(.23)
Net realized gains on investment transactions	(.70)	(.75)	—	—	—
Total distributions	(.84)	(1.00)	(.28)	(.28)	(.23)
Net asset value, end of period	**$13.75**	**$15.29**	**$17.38**	**$15.97**	**$12.45**
Total Return (%)[b]	(4.39)	(6.87)	10.72	30.89	9.79
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	227	293	430	432	377
Ratio of expenses before expense reductions (%)	.81	.78	.78	.78	.78
Ratio of expenses after expense reductions (%)	.74	.73	.73	.74	.77
Ratio of net investment income (loss) (%)	1.66	.65	1.43	1.82	2.04
Portfolio turnover rate (%)	293	121	133	54	63

a Based on average shares outstanding during the period.

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

Class B	2016	2015	2014	2013	2012
	Years Ended December 31,				
Selected Per Share Data					
Net asset value, beginning of period	**$15.31**	**$17.40**	**$15.99**	**$12.46**	**$11.57**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.19	.06	.18	.22	.21
Net realized and unrealized gain (loss)	(.92)	(1.21)	1.46	3.55	.88
Total from investment operations	(.73)	(1.15)	1.64	3.77	1.09
Less distributions from:					
Net investment income	(.10)	(.19)	(.23)	(.24)	(.20)
Net realized gains on investment transactions	(.70)	(.75)	—	—	—
Total distributions	(.80)	(.94)	(.23)	(.24)	(.20)
Net asset value, end of period	**$13.78**	**$15.31**	**$17.40**	**$15.99**	**$12.46**
Total Return (%)[b]	(4.62)	(7.16)	10.36	30.54	9.44
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	4	4	5	5	4
Ratio of expenses before expense reductions (%)	1.13	1.10	1.09	1.09	1.09
Ratio of expenses after expense reductions (%)	1.05	1.04	1.04	1.05	1.08
Ratio of net investment income (loss) (%)	1.37	.35	1.10	1.52	1.73
Portfolio turnover rate (%)	293	121	133	54	63

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 ("U.S. GAAP") which require the use of management estimates. Actual results could differ from those estimates. The Fund qualifies as an investment company under Topic 946 of Accounting Standards Codification of U.S. GAAP. 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 its securities lending agreement. During the term of the loans, the Fund 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 securities lending agreement. During the year ended December 31, 2016, the Fund invested the cash collateral into a joint trading account in affiliated money market funds including Government & Agency Securities Portfolio managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.09% annualized effective rate as of December 31, 2016) on the cash collateral invested in Government & Agency Securities Portfolio. 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 at any time, and the borrower, after notice, is required to return borrowed securities within a standard time period. 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, 2016, the Fund had no securities on loan.

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, 2016, the Fund had a net tax basis capital loss carryforward of approximately $22,862,000, which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($20,822,000) and long-term losses ($2,040,000).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2016 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, 2016, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 3,845,993
Capital loss carryforward	$ (22,862,000)
Unrealized appreciation (depreciation) on investments	$ 1,627,263

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

	Years Ended December 31, 2016	2015
Distributions from ordinary income*	$ 2,525,931	$ 5,954,143
Distribution from long-term capital gains	$ 12,155,777	$ 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, 2016, purchases and sales of investment transactions (excluding short-term investments) aggregated $703,333,478 and $748,194,540, 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, 2016, 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, 2016 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 expense) of each class as follows:

Class A	.73%
Class B	1.04%

For the period from May 1, 2016 through September 30, 2016, the Advisor had contractually agreed to waive all or a portion of its fee and/or reimburse certain operating expenses of the Fund to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of each class as follows:

Class A	.75%
Class B	1.06%

Effective October 1, 2016 through September 30, 2017, the Advisor has contractually agreed to waive all or a portion of its fee and/or reimburse certain operating expenses of the Fund to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of each class as follows:

Class A	.72%
Class B	1.03%

For the year ended December 31, 2016, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 176,640
Class B	3,234
	$ 179,874

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, 2016, the Administration Fee was $242,022, of which $19,742 is unpaid.

Service Provider Fees. Deutsche AM 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, 2016, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	**Total Aggregated**	**Unpaid at December 31, 2016**
Class A	$ 392	$ 99
Class B	222	56
	$ 614	**$ 155**

Distribution Service Agreement. Under the Fund's Class B 12b-1 plan, Deutsche AM 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, 2016, the Distribution Service Fee aggregated $9,481, of which $769 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, 2016, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $12,086, of which $4,197 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 Deutsche Central Cash Management Government Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. 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. Deutsche Central Cash Management Government 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. Deutsche Central Cash Management Government 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, 2016, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $4,876.

D. Ownership of the Fund

At December 31, 2016, three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 50%, 29% and 16%. Two participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, each owning 64% and 15%.

E. Line of Credit

The Fund and other affiliated funds (the “Participants”) share in a $400 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if 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, 2016.

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, 2016, 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, 2016, 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, 2016, 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 14, 2017

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, 2016 to December 31, 2016).

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, 2016

Actual Fund Return	Class A	Class B
Beginning Account Value 7/1/16	$1,000.00	$1,000.00
Ending Account Value 12/31/16	$1,044.80	$1,043.90
Expenses Paid per $1,000*	$ 3.80	$ 5.34
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/16	$1,000.00	$1,000.00
Ending Account Value 12/31/16	$1,021.42	$1,019.91
Expenses Paid per $1,000*	$ 3.76	$ 5.28

* 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 366.

Annualized Expense Ratios	Class A	Class B
Deutsche Variable Series II — Deutsche Large Cap Value VIP	.74%	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 $0.70 per share from net long-term capital gains during its year ended December 31, 2016.

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, 2016, 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 most recent 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 (hereinafter referred to as the "Board" or "Trustees") approved the renewal of Deutsche Large Cap Value VIP's (the "Fund") investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2016.

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

— During the entire process, all of the Fund's Trustees were independent of DIMA and its affiliates (the "Independent Trustees").

— The Board 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 extensive 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 Management ("Deutsche AM") division. Deutsche AM 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 Board 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 invest in Deutsche AM and seek to enhance Deutsche AM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AM 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 and the resources made available to such personnel. 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, 2015, 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, 2015. 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 considered that on or about October 3, 2016, the Fund would change its investment strategy and portfolio managers. 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 Broadridge Financial Solutions, Inc. ("Broadridge") and the Fee Consultant regarding investment management fee rates paid to other investment advisors by similar funds (1st quartile being the most favorable and 4th quartile being the least favorable). With respect to management fees paid to other investment advisors by similar funds, the Board noted that the contractual fee rates paid by the Fund, which include a 0.10% fee paid to DIMA under the Fund's administrative services agreement, were equal to the median of the applicable Broadridge peer group (based on Broadridge data provided as of December 31, 2015). 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 Broadridge expense universe (based on Broadridge data provided as of December 31, 2015, and analyzing Broadridge expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Broadridge Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Broadridge 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 AM. The Board noted that DIMA indicated that Deutsche AM 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, seniority and time commitment of the individuals serving as DIMA's and the Fund's chief compliance officers; (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 Independent 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 Keith R. Fox, Deutsche Funds Board Chair, c/o Thomas R. Hiller, Ropes & Gray LLP, Prudential Tower, 800 Boylston Street, Boston, MA 02199-3600. 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
Keith R. Fox, CFA (1954) Chairperson since 2017,[2] and 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)	98	—
Kenneth C. Froewiss (1945) Vice Chairperson since 2017,[2] Board Member since 2001, and Chairperson (2013–December 31, 2016)	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)	98	—
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.[3] (population well-being and wellness services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International	98	Portland General Electric[3] (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); The Pew Charitable Trusts (charitable organization); former Directorships: Becton Dickinson and Company[3] (medical technology company); Belo Corporation[3] (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)	98	—
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: Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: ICI Mutual Insurance Company (2007–2015); Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	98	—
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	98	—

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; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006)	98	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004, and Vice Chairperson (2013–December 31, 2016)	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	98	—
Rebecca W. Rimel (1951) Board Member since 1995	President, Chief Executive Officer and Director, The Pew Charitable Trusts (charitable organization) (1994–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[3] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	98	Director, Becton Dickinson and Company[3] (medical technology company) (2012–present); Director, BioTelemetry Inc.[3] (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[3] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	98	—
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); former Directorships: The William and Flora Hewlett Foundation (charitable organization) (2000–2015); Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	98	—

Officers[5]

Name, Year of Birth, Position with the Fund and Length of Time Served[6]	Business Experience and Directorships During the Past Five Years
Brian E. Binder[9] (1972) President and Chief Executive Officer, 2013–present	Managing Director[4] and Head of US Product and Fund Administration, Deutsche Asset Management (2013–present); Director and President, Deutsche AM Service Company (since 2016); Director and Vice President, Deutsche AM Distributors, Inc. (since 2016); Director and President, DB Investment Managers, Inc. (since 2016); formerly, Head of Business Management and Consulting at Invesco, Ltd. (2010–2012)
John Millette[8] (1962) Vice President and Secretary, 1999–present	Director,[4] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (2015–present); and Director and Vice President, Deutsche AM Trust Company (since 2016)
Hepsen Uzcan[7] (1974) Vice President, since 2016 Assistant Secretary, 2013–present	Director,[4] Deutsche Asset Management
Paul H. Schubert[7] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[4] Deutsche Asset Management, and Chairman, Director and President, Deutsche AM Trust Company (since 2013); Vice President, Deutsche AM Distributors, Inc. (since 2016); formerly, Director, Deutsche AM Trust Company (2004–2013)
Caroline Pearson[8] (1962) Chief Legal Officer, 2010–present	Managing Director,[4] Deutsche Asset Management; Secretary, Deutsche AM Distributors, Inc.; and Secretary, Deutsche AM Service Company

Name, Year of Birth, Position with the Fund and Length of Time Served[6]	Business Experience and Directorships During the Past Five Years
Scott D. Hogan[8] (1970) Chief Compliance Officer, since 2016	Director,[4] Deutsche Asset Management
Wayne Salit[7] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[4] Deutsche Asset Management; AML Compliance Officer, Deutsche AM Distributors, Inc.; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Paul Antosca[8] (1957) Assistant Treasurer, 2007–present	Director,[4] Deutsche Asset Management
Diane Kenneally[8] (1966) Assistant Treasurer, 2007–present	Director,[4] 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 Effective as of January 1, 2017.

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

4 Executive title, not a board directorship.

5 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.

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

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

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

9 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

Notes

Notes

Deutsche
Asset Management

VS2LCV-2 (R-025833-6 2/17)

Deutsche
Asset Management

December 31, 2016

Annual Report

Deutsche Variable Series II

Deutsche Small Mid Cap Growth VIP

Contents

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

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.

Deutsche AM 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

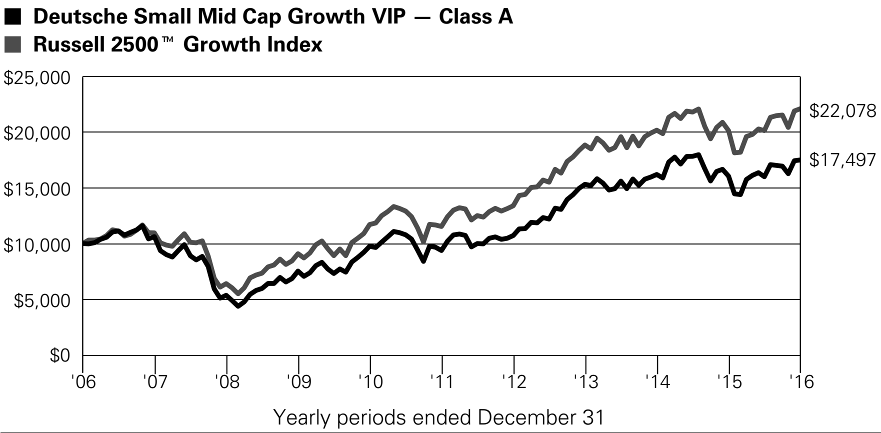
December 31, 2016 (Unaudited)

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, 2016 is 0.72% for Class A shares and may differ from the expense ratio disclosed in the Financial Highlights table in this report.

Generally accepted accounting principles require adjustments to be made to the net assets of the Fund at period end for financial reporting purposes only, and as such, the total return based on the unadjusted net asset value per share may differ from the total return reported in the financial highlights.

Growth of an Assumed $10,000 Investment in Deutsche Small Mid Cap Growth VIP



The Russell 2500™ Growth Index is an unmanaged index that measures the performance of the small- to mid-cap growth segment of the U.S. equity universe. It includes those Russell 2500 companies with higher price-to-book ratios and higher forecasted growth values.

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

Comparative Results

Deutsche Small Mid Cap Growth VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,908	$11,426	$18,655	$17,497
	Average annual total return	9.08%	4.54%	13.28%	5.75%
Russell 2500 Growth Index	Growth of $10,000	$10,973	$11,725	$19,151	$22,078
	Average annual total return	9.73%	5.45%	13.88%	8.24%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2016 (Unaudited)

For the 12-month period ended December 31, 2016, the Fund returned 9.08% (Class A shares, unadjusted for contract charges) in comparison to the 9.73% return of the Russell 2500™ Growth Index.[1]

As 2016 began, we saw heightened volatility after China's accelerated yuan depreciation rekindled worries regarding capital outflows. However, the market staged a significant rally beginning on February 12 as oil prices rallied strongly. The second quarter also proved quite volatile, as investors struggled with tepid U.S. growth and Britain's "Brexit" referendum vote in late June to leave the European Union. Immediately following the vote, a massive equity sell-off was unleashed worldwide. However, stocks rallied by the end of June, as global markets displayed surprising resilience. Stocks rallied during the third quarter as better-than-expected earnings reports bolstered sentiment. OPEC's announcement that it planned to trim oil production beginning in January 2017 then prompted a rally across markets. The fourth quarter represented one of the most interesting market periods in recent history. Following November 8, equities, especially small caps, rallied strongly in light of the presidential election results. Market sentiment was energized by the prospects for above-trend economic growth going forward.

Portfolio underperformance was derived primarily from unfavorable sector allocation, based on overweights in health care and financials, and an underweight to materials.[2] Overweights in consumer staples and energy, coupled with an underweight in real estate, contributed positively to returns.[3] Stock selection was positive across materials, consumer discretionary and financials.[4] In contrast, selection within health care and industrials detracted.

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 & 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 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 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.

4 Consumer discretionary is the sector of the economy that includes companies (such as apparel and automobile companies) that sell nonessential goods and services.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/16**	**12/31/15**
Common Stocks	97%	98%
Cash Equivalents	3%	2%
Convertible Preferred Stock	0%	0%
	100%	100%

Sector Diversification (As a % of Common Stocks and Convertible Preferred Stock)	**12/31/16**	**12/31/15**
Consumer Discretionary	20%	20%
Industrials	20%	17%
Information Technology	20%	20%
Health Care	18%	23%
Financials	7%	9%
Materials	7%	5%
Consumer Staples	4%	4%
Energy	3%	2%
Real Estate	1%	—
Telecommunication Services	0%	—
	100%	100%

Portfolio holdings and characteristics are subject to change.

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

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330. The Fund's portfolio holdings are also posted on deutschefunds.com from time to time. Please see the Fund's current prospectus for more information.

Investment Portfolio

December 31, 2016

	Shares	Value ($)
Common Stocks 97.4%		
Consumer Discretionary 19.4%		
Auto Components 2.5%		
Gentherm, Inc.*	38,010	1,286,638
Tenneco, Inc.*	27,182	1,698,060
		2,984,698
Diversified Consumer Services 1.6%		
Bright Horizons Family Solutions, Inc.*	12,300	861,246
ServiceMaster Global Holdings, Inc.*	26,100	983,187
		1,844,433
Hotels, Restaurants & Leisure 3.3%		
Jack in the Box, Inc.	16,552	1,847,865
La Quinta Holdings, Inc.*	49,849	708,355
Panera Bread Co. "A"*	6,468	1,326,522
		3,882,742
Household Durables 2.9%		
Helen of Troy Ltd.*	11,200	945,840
iRobot Corp.*	29,393	1,718,021
Newell Brands, Inc.	16,958	757,175
		3,421,036
Leisure Products 1.0%		
Polaris Industries, Inc. (a)	14,619	**1,204,459**
Media 1.3%		
Cinemark Holdings, Inc.	39,218	**1,504,403**
Specialty Retail 5.1%		
Burlington Stores, Inc.*	22,300	1,889,925
The Children's Place, Inc.	18,041	1,821,239
Ulta Salon, Cosmetics & Fragrance, Inc.*	5,969	1,521,737
Urban Outfitters, Inc.*	30,305	863,086
		6,095,987
Textiles, Apparel & Luxury Goods 1.7%		
Carter's, Inc.	12,586	1,087,304
Hanesbrands, Inc.	42,994	927,381
		2,014,685
Consumer Staples 3.6%		
Food & Staples Retailing 1.4%		
Casey's General Stores, Inc.	14,482	**1,721,620**
Food Products 1.1%		
Hain Celestial Group, Inc.*	32,043	**1,250,638**
Household Products 1.1%		
Spectrum Brands Holdings, Inc.	10,800	**1,321,164**
Energy 3.3%		
Energy Equipment & Services 2.0%		
Core Laboratories NV (a)	7,974	957,199
Dril-Quip, Inc.*	7,284	437,404
Patterson-UTI Energy, Inc.	37,400	1,006,808
		2,401,411
Oil, Gas & Consumable Fuels 1.3%		
Diamondback Energy, Inc.*	10,820	1,093,470
Gulfport Energy Corp.*	17,430	377,185
		1,470,655
Financials 7.1%		
Banks 5.6%		
Chemical Financial Corp.	17,001	920,944
FCB Financial Holdings, Inc. "A"*	24,721	1,179,192
Pinnacle Financial Partners, Inc.	19,461	1,348,647
Signature Bank*	6,291	944,908
South State Corp.	12,713	1,111,116
SVB Financial Group*	6,741	1,157,160
		6,661,967
Capital Markets 1.5%		
Lazard Ltd. "A"	23,866	980,654
Moelis & Co. "A"	22,802	772,988
		1,753,642
Health Care 17.4%		
Biotechnology 6.1%		
Alkermes PLC*	19,068	1,059,799
Bluebird Bio, Inc.* (a)	8,876	547,649
Ligand Pharmaceuticals, Inc.* (a)	11,809	1,199,913
Neurocrine Biosciences, Inc.*	14,801	572,799
Retrophin, Inc.*	87,925	1,664,420
Spectrum Pharmaceuticals, Inc.*	132,070	585,070
TESARO, Inc.*	4,700	632,056
United Therapeutics Corp.*	6,200	889,266
		7,150,972
Health Care Equipment & Supplies 0.7%		
Cynosure, Inc. "A"*	18,800	**857,280**
Health Care Providers & Services 6.9%		
BioScrip, Inc.*	513,500	534,040
Centene Corp.*	31,422	1,775,657
Healthways, Inc.*	26,800	609,700
Kindred Healthcare, Inc.	80,458	631,596
Molina Healthcare, Inc.*	26,781	1,453,137
Providence Service Corp.*	41,245	1,569,372
RadNet, Inc.*	107,600	694,020
Teladoc, Inc.* (a)	55,200	910,800
		8,178,322
Life Sciences Tools & Services 1.4%		
PAREXEL International Corp.*	18,053	1,186,443
VWR Corp.*	20,000	500,600
		1,687,043
Pharmaceuticals 2.3%		
Akorn, Inc.*	28,330	618,444
Flamel Technologies SA (ADR)*	140,644	1,461,291
Pacira Pharmaceuticals, Inc.*	19,083	616,381
		2,696,116
Industrials 19.1%		
Aerospace & Defense 1.9%		
DigitalGlobe, Inc.*	37,813	1,083,343
HEICO Corp.	15,722	1,212,952
		2,296,295
Building Products 2.8%		
A.O. Smith Corp.	28,752	1,361,407
Fortune Brands Home & Security, Inc.	21,743	1,162,381
Gibraltar Industries, Inc.*	19,400	808,010
		3,331,798
Commercial Services & Supplies 0.6%		
Advanced Disposal Services, Inc.*	34,500	**766,590**

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

	Shares	Value ($)
Construction & Engineering 1.3%		
Primoris Services Corp.	66,842	**1,522,661**
Electrical Equipment 2.7%		
Acuity Brands, Inc.	5,162	1,191,699
AZZ, Inc.	22,843	1,459,668
Thermon Group Holdings, Inc.*	28,935	552,369
		3,203,736
Machinery 7.4%		
IDEX Corp.	12,700	1,143,762
John Bean Technologies Corp.	20,100	1,727,595
Manitowoc Foodservice, Inc.*	57,400	1,109,542
Middleby Corp.*	13,560	1,746,664
WABCO Holdings, Inc.*	20,122	2,135,950
Watts Water Technologies, Inc. "A"	14,395	938,554
		8,802,067
Marine 0.6%		
Kirby Corp.*	10,100	**671,650**
Professional Services 0.9%		
On Assignment, Inc.*	23,482	**1,036,965**
Trading Companies & Distributors 0.9%		
HD Supply Holdings, Inc.*	24,184	**1,028,062**
Information Technology 19.1%		
Electronic Equipment, Instruments & Components 4.2%		
Belden, Inc.	9,300	695,361
Cognex Corp.	39,216	2,494,922
IPG Photonics Corp.*	17,928	1,769,673
		4,959,956
Internet Software & Services 2.4%		
CoStar Group, Inc.*	7,327	1,381,066
WebMD Health Corp.* (a)	29,833	1,478,822
		2,859,888
IT Services 6.6%		
Broadridge Financial Solutions, Inc.	23,570	1,562,691
Cardtronics PLC "A"*	37,408	2,041,354
Euronet Worldwide, Inc.*	13,000	941,590
MAXIMUS, Inc.	23,134	1,290,646
WEX, Inc.*	9,098	1,015,337
WNS Holdings Ltd. (ADR)*	34,828	959,511
		7,811,129
Semiconductors & Semiconductor Equipment 2.2%		
Advanced Energy Industries, Inc.*	32,293	1,768,042
Mellanox Technologies Ltd.*	19,200	785,280
		2,553,322
Software 3.7%		
Aspen Technology, Inc.*	32,083	1,754,298
Proofpoint, Inc.*	11,700	826,605
Tyler Technologies, Inc.*	12,892	1,840,591
		4,421,494
Materials 6.4%		
Chemicals 3.8%		
Huntsman Corp.	72,512	1,383,529
Minerals Technologies, Inc.	20,978	1,620,550
Trinseo SA	24,825	1,472,123
		4,476,202
Construction Materials 1.5%		
Eagle Materials, Inc.	17,856	**1,759,352**
Metals & Mining 1.1%		
United States Steel Corp.	42,000	**1,386,420**
Real Estate 1.5%		
Equity Real Estate Investment Trusts (REITs)		
National Storage Affiliates Trust	28,375	626,236
Urban Edge Properties	40,000	1,100,400
		1,726,636
Telecommunication Services 0.5%		
Diversified Telecommunication Services		
SBA Communications Corp. "A"*	6,155	**635,565**
Total Common Stocks (Cost $84,684,845)		**115,353,061**

Convertible Preferred Stock 0.2%

Health Care		
Providence Service Corp., 5.5% (Cost $283,300)	2,833	**270,300**

Securities Lending Collateral 3.6%

Government & Agency Securities Portfolio "Deutsche Government Cash Institutional Shares", 0.42% (b) (c) (Cost $4,211,603)	4,211,603	**4,211,603**

Cash Equivalents 2.5%

Deutsche Central Cash Management Government Fund, 0.49% (b) (Cost $2,937,543)	2,937,543	**2,937,543**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $92,117,291)†	103.7	**122,772,507**
Other Assets and Liabilities, Net	(3.7)	**(4,395,414)**
Net Assets	100.0	**118,377,093**

* Non-income producing security.

† The cost for federal income tax purposes was $92,730,623. At December 31, 2016, net unrealized appreciation for all securities based on tax cost was $30,041,884. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $34,424,235 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $4,382,351.

(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, 2016 amounted to $4,136,348, which is 3.5% 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

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, 2016 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)	$115,353,061	$ —	$ —	$115,353,061
Convertible Preferred Stock	—	—	270,300	270,300
Short-Term Investments (d)	7,149,146	—	—	7,149,146
Total	**$122,502,207**	**$ —**	**$ 270,300**	**$122,772,507**

There have been no transfers between fair value measurement levels during the year ended December 31, 2016.

(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, 2016

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $84,968,145) — including $4,136,348 of securities loaned	$	115,623,361
Investment in Government & Agency Securities Portfolio (cost $4,211,603)*		4,211,603
Investment in Deutsche Central Cash Management Government Fund (cost $2,937,543)		2,937,543
Total investments in securities, at value (cost $92,117,291)		122,772,507
Receivable for investments sold		354,091
Receivable for Fund shares sold		2,499
Dividends receivable		46,766
Interest receivable		14,845
Other assets		2,032
Total assets		123,192,740

Liabilities		
Payable upon return of securities loaned		4,211,603
Payable for investments purchased		359,864
Payable for Fund shares redeemed		91,173
Accrued management fee		55,835
Accrued Trustees' fees		2,185
Other accrued expenses and payables		94,987
Total liabilities		4,815,647
Net assets, at value	**$**	**118,377,093**

Net Assets Consist of		
Undistributed net investment income		115,705
Net unrealized appreciation (depreciation) on investments		30,655,216
Accumulated net realized gain (loss)		5,767,616
Paid-in capital		81,838,556
Net assets, at value	**$**	**118,377,093**
Class A		
Net Asset Value, offering and redemption price per share ($118,377,093 ÷ 6,244,931 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**18.96**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2016

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $2,318)	$	796,494
Interest		688
Income distributions — Deutsche Central Cash Management Government Fund		11,138
Securities lending income, net of borrower rebates		143,458
Other income		49,703
Total income		1,001,481
Expenses:		
Management fee		639,301
Administration fee		116,236
Services to shareholders		1,794
Custodian fee		5,199
Professional fees		73,887
Reports to shareholders		24,607
Trustees' fees and expenses		7,229
Other		8,953
Total expenses		877,206
Net investment income (loss)		**124,275**

Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from investments		6,541,357
Change in net unrealized appreciation (depreciation) on investments		1,718,283
Net gain (loss)		**8,259,640**
Net increase (decrease) in net assets resulting from operations	**$**	**8,383,915**

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

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2016	2015
Operations:		
Net investment income (loss)	$ 124,275	$ (327,026)
Net realized gain (loss)	6,541,357	21,100,175
Change in net unrealized appreciation (depreciation)	1,718,283	(21,155,273)
Net increase (decrease) in net assets resulting from operations	8,383,915	(382,124)
Distributions to shareholders from:		
Net realized gains		
Class A	(20,264,895)	(13,914,292)
Fund share transactions:		
Class A		
Proceeds from shares sold	2,382,262	9,710,776
Reinvestment of distributions	20,264,895	13,914,292
Payments for shares redeemed	(27,583,809)	(46,020,854)
Net increase (decrease) in net assets from Class A share transactions	(4,936,652)	(22,395,786)
Increase (decrease) in net assets	(16,817,632)	(36,692,202)
Net assets at beginning of period	135,194,725	171,886,927
Net assets at end of period (including undistributed net investment income $115,705 and $0, respectively)	**$ 118,377,093**	**$ 135,194,725**

Other Information		
Class A		
Shares outstanding at beginning of period	6,467,679	7,527,702
Shares sold	129,160	422,288
Shares issued to shareholders in reinvestment of distributions	1,137,838	604,706
Shares redeemed	(1,489,746)	(2,087,017)
Net increase (decrease) in Class A shares	(222,748)	(1,060,023)
Shares outstanding at end of period	**6,244,931**	**6,467,679**

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

Financial Highlights

Class A	Years Ended December 31, 2016	2015	2014	2013	2012
Selected Per Share Data					
Net asset value, beginning of period	**$20.90**	**$22.83**	**$21.59**	**$15.14**	**$13.24**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.02	(.04)	(.02)	(.04)	.02
Net realized and unrealized gain (loss)	1.64	(.00)	1.26	6.51	1.88
Total from investment operations	1.66	(.04)	1.24	6.47	1.90
Less distributions from:					
Net investment income	—	—	—	(.02)	—
Net realized gains	(3.60)	(1.89)	—	—	—
Total distributions	(3.60)	(1.89)	—	(.02)	—
Net asset value, end of period	**$18.96**	**$20.90**	**$22.83**	**$21.59**	**$15.14**
Total Return (%)	9.08	(.90)	5.74	42.78	14.35
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	118	135	172	187	145
Ratio of expenses (%)	.75	.72	.73	.72	.74
Ratio of net investment income (loss) (%)	.11	(.19)	(.11)	(.22)	.11
Portfolio turnover rate (%)	28	42	44	56	57

[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 ("U.S. GAAP") which require the use of management estimates. Actual results could differ from those estimates. The Fund qualifies as an investment company under Topic 946 of Accounting Standards Codification of U.S. GAAP. 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 funds ("ETFs") are valued at the most recent sale price or official closing price reported on the exchange (U.S. or foreign) or over-the-counter market on which they trade. Securities for which no sales are reported are valued at the calculated mean between the most recent bid and asked quotations on the relevant market or, if a mean cannot be determined, at the most recent bid quotation. Equity securities and ETFs are generally categorized as Level 1.

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

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

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

Securities Lending. Deutsche Bank AG, as lending agent, lends securities of the Fund to certain financial institutions under the terms of its securities lending agreement. During the term of the loans, the Fund 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 securities lending agreement. As of period end, any securities on loan were collateralized by cash. During the year ended December 31, 2016, the Fund invested the cash collateral into a joint trading account in affiliated money market funds managed by Deutsche Investment Management Americas Inc. As of December 31, 2016, the Fund invested the cash collateral in Government & Agency Securities Portfolio. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.09% annualized effective rate as of December 31, 2016) on the cash collateral invested in Government & Agency Securities Portfolio. 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 at any time, and the borrower, after notice, is required to return borrowed securities within a standard time period. 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, 2016, the Fund had securities on loan, which were classified as common stock in the Investment Portfolio. The value of the related collateral exceeded the value of the securities loaned at period end. As of period end, the remaining contractual maturity of the collateral agreements were overnight and continuous.

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, 2016 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, 2016, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 115,705
Undistributed long-term capital gains	$ 6,380,949
Net unrealized appreciation (depreciation) on investments	$ 30,041,884

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

	Years Ended December 31, 2016	2015
Distributions from ordinary income*	$ 239,535	$ —
Distributions from long-term capital gains*	$ 20,025,360	$ 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, 2016, purchases and sales of investment transactions (excluding short-term investments) aggregated $32,257,962 and $56,994,883, 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, 2016, 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, 2016 through September 30, 2016, 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 0.86%.

Effective October 1, 2016 through September 30, 2017, 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 0.88%.

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, 2016, the Administration Fee was $116,236, of which $10,152 is unpaid.

Service Provider Fees. Deutsche AM 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, 2016, the amounts charged to the Fund by DSC aggregated $397, of which $106 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, 2016, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $10,474, of which $4,211 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 Deutsche Central Cash Management Government Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. 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. Deutsche Central Cash Management Government 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. Deutsche Central Cash Management Government 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, 2016, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $12,149.

D. Ownership of the Fund

At December 31, 2016, 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 25%.

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, 2016.

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, 2016, 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, 2016, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Deutsche Small Mid Cap Growth VIP (one of the funds constituting Deutsche Variable Series II) at December 31, 2016, 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 14, 2017

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, 2016 to December 31, 2016).

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, 2016

Actual Fund Return	**Class A**
Beginning Account Value 7/1/16	$1,000.00
Ending Account Value 12/31/16	$1,094.10
Expenses Paid per $1,000*	$ 3.90
Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 7/1/16	$1,000.00
Ending Account Value 12/31/16	$1,021.42
Expenses Paid per $1,000*	$ 3.76

* 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 366.

Annualized Expense Ratio	**Class A**
Deutsche Variable Series II — Deutsche Small Mid Cap Growth VIP	.74%

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

These tables do not reflect charges and fees ("contract charges") associated with the separate account that invests in the Fund or any variable life insurance policy or variable annuity contract for which the Fund is an investment option.

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 $3.56 per share from net long-term capital gains during its year ended December 31, 2016.

Pursuant to Section 852 of the Internal Revenue Code, the Fund designates $7,036,000 as capital gain dividends for its year ended December 31, 2016.

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, 2016, 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 most recent 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 (hereinafter referred to as the "Board" or "Trustees") approved the renewal of Deutsche Small Mid Cap Growth VIP's (the "Fund") investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2016.

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

— During the entire process, all of the Fund's Trustees were independent of DIMA and its affiliates (the "Independent Trustees").

— The Board 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 extensive 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 Management ("Deutsche AM") division. Deutsche AM 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 Board 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 invest in Deutsche AM and seek to enhance Deutsche AM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AM 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 and the resources made available to such personnel. 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, 2015, 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, 2015.

Fees and Expenses. The Board considered the Fund's investment management fee schedule, operating expenses and total expense ratios, and comparative information provided by Broadridge Financial Solutions, Inc. ("Broadridge") 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 Broadridge peer group (based on Broadridge data provided as of December 31, 2015). 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 Broadridge expense universe (based on Broadridge data provided as of December 31, 2015, and analyzing Broadridge expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Broadridge 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 AM. The Board noted that DIMA indicated that Deutsche AM 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, seniority and time commitment of the individuals serving as DIMA's and the Fund's chief compliance officers; (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 Independent 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 Keith R. Fox, Deutsche Funds Board Chair, c/o Thomas R. Hiller, Ropes & Gray LLP, Prudential Tower, 800 Boylston Street, Boston, MA 02199-3600. 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
Keith R. Fox, CFA (1954) Chairperson since 2017,[2] and 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)	98	—
Kenneth C. Froewiss (1945) Vice Chairperson since 2017,[2] Board Member since 2001, and Chairperson (2013–December 31, 2016)	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)	98	—
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.[3] (population well-being and wellness services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International	98	Portland General Electric[3] (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); The Pew Charitable Trusts (charitable organization); former Directorships: Becton Dickinson and Company[3] (medical technology company); Belo Corporation[3] (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)	98	—
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: Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: ICI Mutual Insurance Company (2007–2015); Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	98	—
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	98	—

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; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006)	98	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004, and Vice Chairperson (2013–December 31, 2016)	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	98	—
Rebecca W. Rimel (1951) Board Member since 1995	President, Chief Executive Officer and Director, The Pew Charitable Trusts (charitable organization) (1994–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[3] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	98	Director, Becton Dickinson and Company[3] (medical technology company) (2012–present); Director, BioTelemetry Inc.[3] (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[3] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	98	—
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); former Directorships: The William and Flora Hewlett Foundation (charitable organization) (2000–2015); Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	98	—

Officers[5]

Name, Year of Birth, Position with the Fund and Length of Time Served[6]	Business Experience and Directorships During the Past Five Years
Brian E. Binder[9] (1972) President and Chief Executive Officer, 2013–present	Managing Director[4] and Head of US Product and Fund Administration, Deutsche Asset Management (2013–present); Director and President, Deutsche AM Service Company (since 2016); Director and Vice President, Deutsche AM Distributors, Inc. (since 2016); Director and President, DB Investment Managers, Inc. (since 2016); formerly, Head of Business Management and Consulting at Invesco, Ltd. (2010–2012)
John Millette[8] (1962) Vice President and Secretary, 1999–present	Director,[4] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (2015–present); and Director and Vice President, Deutsche AM Trust Company (since 2016)
Hepsen Uzcan[7] (1974) Vice President, since 2016 Assistant Secretary, 2013–present	Director,[4] Deutsche Asset Management
Paul H. Schubert[7] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[4] Deutsche Asset Management, and Chairman, Director and President, Deutsche AM Trust Company (since 2013); Vice President, Deutsche AM Distributors, Inc. (since 2016); formerly, Director, Deutsche AM Trust Company (2004–2013)
Caroline Pearson[8] (1962) Chief Legal Officer, 2010–present	Managing Director,[4] Deutsche Asset Management; Secretary, Deutsche AM Distributors, Inc.; and Secretary, Deutsche AM Service Company

Name, Year of Birth, Position with the Fund and Length of Time Served[6]	Business Experience and Directorships During the Past Five Years
Scott D. Hogan[8] (1970) Chief Compliance Officer, since 2016	Director,[4] Deutsche Asset Management
Wayne Salit[7] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[4] Deutsche Asset Management; AML Compliance Officer, Deutsche AM Distributors, Inc.; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Paul Antosca[8] (1957) Assistant Treasurer, 2007–present	Director,[4] Deutsche Asset Management
Diane Kenneally[8] (1966) Assistant Treasurer, 2007–present	Director,[4] 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 Effective as of January 1, 2017.

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

4 Executive title, not a board directorship.

5 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.

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

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

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

9 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

VS2SMCG-2 (R-025835-6 2/17)

Deutsche
Asset Management

December 31, 2016

Annual Report

Deutsche Variable Series II

Deutsche Small Mid Cap Value VIP

Contents

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

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.

Deutsche AM 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

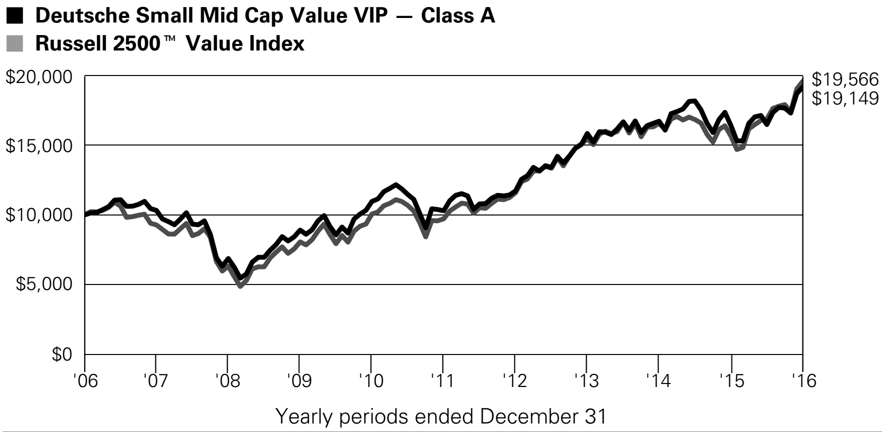
December 31, 2016 (Unaudited)

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, 2016 are 0.80% and 1.16% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

Generally accepted accounting principles require adjustments to be made to the net assets of the Fund at period end for financial reporting purposes only, and as such, the total return based on the unadjusted net asset value per share may differ from the total return reported in the financial highlights.

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	$11,689	$12,099	$18,615	$19,149
	Average annual total return	16.89%	6.56%	13.23%	6.71%
Russell 2500 Value Index	Growth of $10,000	$12,520	$12,674	$20,145	$19,566
	Average annual total return	25.20%	8.22%	15.04%	6.94%

Deutsche Small Mid Cap Value VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$11,647	$11,969	$18,280	$18,490
	Average annual total return	16.47%	6.18%	12.82%	6.34%
Russell 2500 Value Index	Growth of $10,000	$12,520	$12,674	$20,145	$19,566
	Average annual total return	25.20%	8.22%	15.04%	6.94%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2016 (Unaudited)

The Class A shares of Deutsche Small Mid Cap Value VIP returned 16.89% in 2016 (unadjusted for contract charges), trailing the 25.20% return of its benchmark, the Russell 2500™ Value Index.[1]

While the overall asset class finished with strong returns, the Fund did not fully participate in the gains. We recognize that the shortfall is disappointing for our investors, but our goal is to invest in stocks we believe are positioned for outperformance over a multiyear time frame. Although this can lead to swings in short-term performance relative to the benchmark, we are focused on making sure the Fund is invested in fundamentally sound, undervalued companies with the potential for market-beating returns. Moreover, the Fund holds a number of companies that we believe are creating shareholder value by paying above-average dividends and buying back shares. We therefore see the portfolio as being well positioned from a longer-term perspective, notwithstanding its underperformance of the past year.

Both sector allocations and stock selection contributed to the deficit of the past 12 months. We held an underweight allocation to utilities and real estate investment trusts, which proved to be a headwind given that both groups registered robust gains in the first half of the period.[2] We began to reduce the extent of these underweights as the year progressed, but we put the money to work gradually as opportunities permitted rather than establishing the positions all at once. The Fund therefore had an above-average cash weighting for much of the year, which was an additional drag on returns in the rising market.

Stock selection also played a role in the Fund's underperformance, with our weakest relative results occurring in the industrials, materials and consumer discretionary sectors.[3] Conversely, we outperformed in the health care and consumer staples sectors.[4] Among individual stocks, the largest detractors were Pitney Bowes, Inc., Hanesbrands, Inc. and Verint Systems, Inc., while the most significant contributors were OFG Bancorp. and Dolby Laboratories, Inc.

The Fund's management team changed during the first calendar quarter, but we maintained the same disciplined, value-oriented and research-driven style the Fund employed in the past. We continued to manage the portfolio with a lower valuation than the small-and-mid-cap market as a whole, and we retained a focus on companies with robust fundamentals, high free cash flows and healthy balance sheets. With that said, we did make two shifts of note. First, the Fund now strives to maintain sector weightings that are more closely in line with the benchmark, which we believe can help reduce the impact of sector allocations on the Fund's relative performance. Second, we began to place a larger emphasis on higher-quality companies that are trading below their intrinsic values due to factors that have caused their stocks to fall temporarily out of favor. At a time in which market performance has been driven largely by liquidity flows and momentum factors, we saw a growing opportunity set among these types of companies. In total, we believe the Fund's value-driven approach, together with these important shifts, can help us identify the most compelling investment ideas in the small-and-mid-cap space.

Richard Hanlon, CFA
Mary Schafer
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 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.

3 Consumer discretionary represents industries that produce goods and services that are not necessities in everyday life.

4 The consumer staples sector represents companies that produce essential items such as food, beverages and household items.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/16**	**12/31/15**
Common Stocks	95%	97%
Cash Equivalents	5%	3%
	100%	100%

Sector Diversification (As a % of Common Stocks)	**12/31/16**	**12/31/15**
Financials	24%	23%
Industrials	15%	26%
Information Technology	15%	19%
Consumer Discretionary	14%	10%
Energy	7%	5%
Real Estate	7%	2%
Consumer Staples	6%	2%
Utilities	5%	—
Health Care	4%	4%
Materials	3%	9%
	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, 2016

	Shares	Value ($)
Common Stocks 95.0%		
Consumer Discretionary 13.5%		
Auto Components 3.2%		
Standard Motor Products, Inc.	47,104	2,506,875
Visteon Corp.	36,937	2,967,519
		5,474,394
Leisure Products 1.7%		
Polaris Industries, Inc. (a)	34,849	**2,871,209**
Media 4.2%		
AMC Entertainment Holdings, Inc. "A" (a)	53,628	1,804,582
Scripps Networks Interactive, Inc. "A"	36,800	2,626,416
TEGNA, Inc.	124,067	2,653,793
		7,084,791
Specialty Retail 2.8%		
Hibbett Sports, Inc.* (a)	66,984	2,498,503
Staples, Inc.	243,600	2,204,580
		4,703,083
Textiles, Apparel & Luxury Goods 1.6%		
Hanesbrands, Inc.	123,173	**2,656,842**
Consumer Staples 5.2%		
Food Products 4.0%		
Conagra Brands, Inc.	68,928	2,726,102
Lamb Weston Holdings, Inc.*	53,576	2,027,852
Pinnacle Foods, Inc.	36,800	1,966,960
		6,720,914
Household Products 1.2%		
Central Garden & Pet Co.*	61,700	**2,041,653**
Energy 6.9%		
Oil, Gas & Consumable Fuels		
Cimarex Energy Co.	23,476	3,190,389
Matador Resources Co.*	105,815	2,725,794
Noble Energy, Inc.	66,700	2,538,602
QEP Resources, Inc.	170,841	3,145,183
		11,599,968
Financials 22.9%		
Banks 10.8%		
Capital Bank Financial Corp. "A"	91,849	3,605,073
Great Western Bancorp., Inc.	83,802	3,652,929
KeyCorp	260,854	4,765,803
OFG Bancorp. (a)	244,782	3,206,644
Sterling Bancorp.	124,554	2,914,564
		18,145,013
Capital Markets 2.8%		
Lazard Ltd. "A"	114,128	**4,689,519**
Consumer Finance 2.9%		
Synchrony Financial	133,865	**4,855,283**
Insurance 4.6%		
CNO Financial Group, Inc.	206,155	3,947,868
Reinsurance Group of America, Inc.	30,449	3,831,398
		7,779,266
Thrifts & Mortgage Finance 1.8%		
Walker & Dunlop, Inc.*	100,033	**3,121,030**

	Shares	Value ($)
Health Care 3.8%		
Health Care Providers & Services 2.9%		
Aceto Corp.	50,409	1,107,486
HealthSouth Corp.	55,335	2,282,015
MEDNAX, Inc.*	22,100	1,473,186
		4,862,687
Life Sciences Tools & Services 0.9%		
PerkinElmer, Inc.	31,743	**1,655,397**
Industrials 14.6%		
Air Freight & Logistics 0.5%		
Forward Air Corp.	18,642	**883,258**
Commercial Services & Supplies 4.9%		
Pitney Bowes, Inc.	169,363	2,572,624
Steelcase, Inc. "A"	171,020	3,061,258
The Brink's Co.	65,533	2,703,236
		8,337,118
Construction & Engineering 0.7%		
Aegion Corp.*	48,700	**1,154,190**
Machinery 5.4%		
Hillenbrand, Inc.	74,467	2,855,809
Snap-on, Inc.	17,985	3,080,291
Stanley Black & Decker, Inc.	26,959	3,091,928
		9,028,028
Professional Services 0.8%		
FTI Consulting, Inc.*	29,205	**1,316,562**
Trading Companies & Distributors 2.3%		
AerCap Holdings NV*	93,358	**3,884,626**
Information Technology 14.0%		
Communications Equipment 2.6%		
Harris Corp.	43,493	**4,456,728**
Electronic Equipment, Instruments & Components 5.4%		
Dolby Laboratories, Inc. "A"	38,058	1,719,841
Insight Enterprises, Inc.*	22,400	905,856
Keysight Technologies, Inc.*	83,952	3,070,125
Rogers Corp.*	43,635	3,351,604
		9,047,426
IT Services 2.9%		
Convergys Corp.	114,260	2,806,226
NeuStar, Inc. "A"*	63,680	2,126,912
		4,933,138
Software 1.2%		
Verint Systems, Inc.*	57,732	**2,035,053**
Technology Hardware, Storage & Peripherals 1.9%		
NetApp, Inc.	89,001	**3,139,065**
Materials 2.8%		
Chemicals		
Celanese Corp. "A"	36,129	2,844,797
CF Industries Holdings, Inc.	59,200	1,863,616
		4,708,413
Real Estate 6.4%		
Equity Real Estate Investment Trusts (REITs)		
Agree Realty Corp.	56,902	2,620,337
Gaming and Leisure Properties, Inc.	96,421	2,952,411
Pebblebrook Hotel Trust	63,939	1,902,185

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

	Shares	Value ($)
Physicians Realty Trust	128,508	2,436,512
STAG Industrial, Inc.	36,100	861,707
		10,773,152
Utilities 4.9%		
Electric Utilities 1.7%		
IDACORP, Inc.	36,983	**2,978,981**
Gas Utilities 1.2%		
ONE Gas, Inc.	30,900	**1,976,364**
Multi-Utilities 2.0%		
DTE Energy Co.	34,000	**3,349,340**
Total Common Stocks (Cost $132,723,798)		**160,262,491**
Securities Lending Collateral 3.9%		
Government & Agency Securities Portfolio "Deutsche Government Cash Institutional Shares", 0.41% (b) (c) (Cost $6,521,525)	6,521,525	**6,521,525**
Cash Equivalents 5.1%		
Deutsche Central Cash Management Government Fund, 0.50% (b) (Cost $8,640,301)	8,640,301	**8,640,301**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $147,885,624)†	104.0	**175,424,317**
Other Assets and Liabilities, Net	4.0	**(6,730,608)**
Net Assets	100.0	**168,693,709**

* Non-income producing security.

† The cost for federal income tax purposes was $148,072,883. At December 31, 2016, net unrealized appreciation for all securities based on tax cost was $27,351,434. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $31,244,828 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $3,893,394.

(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, 2016 amounted to $6,358,065, which is 3.8% of net assets.

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

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

Fair Value Measurements

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

The following is a summary of the inputs used as of December 31, 2016 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)	$160,262,491	$ —	$ —	$160,262,491
Short-Term Investments (d)	15,161,826	—	—	15,161,826
Total	**$175,424,317**	**$ —**	**$ —**	**$175,424,317**

There have been no transfers between fair value measurement levels during the year ended December 31, 2016.

(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, 2016

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $132,723,798) — including $6,358,065 of securities loaned	$	160,262,491
Investment in Government & Agency Securities Portfolio (cost $6,521,525)*		6,521,525
Investment in Deutsche Central Cash Management Government Fund (cost $8,640,301)		8,640,301
Total investments in securities, at value (cost $147,885,624)		175,424,317
Receivable for Fund shares sold		55,315
Dividends receivable		197,632
Interest receivable		7,051
Other assets		2,682
Total assets		175,686,997
Liabilities		
Payable upon return of securities loaned		6,521,525
Payable for Fund shares redeemed		271,847
Accrued management fee		93,442
Accrued Trustees' fees		2,578
Other accrued expenses and payables		103,896
Total liabilities		6,993,288
Net assets, at value	**$**	**168,693,709**
Net Assets Consist of		
Undistributed net investment income		1,465,989
Net unrealized appreciation (depreciation) on investments		27,538,693
Accumulated net realized gain (loss)		3,281,308
Paid-in capital		136,407,719
Net assets, at value	**$**	**168,693,709**
Class A		
Net Asset Value, offering and redemption price per share ($153,332,198 ÷ 9,208,579 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**16.65**
Class B		
Net Asset Value, offering and redemption price per share ($15,361,511 ÷ 923,852 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**16.63**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2016

Investment Income		
Income:		
Dividends (net of foreign taxes withheld of $7,070)	$	2,744,870
Income distributions — Deutsche Central Cash Management Government Fund		41,849
Securities lending income, net of borrower rebates		72,548
Other income		32,130
Total income		2,891,397
Expenses:		
Management fee		1,039,718
Administration fee		159,957
Services to shareholders		4,203
Record keeping fees (Class B)		14,575
Distribution service fee (Class B)		33,836
Custodian fee		3,491
Professional fees		68,831
Reports to shareholders		37,341
Trustees' fees and expenses		8,696
Other		9,506
Total expenses before expense reductions		1,380,154
Expense reductions		(13,962)
Total expenses after expense reductions		1,366,192
Net investment income (loss)		**1,525,205**
Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from investments		3,137,095
Change in net unrealized appreciation (depreciation) on investments		19,608,211
Net gain (loss)		**22,745,306**
Net increase (decrease) in net assets resulting from operations	**$**	**24,270,511**

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

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2016	2015
Operations:		
Net investment income (loss)	$ 1,525,205	$ 1,012,706
Net realized gain (loss)	3,137,095	17,066,350
Change in net unrealized appreciation (depreciation)	19,608,211	(20,852,678)
Net increase (decrease) in net assets resulting from operations	24,270,511	(2,773,622)
Distributions to shareholders from:		
Net investment income:		
Class A	(888,084)	(593,081)
Class B	(31,217)	—
Net realized gains:		
Class A	(15,665,658)	(17,173,555)
Class B	(1,422,898)	(1,373,376)
Total distributions	(18,007,857)	(19,140,012)
Fund share transactions:		
Class A		
Proceeds from shares sold	8,157,267	11,088,951
Reinvestment of distributions	16,553,742	17,766,636
Payments for shares redeemed	(37,741,593)	(52,858,262)
Net increase (decrease) in net assets from Class A share transactions	(13,030,584)	(24,002,675)
Class B		
Proceeds from shares sold	2,712,137	2,463,269
Reinvestment of distributions	1,454,115	1,373,376
Payments for shares redeemed	(3,082,291)	(5,621,076)
Net increase (decrease) in net assets from Class B share transactions	1,083,961	(1,784,431)
Increase (decrease) in net assets	(5,683,969)	(47,700,740)
Net assets at beginning of period	174,377,678	222,078,418
Net assets at end of period (including undistributed net investment income of $1,465,989 and $973,558, respectively)	**$ 168,693,709**	**$ 174,377,678**

Other Information		
Class A		
Shares outstanding at beginning of period	10,068,570	11,531,437
Shares sold	525,679	646,274
Shares issued to shareholders in reinvestment of distributions	1,110,244	1,025,787
Shares redeemed	(2,495,914)	(3,134,928)
Net increase (decrease) in Class A shares	(859,991)	(1,462,867)
Shares outstanding at end of period	**9,208,579**	**10,068,570**
Class B		
Shares outstanding at beginning of period	852,173	953,703
Shares sold	176,025	143,164
Shares issued to shareholders in reinvestment of distributions	97,461	79,203
Shares redeemed	(201,807)	(323,897)
Net increase (decrease) in Class B shares	71,679	(101,530)
Shares outstanding at end of period	**923,852**	**852,173**

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

Financial Highlights

Class A	Years Ended December 31, 2016	2015	2014	2013	2012
Selected Per Share Data					
Net asset value, beginning of period	**$15.97**	**$17.79**	**$17.08**	**$12.78**	**$11.36**
Income (loss) from investment operations:					
Net investment income[a]	.15	.09	.05	.12	.14
Net realized and unrealized gain (loss)	2.34	(.31)	.88	4.35	1.42
Total from investment operations	2.49	(.22)	.93	4.47	1.56
Less distributions from:					
Net investment income	(.10)	(.05)	(.14)	(.17)	(.14)
Net realized gains	(1.71)	(1.55)	(.08)	—	—
Total distributions	(1.81)	(1.60)	(.22)	(.17)	(.14)
Net asset value, end of period	**$16.65**	**$15.97**	**$17.79**	**$17.08**	**$12.78**
Total Return (%)	16.89[b]	(1.91)	5.53	35.24	13.77
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	153	161	205	240	219
Ratio of expenses before expense reductions (%)	.83	.80	.82	.82	.82
Ratio of expenses after expense reductions (%)	.82	.80	.82	.82	.82
Ratio of net investment income (%)	.99	.51	.32	.81	1.18
Portfolio turnover rate (%)	53	25	34	115	11

[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, 2016	2015	2014	2013	2012
Selected Per Share Data					
Net asset value, beginning of period	**$15.95**	**$17.77**	**$17.07**	**$12.78**	**$11.36**
Income (loss) from investment operations:					
Net investment income[a]	.09	.02	(.01)	.07	.10
Net realized and unrealized gain (loss)	2.34	(.29)	.87	4.34	1.42
Total from investment operations	2.43	(.27)	.86	4.41	1.52
Less distributions from:					
Net investment income	(.04)	—	(.08)	(.12)	(.10)
Net realized gains	(1.71)	(1.55)	(.08)	—	—
Total distributions	(1.75)	(1.55)	(.16)	(.12)	(.10)
Net asset value, end of period	**$16.63**	**$15.95**	**$17.77**	**$17.07**	**$12.78**
Total Return (%)	16.47[b]	(2.21)	5.09	34.70	13.38
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	15	14	17	20	17
Ratio of expenses before expense reductions (%)	1.19	1.16	1.17	1.17	1.16
Ratio of expenses after expense reductions (%)	1.18	1.16	1.17	1.17	1.16
Ratio of net investment income (loss) (%)	.57	.14	(.04)	.45	.81
Portfolio turnover rate (%)	53	25	34	115	11

[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 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 ("U.S. GAAP") which require the use of management estimates. Actual results could differ from those estimates. The Fund qualifies as an investment company under Topic 946 of Accounting Standards Codification of U.S. GAAP. 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 its securities lending agreement. During the term of the loans, the Fund 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 securities lending agreement. As of period end, any securities on loan were collateralized by cash. During the year ended December 31, 2016, the Fund invested the cash collateral into a joint trading account in affiliated money market funds managed by Deutsche Investment Management Americas Inc. As of December 31, 2016, the Fund invested the cash collateral in Government & Agency Securities Portfolio. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.09% annualized effective rate as of December 31, 2016) on the cash collateral invested in Government & Agency Securities Portfolio. 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 at any time, and the borrower, after notice, is required to return borrowed securities within a standard time period.. 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, 2016, the Fund had securities on loan, which were classified as common stocks in the Investment Portfolio. The value of the related collateral exceeded the value of the securities loaned at period end. As of period end, the remaining contractual maturity of the collateral agreements were overnight and continuous.

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, 2016 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, 2016, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 1,444,846
Undistributed long-term capital gains	$ 3,468,567
Unrealized appreciation (depreciation) on investments	$ 27,351,434

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

	Years Ended December 31, 2016	2015
Distributions from ordinary income*	$ 1,718,093	$ 9,435,762
Distributions from long-term capital gains	$ 16,289,764	$ 9,704,250

* 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 at its fiscal year end 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, 2016, purchases and sales of investment transactions (excluding short-term investments) aggregated $79,356,801 and $110,034,868, 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, 2016, 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, 2016 through September 30, 2016, the Advisor had contractually agreed to waive its fees and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of each class as follows:

Class A	.82%
Class B	1.18%

Effective October 1, 2016 through September 30, 2017, 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	.84%
Class B	1.20%

For the year ended December 31, 2016, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 12,660
Class B	1,302
	$ 13,962

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, 2016, the Administration Fee was $159,957, of which $14,376 is unpaid.

Service Provider Fees. Deutsche AM 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, 2016, the amounts charged to the Fund by DSC were as follows:

Service to Shareholders	Total Aggregated	Unpaid at December 31, 2016
Class A	$ 592	$ 151
Class B	476	114
	$ 1,068	**$ 265**

Distribution Service Agreement. Under the Fund's Class B 12b-1 plan, Deutsche AM 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, 2016, the Distribution Service Fee aggregated $33,836, of which $3,243 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, 2016, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $12,025, of which $4,343 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 Deutsche Central Cash Management Government Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. 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. Deutsche Central Cash Management Government 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. Deutsche Central Cash Management Government 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, 2016, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 53% and 22%. Four participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, each owning 28%, 22%, 19% and 15%.

E. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if 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, 2016.

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, 2016, 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, 2016, 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, 2016, 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 14, 2017

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, 2016 to December 31, 2016).

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, 2016

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/16	$1,000.00	$1,000.00
Ending Account Value 12/31/16	$1,163.50	$1,161.30
Expenses Paid per $1,000*	$ 4.51	$ 6.47
Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/16	$1,000.00	$1,000.00
Ending Account Value 12/31/16	$1,020.96	$1,019.15
Expenses Paid per $1,000*	$ 4.22	$ 6.04

* Expenses are equal to the Fund's annualized expense ratio for each share class, multiplied by the average account value over the period, multiplied by 184 (the number of days in the most recent six-month period), then divided by 366.

Annualized Expense Ratios	**Class A**	**Class B**
Deutsche Variable Series II — Deutsche Small Mid Cap Value VIP	.83%	1.19%

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 $1.63 per share from net long-term capital gains during its year ended December 31, 2016.

Pursuant to Section 852 of the Internal Revenue Code, the Fund designates $3,846,000 as capital gain dividends for its year ended December 31, 2016.

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, 2016, 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 most recent 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 (hereinafter referred to as the "Board" or "Trustees") approved the renewal of Deutsche Small Mid Cap Value VIP's (the "Fund") investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2016.

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

— During the entire process, all of the Fund's Trustees were independent of DIMA and its affiliates (the "Independent Trustees").

— The Board 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 extensive 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 Management ("Deutsche AM") division. Deutsche AM 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 Board 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 invest in Deutsche AM and seek to enhance Deutsche AM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AM 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 and the resources made available to such personnel. 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, 2015, the Fund's performance (Class A shares) was in the 2nd quartile, 4th quartile and 4th quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in the one- and three-year periods and has underperformed its benchmark in the five-year period ended December 31, 2015. 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 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 Broadridge Financial Solutions, Inc. ("Broadridge") 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 Broadridge peer group (based on Broadridge data provided as of December 31, 2015). 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 Broadridge expense universe (based on Broadridge data provided as of December 31, 2015, and analyzing Broadridge expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Broadridge Universe Expenses"). The Board also reviewed data comparing each share class's total (net) operating expenses to the applicable Broadridge 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 AM. The Board noted that DIMA indicated that Deutsche AM 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, seniority and time commitment of the individuals serving as DIMA's and the Fund's chief compliance officers; (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 Independent 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 Keith R. Fox, Deutsche Funds Board Chair, c/o Thomas R. Hiller, Ropes & Gray LLP, Prudential Tower, 800 Boylston Street, Boston, MA 02199-3600. 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
Keith R. Fox, CFA (1954) Chairperson since 2017,[2] and 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)	98	—
Kenneth C. Froewiss (1945) Vice Chairperson since 2017,[2] Board Member since 2001, and Chairperson (2013–December 31, 2016)	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)	98	—
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.[3] (population well-being and wellness services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International	98	Portland General Electric[3] (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); The Pew Charitable Trusts (charitable organization); former Directorships: Becton Dickinson and Company[3] (medical technology company); Belo Corporation[3] (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)	98	—
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: Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: ICI Mutual Insurance Company (2007–2015); Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	98	—
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	98	—

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; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006)	98	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004, and Vice Chairperson (2013–December 31, 2016)	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	98	—
Rebecca W. Rimel (1951) Board Member since 1995	President, Chief Executive Officer and Director, The Pew Charitable Trusts (charitable organization) (1994–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[3] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	98	Director, Becton Dickinson and Company[3] (medical technology company) (2012–present); Director, BioTelemetry Inc.[3] (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[3] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	98	—
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); former Directorships: The William and Flora Hewlett Foundation (charitable organization) (2000–2015); Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	98	—

Officers[5]

Name, Year of Birth, Position with the Fund and Length of Time Served[6]	Business Experience and Directorships During the Past Five Years
Brian E. Binder[9] (1972) President and Chief Executive Officer, 2013–present	Managing Director[4] and Head of US Product and Fund Administration, Deutsche Asset Management (2013–present); Director and President, Deutsche AM Service Company (since 2016); Director and Vice President, Deutsche AM Distributors, Inc. (since 2016); Director and President, DB Investment Managers, Inc. (since 2016); formerly, Head of Business Management and Consulting at Invesco, Ltd. (2010–2012)
John Millette[8] (1962) Vice President and Secretary, 1999–present	Director,[4] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (2015–present); and Director and Vice President, Deutsche AM Trust Company (since 2016)
Hepsen Uzcan[7] (1974) Vice President, since 2016 Assistant Secretary, 2013–present	Director,[4] Deutsche Asset Management
Paul H. Schubert[7] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[4] Deutsche Asset Management, and Chairman, Director and President, Deutsche AM Trust Company (since 2013); Vice President, Deutsche AM Distributors, Inc. (since 2016); formerly, Director, Deutsche AM Trust Company (2004–2013)
Caroline Pearson[8] (1962) Chief Legal Officer, 2010–present	Managing Director,[4] Deutsche Asset Management; Secretary, Deutsche AM Distributors, Inc.; and Secretary, Deutsche AM Service Company

Name, Year of Birth, Position with the Fund and Length of Time Served[6]	Business Experience and Directorships During the Past Five Years
Scott D. Hogan[8] (1970) Chief Compliance Officer, since 2016	Director,[4] Deutsche Asset Management
Wayne Salit[7] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[4] Deutsche Asset Management; AML Compliance Officer, Deutsche AM Distributors, Inc.; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Paul Antosca[8] (1957) Assistant Treasurer, 2007–present	Director,[4] Deutsche Asset Management
Diane Kenneally[8] (1966) Assistant Treasurer, 2007–present	Director,[4] 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 Effective as of January 1, 2017.

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

4 Executive title, not a board directorship.

5 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.

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

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

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

9 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-025829-6 2/17)

Deutsche
Asset Management

December 31, 2016

Annual Report

Deutsche Variable Series II

Deutsche Unconstrained Income VIP

Contents

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

Bond investments are subject to interest-rate, credit, liquidity and market risks to varying degrees. When interest rates rise, bond prices generally fall. Credit risk refers to the ability of an issuer to make timely payments of principal and interest. Investments in lower-quality ("junk bonds") and non-rated securities present greater risk of loss than investments in higher-quality securities. Investing in 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 and less liquid 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.

Deutsche AM 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

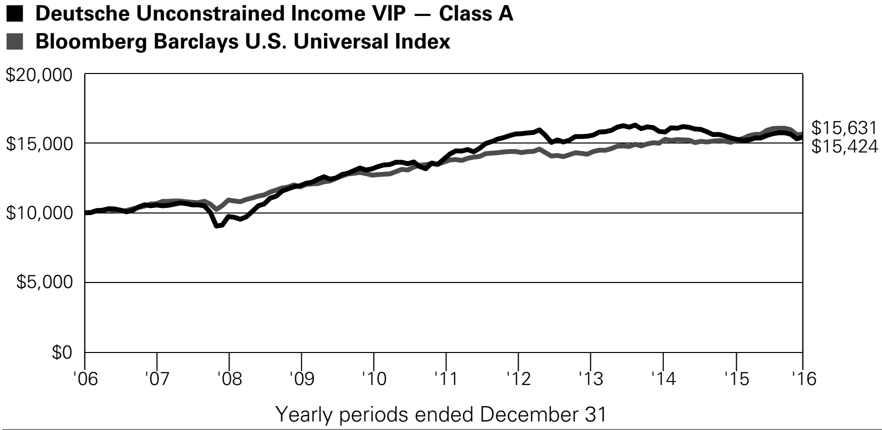
December 31, 2016 (Unaudited)

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, 2016 is 1.16% for Class A shares and may differ from the expense ratio disclosed in the Financial Highlights table in this report.

Generally accepted accounting principles require adjustments to be made to the net assets of the Fund at period end for financial reporting purposes only, and as such, the total return based on the unadjusted net asset value per share may differ from the total return reported in the financial highlights.

Growth of an Assumed $10,000 Investment in Deutsche Unconstrained Income VIP



The unmanaged Bloomberg 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.

Comparative Results

Deutsche Unconstrained Income VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,050	$9,964	$11,149	$15,424
	Average annual total return	0.50%	–0.12%	2.20%	4.43%
Bloomberg Barclays U.S. Universal Index	Growth of $10,000	$10,391	$11,016	$11,469	$15,631
	Average annual total return	3.91%	3.28%	2.78%	4.57%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2016 (Unaudited)

The Class A shares of the Fund returned 0.50% (unadjusted for contract charges) in 2016, underperforming the 3.91% return of the Bloomberg Barclays U.S. Universal Index.[1]

The Fund's overall positioning had a mixed impact on performance in the past 12 months. We entered the period with a defensive posture, as we were very conscious of the risks associated with falling energy prices and slowing global growth. This cautious approach was expressed in a below-average credit exposure and a focus on higher-quality issues. Our defensive strategy served us well until the market low in mid-February, but it subsequently cost us some relative performance over the next four to six weeks by preventing the Fund from fully participating in the initial stages of the rally. We began to add back to the portfolio's credit exposure in early April, a process that we continued throughout the remainder of the period. The Fund performed well vs. the benchmark in the second half as a result of these moves, enabling it to provide competitive returns for the full year.

Overall, the Fund benefited from its sizable position in high-yield bonds given that the category finished with a total return well above the index. We could have generated even better performance by taking a more aggressive stance in high yield, but we preferred to maintain a focus on higher-quality bonds within the category. We took a similarly risk-conscious approach in the emerging markets by favoring more stable countries over those with higher risk. We therefore missed the majority of the rally in Argentina and Venezuela, which cost us some relative performance. However, our investments in Russia, Indonesia and Brazil made significant contributions. An allocation to emerging-markets corporate bonds, which delivered returns in excess of government securities amid investors' reach for yield, also provided a meaningful boost to results.

The Fund maintained a lower weighting in the investment-grade category due to its minimal position in corporate bonds. We continue to find better opportunities elsewhere, especially with corporates' yield spreads having narrowed over the course of 2016. The majority of the investment-grade portfolio was allocated to structured securities, where we saw a more favorable trade-off of risk and return potential. This portion of the Fund made a modest contribution and provided a measure of stability early in the year.

The Fund also held small positions in developed-market international bonds, but our focus was primarily on one-off opportunities. Our investments in Portugal and France contributed positively, but a position in Australia detracted.

The Fund employed derivatives 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 use of derivatives contributed positively to performance during the past 12 months.

At the close of the period, we continued to identify the most attractive opportunities in high-yield and emerging-markets debt. With investors receiving little in the way of yield on developed-market government bonds, we think both asset classes can continue to benefit from robust demand. We are very conscious of the potential risks, however, particularly now that yield spreads have fallen to more normalized levels from their first-quarter highs. Accordingly, we have taken steps to maintain liquidity and manage the risks inherent in the underlying portfolio. We believe this yield-focused, but cautious, strategy is the appropriate positioning in the current environment.

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 Bloomberg 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)	**12/31/16**	**12/31/15**
Government & Agency Obligations	41%	18%
Corporate Bonds	20%	47%
Exchange-Traded Funds	11%	—
Collateralized Mortgage Obligations	10%	13%
Loan Participations and Assignments	5%	4%
Cash Equivalents	5%	3%
Commercial Mortgage-Backed Securities	5%	2%
Short-Term U.S. Treasury Obligations	2%	2%
Asset-Backed	1%	2%
Common Stocks	0%	1%
Convertible Bond	0%	0%
Put Options Purchased	0%	0%
Mortgage-Backed Security Pass-Throughs	—	8%
	100%	100%

Quality (Excludes Cash Equivalents, Securities Lending Collateral and Exchange-Traded Funds)	**12/31/16**	**12/31/15**
AAA	41%	32%
AA	1%	0%
A	9%	4%
BBB	31%	14%
BB	9%	29%
B	3%	16%
CCC or Below	6%	3%
Not Rated	—	2%
	100%	100%

Interest Rate Sensitivity	**12/31/16**	**12/31/15**
Effective Maturity	7.2 years	7.6 years
Effective Duration	4.6 years	3.5 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.

Investment Portfolio

December 31, 2016

	Principal Amount ($)(a)	Value ($)
Corporate Bonds 19.7%		
Consumer Discretionary 1.6%		
Ally Financial, Inc., 5.75%, 11/20/2025	30,000	29,925
Charter Communications Operating LLC:		
3.579%, 7/23/2020	20,000	20,405
4.908%, 7/23/2025	10,000	10,539
Churchill Downs, Inc., 5.375%, 12/15/2021	15,000	15,563
Cox Communications, Inc., 144A, 3.35%, 9/15/2026	10,000	9,549
CVS Health Corp., 5.125%, 7/20/2045	30,000	33,434
Ford Motor Co., 5.291%, 12/8/2046	15,000	15,195
General Motors Co., 6.6%, 4/1/2036	15,000	17,145
General Motors Financial Co., Inc.:		
2.4%, 5/9/2019	15,000	14,960
3.2%, 7/13/2020	50,000	50,150
3.2%, 7/6/2021	25,000	24,792
The Gap, Inc., 5.95%, 4/12/2021	80,000	84,187
Time Warner, Inc., 3.8%, 2/15/2027	40,000	39,773
Walgreens Boots Alliance, Inc., 4.8%, 11/18/2044	20,000	20,556
		386,173
Consumer Staples 1.6%		
Anheuser-Busch InBev Finance, Inc., 4.9%, 2/1/2046	30,000	32,426
Kraft Heinz Foods Co., 4.375%, 6/1/2046	140,000	131,737
Minerva Luxembourg SA, 144A, 12.25%, 2/10/2022	200,000	215,000
Molson Coors Brewing Co., 4.2%, 7/15/2046	15,000	13,985
		393,148
Energy 5.3%		
Anadarko Petroleum Corp.:		
4.85%, 3/15/2021 (b)	10,000	10,722
5.55%, 3/15/2026 (b)	10,000	11,193
ConocoPhillips Co., 4.15%, 11/15/2034	20,000	19,549
Enbridge, Inc., 5.5%, 12/1/2046	35,000	37,451
Encana Corp., 5.15%, 11/15/2041	50,000	45,373
Energy Transfer Partners LP, 5.95%, 10/1/2043	10,000	10,306
Halliburton Co., 4.85%, 11/15/2035	10,000	10,546
Kinder Morgan Energy Partners LP:		
4.7%, 11/1/2042	20,000	18,634
6.375%, 3/1/2041	10,000	10,848
Lukoil International Finance BV, 144A, 6.656%, 6/7/2022	250,000	278,125
Marathon Oil Corp., 5.2%, 6/1/2045	50,000	47,128
Noble Holding International Ltd., 5.25%, 3/16/2018	10,000	9,975
Pertamina Persero PT, 144A, 5.25%, 5/23/2021	200,000	210,457
Petroleos Mexicanos:		
144A, 4.625%, 9/21/2023	215,000	209,152
144A, 5.375%, 3/13/2022	86,000	88,062
Plains All American Pipeline LP:		
2.85%, 1/31/2023	25,000	23,633
4.3%, 1/31/2043	5,000	4,143
4.5%, 12/15/2026	165,000	167,384
Regency Energy Partners LP, 4.5%, 11/1/2023	20,000	20,294
Shell International Finance BV, 4.0%, 5/10/2046	15,000	14,344
Sunoco Logistics Partners Operations LP, 5.3%, 4/1/2044	20,000	19,310
Valero Energy Corp., 3.4%, 9/15/2026	25,000	23,950
Valero Energy Partners LP, 4.375%, 12/15/2026	10,000	10,090
		1,300,669
Financials 5.0%		
Akbank TAS, 144A, 5.0%, 10/24/2022	200,000	190,000
Apollo Investment Corp., 5.25%, 3/3/2025	30,000	29,195
Ares Capital Corp., 3.625%, 1/19/2022	20,000	19,389
Bank of America Corp., 3.5%, 4/19/2026	20,000	19,733
Barclays Bank PLC, 144A, 6.05%, 12/4/2017	120,000	123,970
Blackstone Holdings Finance Co., LLC, 144A, 5.0%, 6/15/2044	10,000	9,864
Branch Banking & Trust Co., 1.45%, 5/10/2019	20,000	19,777
Corp. Financiera de Desarrollo SA, 144A, 4.75%, 2/8/2022	250,000	261,250
Credito Real SAB de CV SOFOM ER, 144A, 7.25%, 7/20/2023	250,000	255,000
Everest Reinsurance Holdings, Inc., 4.868%, 6/1/2044	30,000	29,097
FS Investment Corp., 4.75%, 5/15/2022	40,000	39,886
KKR Group Finance Co. III LLC, 144A, 5.125%, 6/1/2044	20,000	18,883
Legg Mason, Inc., 5.625%, 1/15/2044	20,000	19,476
Loews Corp., 4.125%, 5/15/2043	20,000	19,188
Manulife Financial Corp., 5.375%, 3/4/2046	25,000	28,521
Massachusetts Mutual Life Insurance Co., 144A, 4.5%, 4/15/2065	10,000	9,172
Morgan Stanley, 3.125%, 7/27/2026	20,000	19,107
Nationwide Financial Services, Inc., 144A, 5.3%, 11/18/2044	20,000	20,827
Swiss Re Treasury U.S. Corp., 144A, 4.25%, 12/6/2042	20,000	19,531
The Goldman Sachs Group, Inc.:		
3.5%, 11/16/2026	10,000	9,770
3.75%, 2/25/2026	20,000	20,059
Voya Financial, Inc., 4.8%, 6/15/2046	15,000	14,581
Wells Fargo & Co., 3.0%, 10/23/2026	35,000	33,334
		1,229,610

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

	Principal Amount ($)(a)	Value ($)
Health Care 1.2%		
Abbott Laboratories:		
2.9%, 11/30/2021	60,000	59,829
4.9%, 11/30/2046	60,000	61,580
AbbVie, Inc., 4.7%, 5/14/2045	5,000	4,906
Actavis Funding SCS, 4.75%, 3/15/2045	10,000	9,817
Aetna, Inc., 4.375%, 6/15/2046	15,000	15,062
Celgene Corp., 5.0%, 8/15/2045	10,000	10,397
Gilead Sciences, Inc., 4.15%, 3/1/2047	15,000	14,247
Mylan NV, 144A, 5.25%, 6/15/2046	25,000	23,057
Pfizer, Inc.:		
4.0%, 12/15/2036	15,000	15,368
4.125%, 12/15/2046	5,000	5,086
Shire Acquisitions Investments Ireland DAC, 3.2%, 9/23/2026	39,000	36,439
Stryker Corp., 4.625%, 3/15/2046	10,000	10,197
UnitedHealth Group, Inc.:		
3.45%, 1/15/2027	15,000	15,238
4.2%, 1/15/2047	25,000	25,288
		306,511
Industrials 0.3%		
CSX Corp., 4.25%, 11/1/2066	10,000	9,126
FedEx Corp., 4.55%, 4/1/2046	15,000	15,116
Molex Electronic Technologies LLC, 144A, 3.9%, 4/15/2025	20,000	19,674
Roper Technologies, Inc., 3.8%, 12/15/2026	20,000	20,154
Transurban Finance Co. Pty Ltd., 144A, 3.375%, 3/22/2027	15,000	14,173
		78,243
Information Technology 0.8%		
Activision Blizzard, Inc., 144A, 3.4%, 9/15/2026	20,000	18,982
Diamond 1 Finance Corp.:		
144A, 4.42%, 6/15/2021	100,000	103,474
144A, 8.1%, 7/15/2036	20,000	23,792
NVIDIA Corp.:		
2.2%, 9/16/2021	15,000	14,642
3.2%, 9/16/2026	15,000	14,422
Seagate HDD Cayman, 5.75%, 12/1/2034	30,000	25,575
		200,887
Materials 2.7%		
CF Industries, Inc., 144A, 4.5%, 12/1/2026	5,000	4,914
Equate Petrochemical BV, 144A, 4.25%, 11/3/2026	200,000	190,856
Glencore Funding LLC, 144A, 4.625%, 4/29/2024	10,000	10,225
GTL Trade Finance, Inc., 144A, 5.893%, 4/29/2024 (b)	150,000	149,250
Potash Corp. of Saskatchewan, Inc., 4.0%, 12/15/2026	30,000	30,190
St. Marys Cement, Inc., 144A, 5.75%, 1/28/2027	295,000	283,200
		668,635
Real Estate 1.0%		
CBL & Associates LP:		
(REIT), 4.6%, 10/15/2024	20,000	18,747
(REIT), 5.25%, 12/1/2023	40,000	39,331
(REIT), 5.95%, 12/15/2026	40,000	40,264
Crown Castle International Corp., (REIT), 5.25%, 1/15/2023	15,000	16,144
Hospitality Properties Trust, (REIT), 5.0%, 8/15/2022	60,000	63,343
Omega Healthcare Investors, Inc., (REIT), 4.95%, 4/1/2024	30,000	30,398
Select Income REIT, (REIT), 4.15%, 2/1/2022	30,000	29,708
		237,935
Telecommunication Services 0.1%		
AT&T, Inc., 4.5%, 5/15/2035	25,000	24,154
Verizon Communications, Inc., 4.672%, 3/15/2055	15,000	14,087
		38,241
Utilities 0.1%		
Electricite de France SA, 144A, 4.75%, 10/13/2035	25,000	25,082
Southern Power Co., Series F, 4.95%, 12/15/2046	7,000	6,821
		31,903
Total Corporate Bonds (Cost $4,882,336)		**4,871,955**

Asset-Backed 1.0%

	Principal Amount ($)(a)	Value ($)
Home Equity Loans 0.1%		
CIT Group Home Equity Loan Trust, "AF6", Series 2002-1, 6.2%, 2/25/2030	27,496	**27,416**
Miscellaneous 0.9%		
Domino's Pizza Master Issuer LLC, "A2", Series 2012-1A, 144A, 5.216%, 1/25/2042	87,300	89,043
Hilton Grand Vacations Trust, "B", Series 2014-AA, 144A, 2.07%, 11/25/2026	139,635	137,871
		226,914
Total Asset-Backed (Cost $259,285)		**254,330**

Commercial Mortgage-Backed Securities 4.7%

	Principal Amount ($)(a)	Value ($)
Credit Suisse First Boston Mortgage Securities Corp., "G", Series 2005-C6, 144A, 5.191%**, 12/15/2040	250,000	249,687
CSAIL Commercial Mortgage Trust, "A4", Series 2015-C4, 3.808%, 11/15/2048	110,000	114,542
GMAC Commercial Mortgage Securities, Inc., "G", Series 2004-C1, 144A, 5.455%, 3/10/2038	502,681	494,094
JPMBB Commercial Mortgage Securities Trust:		
"A4", Series 2015-C28, 3.227%, 10/15/2048	170,000	170,953
"A3", Series 2014-C19, 3.669%, 4/15/2047	125,000	130,023
Total Commercial Mortgage-Backed Securities (Cost $1,163,650)		**1,159,299**

Collateralized Mortgage Obligations 10.0%

	Principal Amount ($)(a)	Value ($)
Banc of America Mortgage Securities, "2A2", Series 2004-A, 2.984%**, 2/25/2034	55,240	54,509
Bear Stearns Adjustable Rate Mortgage Trust, "2A1", Series 2005-11, 3.516%**, 12/25/2035	74,644	75,469

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

	Principal Amount ($)(a)	Value ($)
Countrywide Home Loans, "2A5", Series 2004-13, 5.75%, 8/25/2034	45,936	45,530
Fannie Mae Connecticut Avenue Securities, "1M1", Series 2016-C02, 2.734%**, 9/25/2028	178,900	180,760
Federal Home Loan Mortgage Corp.:		
"AI", Series 4016, Interest Only, 3.0%, 9/15/2025	601,009	35,424
"PI", Series 3843, Interest Only, 4.5%, 5/15/2038	217,399	19,956
"C31", Series 303, Interest Only, 4.5%, 12/15/2042	562,529	111,875
"DZ", Series 4253, 4.75%, 9/15/2043	1,152,557	1,185,407
"HI", Series 2934, Interest Only, 5.0%, 2/15/2020	40,246	2,204
"WI", Series 3010, Interest Only, 5.0%, 7/15/2020	64,284	3,301
"JS", Series 3572, Interest Only, 6.096%***, 9/15/2039	350,891	49,897
Federal National Mortgage Association:		
"4", Series 406, Interest Only, 4.0%, 9/25/2040	125,927	24,894
"BI", Series 2010-13, Interest Only, 5.0%, 12/25/2038	7,630	73
"SI", Series 2007-23, Interest Only, 6.014%***, 3/25/2037	170,282	25,803
Government National Mortgage Association:		
"GI", Series 2014-146, Interest Only, 3.5%, 9/20/2029	1,404,147	177,530
"PI", Series 2015-40, Interest Only, 4.0%, 4/20/2044	184,558	27,745
"HI", Series 2015-77, Interest Only, 4.0%, 5/20/2045	343,946	65,454
"IP", Series 2014-115, Interest Only, 4.5%, 2/20/2044	55,867	10,062
"IV", Series 2009-69, Interest Only, 5.5%, 8/20/2039	175,475	34,740
"IN", Series 2009-69, Interest Only, 5.5%, 8/20/2039	182,369	32,701
"AI", Series 2007-38, Interest Only, 5.753%***, 6/16/2037	50,144	7,255
"IJ", Series 2009-75, Interest Only, 6.0%, 8/16/2039	175,711	30,253
JPMorgan Mortgage Trust, "2A1", Series 2006-A2, 2.912%**, 4/25/2036	185,825	170,922
Merrill Lynch Mortgage Investors Trust, "2A", Series 2003-A6, 3.264%**, 10/25/2033	41,713	41,549
Wells Fargo Mortgage-Backed Securities Trust, "2A3",Series 2004-EE, 3.035%**, 12/25/2034	57,693	57,032
Total Collateralized Mortgage Obligations (Cost $2,380,371)		**2,470,345**

Government & Agency Obligations 39.9%

Other Government Related (c) 5.6%

		Principal Amount ($)(a)	Value ($)
Novolipetsk Steel, 144A, 4.5%, 6/15/2023		400,000	397,766
Perusahaan Penerbit SBSN, 144A, 4.325%, 5/28/2025		200,000	199,240
Rosneft Oil Co., 144A, 4.199%, 3/6/2022		250,000	246,473
Vnesheconombank, 144A, 6.902%, 7/9/2020		500,000	540,150
			1,383,629

Sovereign Bonds 9.8%

		Principal Amount ($)(a)	Value ($)
Dominican Republic, 144A, 6.875%, 1/29/2026		100,000	103,957
Government of Indonesia, Series FR56, 8.375%, 9/15/2026	IDR	1,340,000,000	102,147
KazAgro National Management Holding JSC, 144A, 4.625%, 5/24/2023		700,000	655,844
Mexican Udibonos, Series S, 2.0%, 6/9/2022	MXN	2,683,951	125,696
Republic of Argentina-Inflation Linked Bond, 5.83%, 12/31/2033	ARS	375	170
Republic of Hungary, Series 19/A, 6.5%, 6/24/2019	HUF	11,600,000	45,004
Republic of Portugal, 144A, 5.125%, 10/15/2024		100,000	96,750
Republic of Slovenia, 144A, 5.5%, 10/26/2022		100,000	110,498
Republic of Sri Lanka, 144A, 5.75%, 1/18/2022		500,000	492,383
United Mexican States, Series M, 5.75%, 3/5/2026	MXN	16,345,600	699,638
			2,432,087

U.S. Treasury Obligations 24.5%

	Principal Amount ($)(a)	Value ($)
U.S. Treasury Bond, 2.25%, 8/15/2046	10,000	8,408
U.S. Treasury Notes:		
0.75%, 10/31/2017 (d)	730,000	729,344
0.75%, 7/15/2019	25,000	24,637
1.5%, 5/31/2019	232,600	233,672
1.625%, 12/31/2019	109,000	109,537
1.625%, 2/15/2026	5,130,000	4,793,344
1.625%, 5/15/2026	155,000	144,537
		6,043,479
Total Government & Agency Obligations (Cost $10,167,833)		**9,859,195**

Short-Term U.S. Treasury Obligations 1.5%

	Principal Amount ($)(a)	Value ($)
U.S. Treasury Bills:		
0.4%****, 2/9/2017 (e)	15,000	14,993
0.56%****, 6/1/2017 (e)	365,000	364,058
Total Short-Term U.S. Treasury Obligations (Cost $379,136)		**379,051**

Loan Participations and Assignments 5.1%

Senior Loans**

	Principal Amount ($)(a)	Value ($)
American Rock Salt Holdings LLC, First Lien Term Loan, 4.75%, 5/20/2021	102,375	102,503
Calpine Corp., Term Loan B5, 3.75%, 1/15/2024	192,075	193,287
DaVita HealthCare Partners, Inc., Term Loan B, 3.52%, 6/24/2021	68,250	69,052
Goodyear Tire & Rubber Co., Second Lien Term Loan, 3.75%, 4/30/2019	73,333	74,403
Level 3 Financing, Inc., Term Loan B2, 3.5%, 5/31/2022	60,000	60,812

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

	Principal Amount ($)(a)	Value ($)
MacDermid, Inc., Term Loan, 5.0%, 6/7/2023	74,113	75,206
MEG Energy Corp., Term Loan, 3.75%, 3/31/2020	250,130	244,034
NRG Energy, Inc., Term Loan B, 3.749%, 6/30/2023	115,160	116,497
Quebecor Media, Inc., Term Loan B1, 3.402%, 8/17/2020	87,075	87,365
Valeant Pharmaceuticals International, Inc.:		
Term Loan B, 5.0%, 2/13/2019	132,992	133,125
Term Loan B, 5.25%, 12/11/2019	112,212	112,222
Total Loan Participations and Assignments (Cost $1,267,176)		**1,268,506**

Convertible Bond 0.6%

Materials

GEO Specialty Chemicals, Inc., 144A, 7.5%, 10/30/2018 (PIK) (Cost $130,558)	132,085	**135,110**

	Shares	Value ($)
Common Stocks 0.0%		
Industrials 0.0%		
Quad Graphics, Inc.	26	**699**
Materials 0.0%		
GEO Specialty Chemicals, Inc.*	13,196	**5,182**
Total Common Stocks (Cost $19,933)		**5,881**

Warrant 0.0%

Materials

Hercules Trust II, Expiration Date 3/31/2029* (Cost $17,432)	85	**386**

Exchange-Traded Funds 10.4%

iShares iBoxx $ High Yield Corporate Bond ETF	15,000	1,298,250
SPDR Bloomberg Barclays High Yield Bond ETF (b)	35,000	1,275,750
Total Exchange-Traded Funds (Cost $2,514,600)		**2,574,000**

	Contract Amount	Value ($)
Call Options Purchased 0.0%		
Options on Interest Rate Swap Contracts		
Pay Fixed Rate — 4.19% – Receive Floating — 3-Month LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017[1]	1,500,000	0
Pay Fixed Rate — 4.32% – Receive Floating — 3-Month LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017[2]	1,400,000	0
Total Call Options Purchased (Cost $127,165)		**0**
Put Options Purchased 0.1%		
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[1]	1,500,000	4,655
Receive Fixed Rate — 2.32% – Pay Floating — 3-Month LIBOR, Swap Expiration Date 2/3/2027, Option Expiration Date 2/1/2017[2]	1,400,000	10,603
Total Put Options Purchased (Cost $98,573)		**15,258**

	Shares	Value ($)
Securities Lending Collateral 5.9%		
Government & Agency Securities Portfolio "Deutsche Government Cash Institutional Shares", 0.42% (f) (g) (Cost $1,464,323)	1,464,323	**1,464,323**
Cash Equivalents 4.8%		
Deutsche Central Cash Management Government Fund, 0.49% (f) (Cost $1,190,393)	1,190,393	**1,190,393**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $26,062,764)†	103.7	**25,648,032**
Other Assets and Liabilities, Net	(3.7)	**(924,557)**
Net Assets	100.0	**24,723,475**

* 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, 2016.

*** These securities are shown at their current rate as of December 31, 2016.

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

† The cost for federal income tax purposes was $26,064,148. At December 31, 2016, net unrealized depreciation for all securities based on tax cost was $416,116. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of $402,684 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of $818,800.

(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, 2016 amounted to $1,430,865, which is 5.8% of net assets.

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

(d) At December 31, 2016, this security has been pledged, in whole or in part, to cover initial margin requirements for open centrally cleared swap contracts.

(e) At December 31, 2016, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

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

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

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

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

Interest Only: Interest Only (IO) bonds represent the "interest only" portion of payments on a pool of underlying mortgages or mortgage-backed securities. IO securities are subject to prepayment risk of the pool of underlying mortgages.

JSC: Joint Stock Company

LIBOR: London Interbank Offered Rate; 3-Month LIBOR rate at December 31, 2016 is 1.00%.

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)

SPDR: Standard & Poor's Depositary Receipt

At December 31, 2016, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Depreciation ($)
10 Year U.S. Treasury Note	USD	3/22/2017	32	3,977,000	(26,568)
Ultra Long U.S. Treasury Bond	USD	3/22/2017	26	4,166,500	(75,658)
Total unrealized depreciation					**(102,226)**

At December 31, 2016, open futures contracts sold were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Value ($)	Unrealized Appreciation ($)
Ultra 10 Year U.S. Treasury Note	USD	3/22/2017	1	134,063	**1,271**

At December 31, 2016, open written options contracts were as follows:

Options on Interest Rate Swap Contracts	Swap Effective/ Expiration Date	Contract Amount	Option Expiration Date	Premiums Received ($)	Value ($) (h)
Call Options					
Receive Fixed — 3.19% – Pay Floating — 3-Month LIBOR	2/3/2017 2/3/2027	700,000[1]	2/1/2017	50,400	(8)
Receive Fixed — 3.32% – Pay Floating — 3-Month LIBOR	2/3/2017 2/3/2027	700,000[2]	2/1/2017	50,631	(2)
Total Call Options				**101,031**	**(10)**
Put Options					
Pay Fixed — 3.19% – Receive Floating — 3-Month LIBOR	2/3/2017 2/3/2027	700,000[1]	2/1/2017	50,400	(53,696)
Pay Fixed — 3.32% – Receive Floating — 3-Month LIBOR	2/3/2017 2/3/2027	700,000[2]	2/1/2017	50,631	(61,851)
Total Put Options				**101,031**	**(115,547)**
Total				**202,062**	**(115,557)**

(h) Unrealized appreciation on written options on interest rate swap contracts at December 31, 2016 was $86,505.

At December 31, 2016, open credit default swap contracts sold were as follows:

Centrally Cleared Swap

Expiration Date	Notional Amount ($) (i)	Currency	Fixed Cash Flows Received	Underlying Reference Obligation	Value ($)	Unrealized Appreciation ($)
6/20/2021	2,800,000	USD	5.0%	Markit CDX North America High Yield Index	200,667	**89,749**

(i) 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, 2016, open interest rate swap contracts were as follows:

Centrally Cleared Swaps

Effective/ Expiration Date	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%	2,544	2,389
12/16/2015 9/18/2017	3,600,000	Fixed — 1.557%	Floating — 3-Month LIBOR	(26,408)	(27,563)
12/16/2015 9/16/2020	2,000,000	Floating — 3-Month LIBOR	Fixed — 2.214%	41,940	42,632

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

Centrally Cleared Swaps

Effective/ Expiration Date	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	(25,038)	(9,962)
12/16/2015 9/16/2025	3,000,000	Fixed — 2.64%	Floating — 3-Month LIBOR	(108,473)	(94,059)
12/16/2015 9/17/2035	200,000	Fixed — 2.938%	Floating — 3-Month LIBOR	(12,863)	(9,074)
12/16/2015 9/18/2045	500,000	Floating — 3-Month LIBOR	Fixed — 2.998%	44,942	29,389
7/13/2016 7/13/2046	1,500,000	Fixed — 2.22%	Floating — 3-Month LIBOR	101,559	129,319
12/21/2016 12/21/2046	1,300,000	Fixed — 2.25%	Floating — 3-Month LIBOR	103,717	227,450
Total net unrealized appreciation					**290,521**

Counterparties:

1 JPMorgan Chase Securities, Inc.

2 BNP Paribas

As of December 31, 2016, the Fund had the following open forward foreign currency exchange contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
USD	547,536	ZAR	7,800,000	1/17/2017	18,503	Goldman Sachs & Co.
MXN	7,500,000	USD	400,791	1/26/2017	40,478	Barclays Bank PLC
MXN	7,500,000	USD	368,668	2/14/2017	9,143	Barclays Bank PLC
USD	237,153	MXN	4,960,000	2/21/2017	430	JPMorgan Chase Securities, Inc.
MXN	14,869,812	USD	721,460	2/21/2017	9,200	JPMorgan Chase Securities, Inc.
Total unrealized appreciation					**77,754**	

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
ZAR	7,800,000	USD	535,314	1/17/2017	(30,725)	Citigroup, Inc.
USD	390,867	MXN	7,500,000	1/26/2017	(30,554)	Citigroup, Inc.
USD	375,158	MXN	7,500,000	2/14/2017	(15,633)	Citigroup, Inc.
MXN	2,590,000	USD	123,859	2/28/2017	(79)	Toronto-Dominion Bank
Total unrealized depreciation					**(76,991)**	

Currency Abbreviations

ARS	Argentine Peso	MXN	Mexican Peso
HUF	Hungarian Forint	USD	United States Dollar
IDR	Indonesian Rupiah	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, 2016 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 (j)				
Corporate Bonds	$ —	$ 4,871,955	$ —	$ 4,871,955
Asset-Backed	—	254,330	—	254,330
Commercial Mortgage-Backed Securities	—	1,159,299	—	1,159,299
Collateralized Mortgage Obligations	—	2,470,345	—	2,470,345
Government & Agency Obligations	—	9,859,195	—	9,859,195
Short-Term U.S. Treasury Obligations	—	379,051	—	379,051
Loan Participations and Assignments	—	1,268,506	—	1,268,506
Convertible Bond	—	—	135,110	135,110
Common Stocks	699	—	5,182	5,881
Warrant	—	—	386	386
Exchange-Traded Funds	2,574,000	—	—	2,574,000
Short-Term Investments (j)	2,654,716	—	—	2,654,716
Derivatives (k)				
Purchased Options	—	15,258	—	15,258
Futures Contracts	1,271	—	—	1,271
Credit Default Swap Contracts	—	89,749	—	89,749
Interest Rate Swap Contracts	—	431,179	—	431,179
Forward Foreign Currency Exchange Contracts	—	77,754	—	77,754
Total	**$ 5,230,686**	**$ 20,876,621**	**$ 140,678**	**$ 26,247,985**

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivatives (k)				
Futures Contracts	$ (102,226)	$ —	$ —	$ (102,226)
Written Options	—	(115,557)	—	(115,557)
Interest Rate Swap Contracts	—	(140,658)	—	(140,658)
Forward Foreign Currency Exchange Contracts	—	(76,991)	—	(76,991)
Total	**$ (102,226)**	**$ (333,206)**	**$ —**	**$ (435,432)**

There have been no transfers between fair value measurement levels during the year ended December 31, 2016.

(j) See Investment Portfolio for additional detailed categorizations.

(k) 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.

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

Statement of Assets and Liabilities

as of December 31, 2016

Assets		
Investments:		
Investments in non-affiliated securities, at value (cost $23,408,048) — including $1,430,865 of securities loaned	$	22,993,316
Investments in Government & Agency Securities Portfolio (cost $1,464,323)*		1,464,323
Investment in Deutsche Central Cash Management Government Fund (cost $1,190,393)		1,190,393
Total investments in securities, at value (cost $26,062,764)		25,648,032
Cash		12,359
Foreign currency, at value (cost $739,089)		708,130
Receivable for investments sold		860
Receivable for Fund shares sold		3,504
Dividends receivable		6,357
Interest receivable		191,549
Receivable for variation margin on futures		37,605
Unrealized appreciation on forward foreign currency exchange contracts		77,754
Foreign taxes recoverable		560
Other assets		857
Total assets	$	26,687,567

Liabilities		
Payable upon return of securities loaned		1,464,323
Payable for investments purchased		125,070
Payable for Fund shares redeemed		95
Payable for variation margin on centrally cleared swaps		53,515
Options written, at value (premiums received $202,062)		115,557
Unrealized depreciation on forward foreign currency exchange contracts		76,991
Accrued management fee		10,922
Accrued Trustees' fees		1,132
Other accrued expenses and payables		116,487
Total liabilities		1,964,092
Net assets, at value	**$**	**24,723,475**

Net Assets Consist of		
Undistributed net investment income		148,268
Net unrealized appreciation (depreciation) on:		
Investments		(414,732)
Swap contracts		380,270
Futures		(100,955)
Foreign currency		(30,549)
Written options		86,505
Accumulated net realized gain (loss)		(4,975,337)
Paid-in capital		29,630,005
Net assets, at value	**$**	**24,723,475**
Class A		
Net Asset Value, offering and redemption price per share ($24,723,745 ÷ 2,560,974 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$**	**9.65**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2016

Investment Income		
Income:		
Interest (net of foreign taxes withheld of $605)	$	678,099
Dividends		95,073
Income distributions — Deutsche Central Cash Management Government Fund		17,290
Securities lending income, net of borrower rebates		8,298
Other income		15,727
Total income		814,487
Expenses:		
Management fee		156,092
Administration fee		28,380
Services to shareholders		709
Custodian fee		27,778
Professional fees		81,043
Reports to shareholders		22,596
Trustees' fees and expenses		3,116
Pricing service fee		28,901
Other		21,951
Total expenses before expense reductions		370,566
Expense reductions		(177,038)
Total expenses after expense reductions		193,528
Net investment income		**620,959**

Realized and Unrealized Gain (Loss)		
Net realized gain (loss) from:		
Investments		(1,372,990)
Swap contracts		(259,273)
Futures		(272,260)
Written options		295
Foreign currency		178,192
		(1,726,036)
Change in net unrealized appreciation (depreciation) on:		
Investments		1,272,709
Swap contracts		542,144
Futures		(59,307)
Written options		(63,342)
Foreign currency		(399,876)
		1,292,328
Net gain (loss)		**(433,708)**
Net increase (decrease) in net assets resulting from operations	**$**	**187,251**

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

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets	Years Ended December 31, 2016	2015
Operations:		
Net investment income	$ 620,959	$ 1,762,667
Net realized gain (loss)	(1,726,036)	(2,050,038)
Change in net unrealized appreciation (depreciation)	1,292,328	(941,379)
Net increase (decrease) in net assets resulting from operations	187,251	(1,228,750)
Distributions to shareholders from:		
Net investment income:		
Class A	(2,341,380)	(2,026,151)
Total distributions	(2,341,380)	(2,026,151)
Fund share transactions:		
Class A		
Proceeds from shares sold	1,180,584	1,567,297
Reinvestment of distributions	2,341,380	2,026,151
Payments for shares redeemed	(9,433,108)	(21,135,428)
Net increase (decrease) in net assets from Class A share transactions	(5,911,144)	(17,541,980)
Increase (decrease) in net assets	(8,065,273)	(20,796,881)
Net assets at beginning of period	32,788,748	53,585,629
Net assets at end of period (including undistributed net investment income of $148,268 and $1,922,375, respectively)	**$ 24,723,475**	**$ 32,788,748**

Other Information		
Class A		
Shares outstanding at beginning of period	3,142,272	4,786,192
Shares sold	115,644	142,362
Shares issued to shareholders in reinvestment of distributions	245,171	184,028
Shares redeemed	(942,113)	(1,970,310)
Net increase (decrease) in Class A shares	(581,298)	(1,643,920)
Shares outstanding at end of period	**2,560,974**	**3,142,272**

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

Financial Highlights

Class A	2016	Years Ended December 31, 2015	2014	2013	2012
Selected Per Share Data					
Net asset value, beginning of period	**$10.43**	**$11.20**	**$11.53**	**$12.60**	**$11.90**
Income (loss) from investment operations:					
Net investment income[a]	.22	.40	.49	.49	.57
Net realized and unrealized gain (loss)	(.17)	(.72)	(.23)	(.59)	.92
Total from investment operations	.05	(.32)	.26	(.10)	1.49
Less distributions from:					
Net investment income	(.83)	(.45)	(.59)	(.62)	(.76)
Net realized gains	—	—	—	(.35)	(.03)
Total distributions	(.83)	(.45)	(.59)	(.97)	(.79)
Net asset value, end of period	**$ 9.65**	**$10.43**	**$11.20**	**$11.53**	**$12.60**
Total Return (%)[b]	.50	(3.02)	2.23	(1.04)	13.08
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	25	33	54	61	73
Ratio of expenses before expense reductions (%)	1.31	1.15	1.08	1.02	.99
Ratio of expenses after expense reductions (%)	.68	.70	.77	.74	.77
Ratio of net investment income (%)	2.19	3.67	4.23	4.16	4.72
Portfolio turnover rate (%)	159	185	185	183	164

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 ("U.S. GAAP") which require the use of management estimates. Actual results could differ from those estimates. The Fund qualifies as an investment company under Topic 946 of Accounting Standards Codification of U.S. GAAP. 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 its securities lending agreement. During the term of the loans, the Fund 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 securities lending agreement. As of period end, any securities on loan were collateralized by cash. During the year ended December 31, 2016, the Fund invested the cash collateral into a joint trading account in affiliated money market funds managed by Deutsche Investment Management Americas Inc. As of December 31, 2016, the Fund invested the cash collateral in Government & Agency Securities Portfolio. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.09% annualized effective rate as of December 31, 2016) on the cash collateral invested in Government & Agency Securities Portfolio. 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 at any time, and the borrower, after notice, is required to return borrowed securities within a standard time period. 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, 2016, the Fund had securities on loan, which were classified as corporate bonds and exchange-traded funds in the Investment Portfolio. The value of the related collateral exceeded the value of the securities loaned at period end.

Remaining Contractual Maturity of the Agreements as of December 31, 2016

	Overnight and Continuous	<30 days	Between 30 & 90 days	>90 days	Total
Securities Lending Transactions					
Corporate Bonds	$ 164,223	$ —	$ —	$ —	$ 164,223
Exchange-Traded Funds	1,300,100	—	—	—	1,300,100
Total Borrowings	**$ 1,464,323**	**$ —**	**$ —**	**$ —**	**$ 1,464,323**
Gross amount of recognized liabilities for securities lending transactions					$ 1,464,323

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, 2016, the Fund had net tax basis capital loss carryforwards of approximately $5,075,000, which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($2,624,000) and long-term losses ($2,451,000).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2016 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, 2016, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 180,712
Capital loss carryforwards	$ (5,075,000)
Unrealized appreciation (depreciation) on investments	$ (416,116)

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

	Years Ended December 31, 2016	2015
Distributions from ordinary income*	$ 2,341,380	$ 2,026,151

* 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, 2016, 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, 2016 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2016, the investment in interest rate swap contracts had a total notional amount generally indicative of a range from $14,400,000 to $17,200,000.

Credit Default Swaps. Credit default swaps are agreements between a buyer and a seller of protection against predefined credit events for the reference entity. The Fund may enter into credit default swaps to gain exposure to an underlying issuer's credit quality characteristics without directly investing in that issuer or to hedge against the risk of a credit event on debt securities. As a seller of a credit default swap, the Fund is required to pay the par (or other agreed-upon) value of the referenced entity to the counterparty with the occurrence of a credit event by a third party, such as a U.S. or foreign corporate issuer, on the reference entity, which would likely result in a loss to the Fund. In return, the Fund receives from the counterparty a periodic stream of payments over the term of the swap provided that no credit event has occurred. If no credit event occurs, the Fund keeps the stream of payments with no payment obligations. The Fund may also buy credit default swaps, in which case the Fund functions as the counterparty referenced above. This involves the risk that the swap may expire worthless. It also involves counterparty risk that the seller may fail to satisfy its payment obligations to the Fund with the occurrence of a credit event. When the Fund sells a credit default swap, it will cover its commitment. This may be achieved by, among other methods, maintaining cash or liquid assets equal to the aggregate notional value of the reference entities for all outstanding credit default swaps sold by the Fund. For the year ended December 31, 2016, 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, 2016 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2016, 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 $0 to $2,800,000.

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, 2016, 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, 2016 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, 2016, the investment in purchased option contracts had a total value generally indicative of a range from approximately $15,000 to $223,000, and written option contracts had a total value generally indicative of a range from approximately $116,000 to $438,000.

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, 2016, 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, 2016 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2016, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $8,144,000 to $14,004,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from $0 to approximately $4,285,000.

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, 2016, 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, 2016, is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2016, the investment in forward currency contracts short vs. U.S. dollars had a total contract value generally indicative of a range from approximately $1,516,000 to $11,487,000, and the investment in forward currency contracts long vs. U.S. dollars had a total contract value generally indicative of a range from approximately $427,000 to $11,598,000. The investment in forward currency contracts long vs. other foreign currencies sold had a total contract value generally indicative of a range from $0 to approximately $618,000.

The following tables summarize the value of the Fund's derivative instruments held as of December 31, 2016 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivatives	Purchased Options	Forward Contracts	Swap Contracts	Futures Contracts	Total
Interest Rate Contracts (a) (b)	$ 15,258	$ —	$ 431,179	$ 1,271	$ 447,708
Credit Contracts (b)	—	—	89,749	—	89,749
Foreign Exchange Contracts (c)	—	77,754	—	—	77,754
	$ 15,258	**$ 77,754**	**$ 520,928**	**$ 1,271**	**$ 615,211**

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 forward foreign currency exchange contracts

Liability Derivatives	Written Options	Forward Contracts	Swap Contracts	Futures Contracts	Total
Interest Rate Contracts (a) (b)	$ (115,557)	$ —	$ (140,658)	$ (102,226)	$ (358,441)
Foreign Exchange Contracts (c)	—	(76,991)	—	—	(76,991)
	$ (115,557)	**$ (76,991)**	**$ (140,658)**	**$ (102,226)**	**$ (435,432)**

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 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, 2016 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	**Purchased Options**	**Written Options**	**Forward Contracts**	**Swap Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (a)	$ (64,155)	$ 295	$ —	$ (143,507)	$ (272,260)	$ (479,627)
Credit Contracts (a)	—	—	—	(115,766)	—	(115,766)
Foreign Exchange Contracts (b)	—	—	177,785	—	—	177,785
	$ (64,155)	**$ 295**	**$ 177,785**	**$ (259,273)**	**$ (272,260)**	**$ (417,608)**

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

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

(b) Net realized gain (loss) from foreign currency (Statement of Operations includes both forward currency contracts and foreign currency transactions)

Change in Net Unrealized Appreciation (Depreciation)	**Purchased Options**	**Written Options**	**Forward Contracts**	**Swap Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (a)	$ 12,405	$ (63,342)	$ —	$ 420,114	$ (59,307)	$ 309,870
Credit Contracts (a)	—	—	—	122,030	—	122,030
Foreign Exchange Contracts (b)	—	—	(401,250)	—	—	(401,250)
	$ 12,405	**$ (63,342)**	**$ (401,250)**	**$ 542,144**	**$ (59,307)**	**$ 30,650**

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, 2016, 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**
Barclays Bank PLC	$ 49,621	$ —	$ —	$ 49,621
BNP Paribas	10,603	(10,603)	—	—
JPMorgan Chase Securities, Inc.	14,285	(14,285)	—	—
Goldman Sachs & Co.	18,503	—	—	18,503
	$ 93,012	**$ (24,888)**	**$ —**	**$ 68,124**

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**
BNP Paribas	$ 61,853	$ (10,603)	$ —	$ 51,250
Citigroup, Inc.	76,912	—	—	76,912
JPMorgan Chase Securities, Inc.	53,704	(14,285)	—	39,419
Toronto-Dominion Bank	79	—	—	79
	$ 192,548	**$ (24,888)**	**$ —**	**$ 167,660**

C. Purchases and Sales of Securities

During the year ended December 31, 2016, purchases and sales of investment transactions (excluding short-term investments and U.S. Treasury obligations) aggregated $30,753,055 and $43,011,995, respectively. Purchases and sales of U.S. Treasury obligations aggregated $7,101,469 and $4,061,054, respectively.

For the year ended December 31, 2016, transactions for written options on interest rate swap contracts were as follows:

	Contract Amount	Premiums
Outstanding, beginning of period	7,100,000	$ 305,407
Options bought back	(1,500,000)	(28,800)
Options exercised	(1,500,000)	(28,200)
Options expired	(1,300,000)	(46,345)
Outstanding, end of period	**2,800,000**	**$ 202,062**

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, 2016, 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, 2016 through September 30, 2016, 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 0.68%.

Effective October 1, 2016 through September 30, 2017, 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 0.67%.

For the year ended December 31, 2016, fees waived and/or expenses reimbursed amounted to $177,038.

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, 2016, the Administration Fee was $28,380, of which $2,107 is unpaid.

Service Provider Fees. Deutsche AM 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, 2016, the amounts charged to the Fund by DSC aggregated $131, of which $33 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, 2016, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $15,217, of which $7,122 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 Deutsche Central Cash Management Government Fund and Deutsche Variable NAV Money Fund, affiliated money market funds which are managed by the Advisor. 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. Deutsche Central Cash Management Government 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. Deutsche Central Cash Management Government 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, 2016, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $682.

E. Investing in High-Yield Securities

High-yield debt securities or junk bonds are generally regarded as speculative with respect to the issuer's continuing ability to meet principal and interest payments. The Fund's performance could be hurt if an issuer of a debt security suffers an adverse change in financial condition that results in the issuer not making timely payments of interest or principal, a security downgrade or an inability to meet a financial obligation. High-yield debt securities' total return and yield may generally be expected to fluctuate more than the total return and yield of investment-grade debt securities. A real or perceived economic downturn or an increase in market interest rates could cause a decline in the value of high-yield debt securities, result in increased redemptions and/or result in increased portfolio turnover, which could result in a decline in net asset value of the Fund, reduce liquidity for certain investments and/or increase costs. High-yield debt securities are often thinly traded and can be more difficult to sell and value accurately than investment-grade debt securities as there may be no established secondary market. Investments in high yield debt securities could increase liquidity risk for the Fund. In addition, the market for high-yield debt securities can experience sudden and sharp volatility which is generally associated more with investments in stocks.

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, 2016, 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 42%.

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, 2016.

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, 2016, 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, 2016, 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, 2016, 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 14, 2017

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, 2016 to December 31, 2016).

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, 2016

Actual Fund Return	**Class A**
Beginning Account Value 7/1/16	$1,000.00
Ending Account Value 12/31/16	$ 992.80
Expenses Paid per $1,000*	$ 3.41

Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 7/1/16	$1,000.00
Ending Account Value 12/31/16	$1,021.72
Expenses Paid per $1,000*	$ 3.46

* 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 366.

Annualized Expense Ratio	**Class A**
Deutsche Variable Series II — Deutsche Unconstrained Income VIP	.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)

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 most recent 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 (hereinafter referred to as the "Board" or "Trustees") approved the renewal of Deutsche Unconstrained Income VIP's (the "Fund") investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2016.

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

— During the entire process, all of the Fund's Trustees were independent of DIMA and its affiliates (the "Independent Trustees").

— The Board 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 extensive 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 Management ("Deutsche AM") division. Deutsche AM 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 Board 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 invest in Deutsche AM and seek to enhance Deutsche AM's investment platform. Deutsche Bank also has confirmed its commitment to maintaining strong legal and compliance groups within the Deutsche AM 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 and the resources made available to such personnel. 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, 2015, 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, 2015. 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 Broadridge Financial Solutions, Inc. ("Broadridge") 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 Broadridge peer group (based on Broadridge data provided as of December 31, 2015). 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 Broadridge expense universe (based on Broadridge data provided as of December 31, 2015, and analyzing Broadridge expense universe Class A (net) expenses less any applicable 12b-1 fees) ("Broadridge 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 AM. The Board noted that DIMA indicated that Deutsche AM 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, seniority and time commitment of the individuals serving as DIMA's and the Fund's chief compliance officers; (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 Independent 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 Keith R. Fox, Deutsche Funds Board Chair, c/o Thomas R. Hiller, Ropes & Gray LLP, Prudential Tower, 800 Boylston Street, Boston, MA 02199-3600. 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
Keith R. Fox, CFA (1954) Chairperson since 2017,[2] and 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)	98	—
Kenneth C. Froewiss (1945) Vice Chairperson since 2017,[2] Board Member since 2001, and Chairperson (2013–December 31, 2016)	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)	98	—
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.[3] (population well-being and wellness services) (2003–2014); Stockwell Capital Investments PLC (private equity); First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International	98	Portland General Electric[3] (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); The Pew Charitable Trusts (charitable organization); former Directorships: Becton Dickinson and Company[3] (medical technology company); Belo Corporation[3] (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)	98	—
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: Advisory Board, Center for Business Ethics, Bentley University; Trustee and former Chairman of the Board, Southwest Florida Community Foundation (charitable organization); former Directorships: ICI Mutual Insurance Company (2007–2015); Sun Capital Advisers Trust (mutual funds) (2007–2012), Investment Company Institute (audit, executive, nominating committees) and Independent Directors Council (governance, executive committees)	98	—
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	98	—

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; formerly: Vice Dean and Director, Wharton Undergraduate Division (July 1995–June 2000); Director, Lauder Institute of International Management Studies (July 2000–June 2006)	98	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004, and Vice Chairperson (2013–December 31, 2016)	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	98	—
Rebecca W. Rimel (1951) Board Member since 1995	President, Chief Executive Officer and Director, The Pew Charitable Trusts (charitable organization) (1994–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[3] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	98	Director, Becton Dickinson and Company[3] (medical technology company) (2012–present); Director, BioTelemetry Inc.[3] (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[3] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	98	—
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); former Directorships: The William and Flora Hewlett Foundation (charitable organization) (2000–2015); Service Source, Inc. (nonprofit), Mutual Fund Directors Forum (2002–2004), American Bar Retirement Association (funding vehicle for retirement plans) (1987–1990 and 1994–1996)	98	—

Officers[5]

Name, Year of Birth, Position with the Fund and Length of Time Served[6]	Business Experience and Directorships During the Past Five Years
Brian E. Binder[9] (1972) President and Chief Executive Officer, 2013–present	Managing Director[4] and Head of US Product and Fund Administration, Deutsche Asset Management (2013–present); Director and President, Deutsche AM Service Company (since 2016); Director and Vice President, Deutsche AM Distributors, Inc. (since 2016); Director and President, DB Investment Managers, Inc. (since 2016); formerly, Head of Business Management and Consulting at Invesco, Ltd. (2010–2012)
John Millette[8] (1962) Vice President and Secretary, 1999–present	Director,[4] Deutsche Asset Management; Chief Legal Officer and Secretary, Deutsche Investment Management Americas Inc. (2015–present); and Director and Vice President, Deutsche AM Trust Company (since 2016)
Hepsen Uzcan[7] (1974) Vice President, since 2016 Assistant Secretary, 2013–present	Director,[4] Deutsche Asset Management
Paul H. Schubert[7] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[4] Deutsche Asset Management, and Chairman, Director and President, Deutsche AM Trust Company (since 2013); Vice President, Deutsche AM Distributors, Inc. (since 2016); formerly, Director, Deutsche AM Trust Company (2004–2013)
Caroline Pearson[8] (1962) Chief Legal Officer, 2010–present	Managing Director,[4] Deutsche Asset Management; Secretary, Deutsche AM Distributors, Inc.; and Secretary, Deutsche AM Service Company

Name, Year of Birth, Position with the Fund and Length of Time Served[6]	Business Experience and Directorships During the Past Five Years
Scott D. Hogan[8] (1970) Chief Compliance Officer, since 2016	Director,[4] Deutsche Asset Management
Wayne Salit[7] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[4] Deutsche Asset Management; AML Compliance Officer, Deutsche AM Distributors, Inc.; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Paul Antosca[8] (1957) Assistant Treasurer, 2007–present	Director,[4] Deutsche Asset Management
Diane Kenneally[8] (1966) Assistant Treasurer, 2007–present	Director,[4] 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 Effective as of January 1, 2017.

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

4 Executive title, not a board directorship.

5 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.

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

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

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

9 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

Notes

Deutsche
Asset Management

VS2UI-2 (R-025836-6 2/17)

Dreyfus Investment Portfolios, MidCap Stock Portfolio

ANNUAL REPORT
December 31, 2016

BNY MELLON | Dreyfus

The views expressed in this report reflect those of the portfolio manager(s) 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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THE FUND

FOR MORE INFORMATION

Dreyfus Investment Portfolios, MidCap Stock Portfolio The Fund

A LETTER FROM THE CHIEF EXECUTIVE OFFICER

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, 2016 through December 31, 2016. 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.

Stocks and bonds advanced over 2016 despite bouts of market volatility stemming from various economic and political developments. In January, stocks declined sharply and long-term interest rates fell in response to sluggish global economic growth, falling commodity prices, and worries following the first increase in short-term U.S. interest rates in nearly a decade. However, equities began a sustained rebound in February when U.S. monetary policymakers refrained from additional rate hikes, other central banks eased their monetary policies, and commodity prices recovered. After a bout of volatility in June stemming from the United Kingdom's referendum to leave the European Union, stocks generally continued to climb over the summer. Stock prices moderated in advance of U.S. elections, but markets subsequently rallied to new highs in anticipation of changes in U.S. fiscal and tax policies. In the bond market, yields of high-quality government bonds moved lower over much of the reporting period amid robust investor demand for current income, but yields surged higher after the election due to expectations of rising interest rates. Corporate-backed bonds fared especially well in this environment.

The transition to a new U.S. president and ongoing global economic headwinds suggest that volatility may persist in the financial markets. Some asset classes and industry groups seem likely to benefit from a changing economic and geopolitical landscape, while others probably will face challenges. Consequently, selectivity seems likely to be an important determinant of investment success in 2017. As always, we encourage you to discuss the implications of our observations with your financial advisor.

Thank you for your continued confidence and support.

Mark D. Santero
Chief Executive Officer
The Dreyfus Corporation
January 17, 2017

DISCUSSION OF FUND PERFORMANCE

For the period of January 1, 2016 through December 31, 2016, as provided by C. Wesley Boggs, William S. Cazalet, CAIA, and Ronald P. Gala, CFA, Portfolio Managers

Market and Fund Performance Overview

For the 12-month period ended December 31, 2016, Dreyfus Investment Portfolios, MidCap Stock Portfolio's Initial shares produced a total return of 15.47%, and its Service shares produced a total return of 15.20%.[1] In comparison, the fund's benchmark, the S&P MidCap 400 Index (the "Index"), produced a total return of 20.74% for the same period.[2]

Midcap stocks achieved solid returns in 2016 on the strength of positive economic growth and expectations of changing U.S. fiscal, tax, and regulatory policies under a new presidential administration. The fund lagged its Index, mainly due to security selection shortfalls in the energy and financials 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-sized domestic companies in the aggregate, as represented by the 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 Index is a primary goal of the investment process.

Economic and Political Developments Drove Equity Markets

U.S. stocks across all capitalization ranges moved sharply lower over the opening weeks of 2016 due to weakening commodity prices, disappointing global economic data, and higher short-term U.S. interest rates. However, equities began a dramatic recovery in February and rallied through the spring in response to rebounding commodity prices, global monetary easing, and indications that additional U.S. rate increases would be delayed.

The market's advance faltered in June over concerns regarding the United Kingdom's referendum to leave the European Union, but the decline proved short lived. By early July, the market had regained most of its lost ground, and encouraging U.S. economic data helped the Index advance further over the summer. Midcap stocks gave back some of their previous gains in October when investors became more cautious ahead of the presidential election. After the election, midcap stocks again rallied strongly, and the Index achieved record highs as investors anticipated higher government spending, lower corporate taxes, and a less stringent regulatory environment.

For the reporting period overall, midcap stocks generally produced higher returns than large-cap stocks, but midcap stocks underperformed their small-cap counterparts on average.

Security Selections Produced Mixed Results

Although the fund participated significantly in its benchmark's gains, relative performance was dampened by some disappointing security selections. In the energy sector, oil refiners such as Western Refining lost value in a challenging environment for profit margins, and offshore drilling services provider Oceaneering International declined when its earnings were reduced during the reporting period. The fund's investments among financial institutions also generally lagged sector averages. Within the financials sector, the fund generally struggled with security selection shortfalls among capital markets companies and an underweighted exposure to banks.

In other areas, voice-recognition technologies provider Nuance Communications lost value when its management revised downward the company's future earnings expectations. Likewise, natural food retailer Sprouts Farmers Market struggled in the wake of two guidance reductions during the year.

The fund achieved better relative results from our stock selection in the real estate sector. Among materials producers, overweighted exposure to metals-and-mining companies helped the fund participate more fully in the industry group's rebound from previous weakness. In addition, steel producer and a metal recycler Steel Dynamics benefited over the final weeks of the year from expectations of higher infrastructure spending by the U.S. government. In the information technology sector, electronic design automation tools supplier Mentor Graphics gained considerable value late in the reporting period after an acquisition offer from a large German technology company, and self-service equipment maker NCR Corp. exhibited strong earnings momentum and consistently surpassed analysts' estimates. Among individual stocks, regional financial services provider Synovus Financial reported better-than-expected quarterly earnings and benefited from post-election expectations of a friendlier regulatory environment.

Maintaining a Disciplined Investment Process

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.

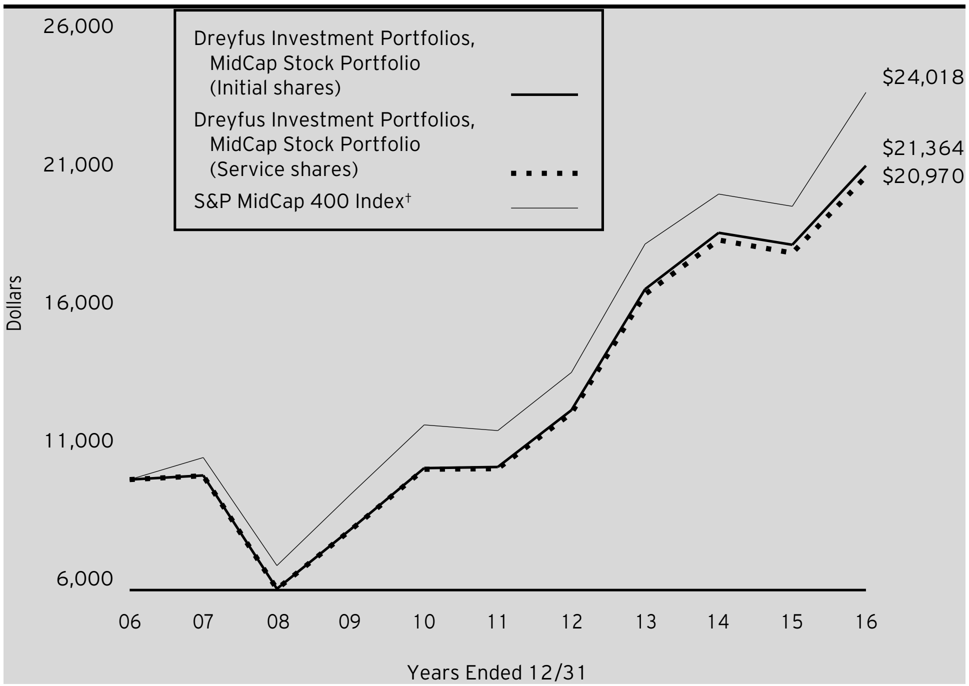
January 17, 2017

Equities 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. —The S&P 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 S&P MidCap 400 Index (the "Index")

Average Annual Total Returns as of 12/31/16

	1 Year	5 Years	10 Years
Initial shares	**15.47%**	**15.36%**	**7.89%**
Service shares	**15.20%**	**15.07%**	**7.69%**
S&P MidCap 400 Index	**20.74%**	**15.33%**	**9.16%**

† *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 12/31/06 to a $10,000 investment made in 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, 2016 to December 31, 2016. 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, 2016

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.51	$ 5.84
Ending value (after expenses)	$ 1,111.20	$ 1,110.40

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, 2016

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.32	$ 5.58
Ending value (after expenses)	$ 1,020.86	$ 1,019.61

† *Expenses are equal to the fund's annualized expense ratio of .85% for Initial shares and 1.10% for Service shares, multiplied by the average account value over the period, multiplied by 184/366 (to reflect the one-half year period).*

STATEMENT OF INVESTMENTS

December 31, 2016

Common Stocks - 99.5%	Shares		Value ($)
Banks - 4.7%			
Cathay General Bancorp	69,395		2,639,092
Commerce Bancshares	5,187		299,861
East West Bancorp	15,465		786,086
First Horizon National	81,360		1,628,014
Synovus Financial	84,090		3,454,417
			8,807,470
Capital Goods - 14.3%			
BWX Technologies	55,610		2,207,717
CLARCOR	21,600		1,781,352
Curtiss-Wright	29,600		2,911,456
GATX	36,585	a	2,252,904
HD Supply Holdings	60,615	b	2,576,744
Huntington Ingalls Industries	5,585		1,028,701
Lennox International	19,915	a	3,050,381
Oshkosh	29,200		1,886,612
Owens Corning	33,990		1,752,524
Spirit AeroSystems Holdings, Cl. A	39,955		2,331,374
Toro	51,500		2,881,425
Woodward	31,170		2,152,289
			26,813,479
Consumer Durables & Apparel - 5.5%			
Brunswick	55,420		3,022,607
Kate Spade & Co	13,700	b	255,779
KB Home	78,680	a	1,243,931
NVR	1,470	b	2,453,430
Tempur Sealy International	37,700	a,b	2,574,156
TRI Pointe Group	58,805	b	675,081
			10,224,984
Consumer Services - 2.5%			
Brinker International	39,870	a	1,974,761
Darden Restaurants	34,865		2,535,383
Wyndham Worldwide	2,270		173,360
			4,683,504
Diversified Financials - 2.9%			
Affiliated Managers Group	13,850	b	2,012,405
CBOE Holdings	8,615		636,562

Common Stocks - 99.5% (continued)	Shares		Value ($)
Diversified Financials - 2.9% (continued)			
SEI Investments	57,100		2,818,456
			5,467,423
Energy - 3.0%			
CONSOL Energy	48,400		882,332
Dril-Quip	36,210	b	2,174,410
World Fuel Services	55,950		2,568,664
			5,625,406
Food & Staples Retailing - 1.2%			
Casey's General Stores	1,800		213,984
Sprouts Farmers Markets	110,980	a,b	2,099,742
			2,313,726
Food, Beverage & Tobacco - 4.0%			
Blue Buffalo Pet Products	47,900	b	1,151,516
Dean Foods	135,960		2,961,209
Ingredion	26,450		3,305,192
			7,417,917
Health Care Equipment & Services - 5.0%			
Allscripts Healthcare Solutions	17,520	b	178,879
Halyard Health	41,200	b	1,523,576
Hologic	34,925	b	1,401,191
Teleflex	18,875		3,041,706
WellCare Health Plans	24,000	b	3,289,920
			9,435,272
Household & Personal Products - 1.3%			
Church & Dwight	52,800		**2,333,232**
Insurance - 6.9%			
Aspen Insurance Holdings	20,630		1,134,650
CNO Financial Group	136,360		2,611,294
Hanover Insurance Group	26,295		2,393,108
Old Republic International	124,260		2,360,940
Primerica	41,145	a	2,845,177
Reinsurance Group of America	12,945		1,628,869
			12,974,038
Materials - 8.8%			
Bemis	18,820		899,972
Cabot	54,295		2,744,069
Celanese, Ser. A	12,900		1,015,746
Commercial Metals	82,750		1,802,295
Owens-Illinois	145,000	b	2,524,450

Common Stocks - 99.5% (continued)	Shares		Value ($)
Materials - 8.8% (continued)			
PolyOne	34,605		1,108,744
Reliance Steel & Aluminum	32,420		2,578,687
Steel Dynamics	54,745		1,947,827
Worthington Industries	39,745		1,885,503
			16,507,293
Media - .9%			
New York Times, Cl. A	122,725		**1,632,243**
Pharmaceuticals, Biotechnology & Life Sciences - 5.0%			
Agilent Technologies	19,150		872,474
Charles River Laboratories International	30,820	b	2,348,176
Mettler-Toledo International	6,300	b	2,636,928
United Therapeutics	23,775	a,b	3,410,048
			9,267,626
Real Estate - 8.6%			
First Industrial Realty Trust	100,400	c	2,816,220
General Growth Properties	71,665	c	1,790,192
Hospitality Properties Trust	67,535	c	2,143,561
Kilroy Realty	20,355	c	1,490,393
Lamar Advertising, Cl. A	45,095	c	3,032,188
Tanger Factory Outlet Centers	65,700	c	2,350,746
Weingarten Realty Investors	71,570	c	2,561,490
			16,184,790
Retailing - 2.9%			
American Eagle Outfitters	152,680	a	2,316,155
Big Lots	52,040	a	2,612,928
Foot Locker	6,180	a	438,100
			5,367,183
Semiconductors & Semiconductor Equipment - .2%			
Integrated Device Technology	12,445	b	**293,204**
Software & Services - 11.0%			
Acxiom	31,250	b	837,500
ANSYS	6,415	b	593,323
CDK Global	3,200		191,008
Citrix Systems	28,525	b	2,547,568
Convergys	70,565	a	1,733,076
CoreLogic	48,530	b	1,787,360
DST Systems	25,900		2,775,185
Fair Isaac	10,900		1,299,498
Manhattan Associates	32,550	b	1,726,127

Common Stocks - 99.5% (continued)	Shares		Value ($)
Software & Services - 11.0% (continued)			
Mentor Graphics	85,250		3,144,872
NeuStar, Cl. A	50,360	a,b	1,682,024
Nuance Communications	128,805	b	1,919,195
VeriSign	3,380	a,b	257,117
			20,493,853
Technology Hardware & Equipment - 4.2%			
Arrow Electronics	17,265	b	1,230,995
Belden	24,080		1,800,462
InterDigital	16,720		1,527,372
NCR	83,335	b	3,380,068
			7,938,897
Telecommunication Services - .4%			
CenturyLink	34,505	a	**820,529**
Utilities - 6.2%			
FirstEnergy	58,775		1,820,262
Great Plains Energy	86,330		2,361,125
MDU Resources Group	105,900		3,046,743
NiSource	62,680		1,387,735
Westar Energy	52,390		2,952,176
			11,568,041
Total Common Stocks (cost $158,459,512)			**186,170,110**
Other Investment - .6%			
Registered Investment Company;			
Dreyfus Institutional Preferred Government Plus Money Market Fund (cost $1,199,499)	1,199,499	d	**1,199,499**
Investment of Cash Collateral for Securities Loaned - 6.7%			
Registered Investment Company;			
Dreyfus Institutional Preferred Money Market Fund, Hamilton Shares (cost $12,494,102)	12,494,102	d	**12,494,102**
Total Investments (cost $172,153,113)	**106.8%**		**199,863,711**
Liabilities, Less Cash and Receivables	**(6.8%)**		**(12,665,216)**
Net Assets	**100.0%**		**187,198,495**

[a] *Security, or portion thereof, on loan. At December 31, 2016, the value of the fund's securities on loan was $16,486,373 and the value of the collateral held by the fund was $17,006,370, consisting of cash collateral of $12,494,102 and U.S. Government & Agency securities valued at $4,512,268.*

[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	14.3
Software & Services	11.0
Materials	8.8
Real Estate	8.6
Money Market Investments	7.3
Insurance	6.9
Utilities	6.2
Consumer Durables & Apparel	5.5
Health Care Equipment & Services	5.0
Pharmaceuticals, Biotechnology & Life Sciences	5.0
Banks	4.7
Technology Hardware & Equipment	4.2
Food, Beverage & Tobacco	4.0
Energy	3.0
Diversified Financials	2.9
Retailing	2.9
Consumer Services	2.5
Household & Personal Products	1.3
Food & Staples Retailing	1.2
Media	.9
Telecommunication Services	.4
Semiconductors & Semiconductor Equipment	.2
	106.8

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

STATEMENT OF ASSETS AND LIABILITIES
December 31, 2016

	Cost	Value
Assets ($):		
Investments in securities—See Statement of Investments		
(including securities on loan, valued at $16,486,373)—Note 1(b):		
Unaffiliated issuers	158,459,512	186,170,110
Affiliated issuers	13,693,601	13,693,601
Cash		11,547
Dividends and securities lending income receivable		263,582
Prepaid expenses		2,110
		200,140,950
Liabilities ($):		
Due to The Dreyfus Corporation and affiliates—Note 3(b)		152,578
Liability for securities on loan—Note 1(b)		12,494,102
Payable for shares of Beneficial Interest redeemed		237,286
Accrued expenses		58,489
		12,942,455
Net Assets ($)		**187,198,495**
Composition of Net Assets ($):		
Paid-in capital		154,669,459
Accumulated undistributed investment income—net		1,911,067
Accumulated net realized gain (loss) on investments		2,907,371
Accumulated net unrealized appreciation (depreciation) on investments		27,710,598
Net Assets ($)		**187,198,495**

Net Asset Value Per Share	Initial Shares	Service Shares
Net Assets ($)	123,226,202	63,972,293
Shares Outstanding	6,133,274	3,197,823
Net Asset Value Per Share ($)	**20.09**	**20.00**

See notes to financial statements.

STATEMENT OF OPERATIONS

Year Ended December 31, 2016

Investment Income ($):	
Income:	
Cash dividends:	
Unaffiliated issuers	3,374,246
Affiliated issuers	3,260
Income from securities lending—Note 1(b)	84,609
Total Income	**3,462,115**
Expenses:	
Management fee—Note 3(a)	1,286,415
Distribution fees—Note 3(b)	137,939
Professional fees	62,574
Trustees' fees and expenses—Note 3(c)	46,846
Custodian fees—Note 3(b)	24,256
Prospectus and shareholders' reports	17,643
Loan commitment fees—Note 2	1,859
Shareholder servicing costs—Note 3(b)	1,464
Miscellaneous	14,807
Total Expenses	**1,593,803**
Less—reduction in fees due to earnings credits—Note 3(b)	(50)
Net Expenses	**1,593,753**
Investment Income—Net	**1,868,362**
Realized and Unrealized Gain (Loss) on Investments—Note 4 ($):	
Net realized gain (loss) on investments	3,001,502
Net unrealized appreciation (depreciation) on investments	19,665,475
Net Realized and Unrealized Gain (Loss) on Investments	**22,666,977**
Net Increase in Net Assets Resulting from Operations	**24,535,339**

See notes to financial statements.

STATEMENT OF CHANGES IN NET ASSETS

	Year Ended December 31,	
	2016	2015
Operations ($):		
Investment income—net	1,868,362	1,682,208
Net realized gain (loss) on investments	3,001,502	11,812,133
Net unrealized appreciation (depreciation) on investments	19,665,475	(17,983,109)
Net Increase (Decrease) in Net Assets Resulting from Operations	**24,535,339**	**(4,488,768)**
Distributions to Shareholders from ($):		
Investment income—net:		
Initial Shares	(1,238,123)	(944,587)
Service Shares	(437,208)	(179,129)
Net realized gain on investments:		
Initial Shares	(8,219,760)	(24,657,461)
Service Shares	(3,656,285)	(6,393,134)
Total Distributions	**(13,551,376)**	**(32,174,311)**
Beneficial Interest Transactions ($):		
Net proceeds from shares sold:		
Initial Shares	9,957,409	9,905,018
Service Shares	15,951,441	28,104,037
Distributions reinvested:		
Initial Shares	9,457,883	25,602,048
Service Shares	4,093,493	6,572,263
Cost of shares redeemed:		
Initial Shares	(26,474,897)	(44,189,452)
Service Shares	(9,488,390)	(12,307,883)
Increase (Decrease) in Net Assets from Beneficial Interest Transactions	**3,496,939**	**13,686,031**
Total Increase (Decrease) in Net Assets	**14,480,902**	**(22,977,048)**
Net Assets ($):		
Beginning of Period	172,717,593	195,694,641
End of Period	**187,198,495**	**172,717,593**
Undistributed investment income—net	1,911,067	1,718,036
Capital Share Transactions (Shares):		
Initial Shares		
Shares sold	530,948	482,702
Shares issued for distributions reinvested	537,991	1,278,824
Shares redeemed	(1,445,546)	(2,221,204)
Net Increase (Decrease) in Shares Outstanding	**(376,607)**	**(459,678)**
Service Shares		
Shares sold	863,832	1,364,856
Shares issued for distributions reinvested	233,381	328,942
Shares redeemed	(514,524)	(611,910)
Net Increase (Decrease) in Shares Outstanding	**582,689**	**1,081,888**

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	2016	2015	2014	2013	2012
Per Share Data ($):					
Net asset value, beginning of period	18.95	23.03	20.87	15.68	13.16
Investment Operations:					
Investment income—net[a]	.21	.18	.14	.20	.23
Net realized and unrealized gain (loss) on investments	2.50	(.50)	2.35	5.24	2.36
Total from Investment Operations	2.71	(.32)	2.49	5.44	2.59
Distributions:					
Dividends from investment income—net	(.21)	(.14)	(.21)	(.25)	(.07)
Dividends from net realized gain on investments	(1.36)	(3.62)	(.12)	-	-
Total Distributions	(1.57)	(3.76)	(.33)	(.25)	(.07)
Net asset value, end of period	20.09	18.95	23.03	20.87	15.68
Total Return (%)	15.47	(2.29)	12.09	34.99	19.67
Ratios/Supplemental Data (%):					
Ratio of total expenses to average net assets	.85	.85	.85	.86	.85
Ratio of net expenses to average net assets	.85	.85	.85	.86	.85
Ratio of net investment income to average net assets	1.16	.89	.64	1.11	1.58
Portfolio Turnover Rate	65.52	80.27	83.06	68.72	73.96
Net Assets, end of period ($ x 1,000)	123,226	123,354	160,482	158,682	128,410

[a] *Based on average shares outstanding.*
See notes to financial statements.

	Year Ended December 31,				
Service Shares	2016	2015	2014	2013	2012
Per Share Data ($):					
Net asset value, beginning of period	18.88	22.97	20.83	15.65	13.14
Investment Operations:					
Investment income—net[a]	.17	.15	.09	.16	.19
Net realized and unrealized gain (loss) on investments	2.47	(.52)	2.34	5.23	2.35
Total from Investment Operations	2.64	(.37)	2.43	5.39	2.54
Distributions:					
Dividends from investment income—net	(.16)	(.10)	(.17)	(.21)	(.03)
Dividends from net realized gain on investments	(1.36)	(3.62)	(.12)	-	-
Total Distributions	(1.52)	(3.72)	(.29)	(.21)	(.03)
Net asset value, end of period	20.00	18.88	22.97	20.83	15.65
Total Return (%)	15.20	(2.52)	11.76	34.70	19.34
Ratios/Supplemental Data (%):					
Ratio of total expenses to average net assets	1.10	1.10	1.10	1.11	1.10
Ratio of net expenses to average net assets	1.10	1.10	1.10	1.11	1.10
Ratio of net investment income to average net assets	.94	.72	.40	.86	1.32
Portfolio Turnover Rate	65.52	80.27	83.06	68.72	73.96
Net Assets, end of period ($ x 1,000)	63,972	49,363	35,213	23,838	17,836

[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 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 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, 2016 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†	186,170,110	-	-	**186,170,110**
Registered Investment Companies	13,693,601	-	-	**13,693,601**

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

At December 31, 2016, 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. Additionally, the contractual maturity of security lending transactions are on an overnight and continuous basis. During the period ended December 31, 2016, The Bank of New York Mellon earned $17,892 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, 2016 were as follows:

Affiliated Investment Company	Value 12/31/2015 ($)	Purchases ($)	Sales ($)	Value 12/31/2016 ($)	Net Assets (%)
Dreyfus Institutional Cash Advantage Fund, Institutional Shares†	2,401,926	120,703,813	123,105,739	-	-
Dreyfus Institutional Preferred Government Plus Money Market Fund††	458,721	25,660,748	24,919,970	1,199,499	.6
Dreyfus Institutional Preferred Money Market Fund, Hamilton Shares†	-	47,453,503	34,959,401	12,494,102	6.7
Total	**2,860,647**	**193,818,064**	**182,985,110**	**13,693,601**	**7.3**

† *During the period ended December 31, 2016, Dreyfus Institutional Cash Advantage Fund was acquired by Dreyfus Institutional Preferred Money Market Fund.*
†† *Formerly Dreyfus Institutional Preferred Plus Money Market Fund.*

(d) Dividends and distributions to shareholders: Dividends and distributions 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, 2016, 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, 2016, the fund did not incur any interest or penalties.

Each tax year in the four-year period ended December 31, 2016 remains subject to examination by the Internal Revenue Service and state taxing authorities.

At December 31, 2016, the components of accumulated earnings on a tax basis were as follows: undistributed ordinary income $1,887,753, undistributed capital gains $2,994,498 and unrealized appreciation $27,623,471.

The tax character of distributions paid to shareholders during the fiscal periods ended December 31, 2016 and December 31, 2015 were as follows: ordinary income $1,675,331 and $8,873,053, and long-term capital gains $11,876,045 and $23,301,258, respectively.

NOTE 2—Bank Lines of Credit:

The fund participates with other Dreyfus-managed funds in an $810 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 5, 2016, the unsecured credit facility with Citibank, N.A. was $555 million and prior to January 11, 2016, the unsecured credit facility with Citibank, N.A. was $480 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, 2016, the fund did not borrow under the Facilities.

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, 2016, Service shares were charged $137,939 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, 2016, the fund was charged $1,191 for transfer agency services and $107 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 $50.

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, 2016, the fund was charged $24,256 pursuant to the custody agreement.

During the period ended December 31, 2016, the fund was charged $9,640 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 $119,947, Distribution Plan fees $13,568, custodian fees $11,453, Chief Compliance Officer fees $7,314 and transfer agency fees $296.

(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, 2016, amounted to $112,351,705 and $120,608,635, respectively.

At December 31, 2016, the cost of investments for federal income tax purposes was $172,240,240; accordingly, accumulated net unrealized appreciation on investments was $27,623,471, consisting of $31,633,002 gross unrealized appreciation and $4,009,531 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, 2016, 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, 2016 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, 2016, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

New York, New York
February 10, 2017

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, 2016 as qualifying for the corporate dividends received deduction. Shareholders will receive notification in early 2017 of the percentage applicable to the preparation of their 2016 income tax returns. Also, the fund hereby reports $1.3623 per share as a long-term capital gain distribution paid on March 23, 2016.

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

At a meeting of the fund's Board of Trustees held on July 20-21, 2016, 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 Broadridge Financial Solutions, Inc. ("Broadridge"), 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, 2016, 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 Broadridge as of the date of its analysis. Dreyfus previously had furnished the Board with a description of the methodology Broadridge 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 in the Performance Group for all periods, except for the ten-year period), except for the ten-year period when the fund's performance was slightly below the Performance Universe median. 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 and the fund's actual management fee and total expenses were at the Expense Group and Expense Universe 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 Broadridge 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 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, considered in relation to the mix of services provided by Dreyfus, including the nature, extent and quality of such services, supported the renewal of the Agreement and (2) in light of the relevant circumstances for the fund and the extent to which economies of scale would be realized if the fund grows and whether fee levels reflect these economies of scale for the benefit of fund shareholders. Dreyfus representatives noted that a discussion of economies of scale is predicated on a fund having achieved a substantial size with increasing assets and that, if a fund's assets had been stable or decreasing, the possibility that Dreyfus may have realized any economies of scale would be less. Dreyfus representatives also noted that, as a result of shared and allocated costs among funds in the Dreyfus fund complex, the extent of economies of scale could depend substantially on the level of assets in the complex as a whole, so that increases and decreases in complex-wide assets can affect potential economies of scale in a manner that is disproportionate to, or even in the opposite direction from, changes in the fund's asset level. The Board also considered potential benefits to Dreyfus from acting as investment adviser and noted the soft dollar arrangements in effect for trading the fund's investments.

At the conclusion of these discussions, the Board agreed that it had been furnished with sufficient information to make an informed business decision with respect to the renewal of the Agreement. Based on the discussions and considerations as described above, the Board concluded and determined as follows.

- The Board concluded that the nature, extent and quality of the services provided by Dreyfus are adequate and appropriate.
- The Board was satisfied with the fund's performance.
- The Board concluded that the fee paid to Dreyfus supported the renewal of the Agreement 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 (73)
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: 135

Francine J. Bovich (65)
Board Member (2014)

Principal Occupation During Past 5 Years:

- Trustee, The Bradley Trusts, private trust funds (2011-present)

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: 76

Gordon J. Davis (75)
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: 58

Nathan Leventhal (73)
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: 48

Robin A. Melvin (53)
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; 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: 107

Roslyn M. Watson (67)
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: 62

Benaree Pratt Wiley (70)
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: 86

INTERESTED BOARD MEMBERS

J. Charles Cardona (61)
Board Member (2014)

Principal Occupation During Past 5 Years:

- Retired President and a Director of the Manager (2008-2016), Chairman of the Distributor (2013-2016, Executive Vice President, 1997-2013),

No. of Portfolios for which Board Member Serves: 34

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 (69)
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: 34

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 MBSC Securities Corporation since June 2007. He is an officer of 64 investment companies (comprised of 135 portfolios) managed by the Manager. He is 58 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 and Associate General Counsel and Managing Director of BNY Mellon since June 2015; from June 2005 to June 2015, he served in various capacities with Deutsche Bank – Asset & Wealth Management Division, including as Director and Associate General Counsel, and Chief Legal Officer of Deutsche Investment Management Americas Inc. from June 2012 to May 2015. He is an officer of 65 investment companies (comprised of 160 portfolios) managed by the Manager. He is 45 years old and has been an employee of the Manager since June 2015.

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

Associate General Counsel of BNY Mellon, and an officer of 65 investment companies (comprised of 160 portfolios) managed by the Manager. She is 54 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 65 investment companies (comprised of 160 portfolios) managed by the Manager. He is 50 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 65 investment companies (comprised of 160 portfolios) managed by the Manager. She is 61 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 65 investment companies (comprised of 160 portfolios) managed by the Manager. He is 55 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 65 investment companies (comprised of 160 portfolios) managed by the Manager. She is 54 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 since March 2013, from August 2005 to March 2013, Associate General Counsel of Third Avenue Management. She is an officer of 65 investment companies (comprised of 160 portfolios) managed by the Manager. She is 41 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 65 investment companies (comprised of 160 portfolios) managed by the Manager. He is 51 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 65 investment companies (comprised of 160 portfolios) managed by the Manager. He is 58 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, Municipal Bond and Equity Funds of the Manager, and an officer of 65 investment companies (comprised of 160 portfolios) managed by the Manager. He is 57 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 65 investment companies (comprised of 160 portfolios) managed by the Manager. He is 48 years old and has been an employee of the Manager since April 1991.

ROBERT S. ROBOL, Assistant Treasurer since August 2005.

Senior Accounting Manager of the Manager, and an officer of 65 investment companies (comprised of 160 portfolios) managed by the Manager. He is 52 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 65 investment companies (comprised of 160 portfolios) managed by the Manager. He is 49 years old and has been an employee of the Manager since June 1989.

ROBERT SVAGNA, Assistant Treasurer since December 2002.

Senior Accounting Manager – Fixed Income and Equity Funds of the Manager, and an officer of 65 investment companies (comprised of 160 portfolios) managed by the Manager. He is 49 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 (65 investment companies, comprised of 160 portfolios). He is 59 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.

CARIDAD 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 60 investment companies (comprised of 155 portfolios) managed by the Manager. She is 48 years old and has been an employee of the Distributor since 1997.

NOTES

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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 1-800-258-4260 or 1-800-258-4261

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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BNY MELLON | Dreyfus

The Dreyfus Socially Responsible Growth Fund, Inc.

ANNUAL REPORT
December 31, 2016

BNY MELLON | Dreyfus

The views expressed in this report reflect those of the portfolio manager(s) 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

Contents

THE FUND

FOR MORE INFORMATION

A LETTER FROM THE CHIEF EXECUTIVE OFFICER

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, 2016 through December 31, 2016. 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.

Stocks and bonds advanced over 2016 despite bouts of market volatility stemming from various economic and political developments. In January, stocks declined sharply and long-term interest rates fell in response to sluggish global economic growth, falling commodity prices, and worries following the first increase in short-term U.S. interest rates in nearly a decade. However, equities began a sustained rebound in February when U.S. monetary policymakers refrained from additional rate hikes, other central banks eased their monetary policies, and commodity prices recovered. After a bout of volatility in June stemming from the United Kingdom's referendum to leave the European Union, stocks generally continued to climb over the summer. Stock prices moderated in advance of U.S. elections, but markets subsequently rallied to new highs in anticipation of changes in U.S. fiscal and tax policies. In the bond market, yields of high-quality government bonds moved lower over much of the reporting period amid robust investor demand for current income, but yields surged higher after the election due to expectations of rising interest rates. Corporate-backed bonds fared especially well in this environment.

The transition to a new U.S. president and ongoing global economic headwinds suggest that volatility may persist in the financial markets. Some asset classes and industry groups seem likely to benefit from a changing economic and geopolitical landscape, while others probably will face challenges. Consequently, selectivity seems likely to be an important determinant of investment success in 2017. As always, we encourage you to discuss the implications of our observations with your financial advisor.

Thank you for your continued confidence and support.

Mark D. Santero
Chief Executive Officer
The Dreyfus Corporation
January 17, 2017

DISCUSSION OF FUND PERFORMANCE

For the period from January 1, 2016 through December 31, 2016, 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, 2016, The Dreyfus Socially Responsible Growth Fund, Inc.'s Initial shares produced a total return of 10.38%, and the fund's Service shares returned 10.08%.[1] In comparison, the fund's benchmark, the S&P 500 Index (the "Index"), produced a total return of 11.94% for the same period.[2]

Despite a variety of international headwinds, U.S. stocks gained ground during 2016 on the strength of moderate economic growth and expectations of new U.S. fiscal and tax policies under a new presidential administration. The fund lagged its benchmark, as some of the Index's stronger performing companies, including several in the energy and financials sectors, did not meet our investment criteria due to low environmental, social, and 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.

Economic and Political Developments Drove Equity Markets

U.S. stocks moved sharply lower over the opening weeks of 2016 due to weakening commodity prices, disappointing global economic data, and higher short-term U.S. interest rates. Equities began a dramatic recovery in February and rallied through the spring in response to rebounding commodity prices, global monetary easing, and indications that additional U.S. rate increases would be delayed. The market's advance faltered later in June over concerns regarding the United Kingdom's referendum to leave the European Union, but the decline proved short lived. By early July, the market had regained most of its lost ground, and encouraging domestic economic data helped the S&P 500 Index climb to new record highs over the summer.

U.S. stock prices remained flat in September and gave back some of their previous gains in October when investors became more cautious ahead of the presidential election. After the election, U.S. stocks again rallied to new highs as investors anticipated higher government spending and a friendlier business environment. The energy, financials, and telecommunications services sectors led the Index's advance, while the health care, real estate, and consumer staples sectors trailed market averages for the full year.

Lack of Low ESG-Rated Stocks Dampened Relative Results

Although companies with high ESG ratings generally performed somewhat better than their lower rated counterparts in 2016, the fund's relative performance was undermined by its lack of exposure to certain large companies in top performing market sectors — such as Chevron — whose low ESG ratings precluded their inclusion in the portfolio. Overweighted exposure to the health care sector, which lost a degree of value overall, also weighed on relative results.

In the energy sector, refiners *Marathon Petroleum* and *Valero Energy* sold off sharply due to worries about sluggish gasoline demand, rising input costs, and analysts' downgrades. Health care companies Gilead Sciences and AmerisourceBergen were hurt by industrywide pricing pressures for generic drugs. In other areas, retailer Signet Jewelers lost value due to weaker-than-expected same-store sales comparisons.

On a more positive note, the fund fared relatively well in the information technology and industrials sectors. Most notably, visual computing specialist NVIDIA reported better-than-expected financial results and received analyst upgrades, and infrastructure solutions provider Quanta Services rallied from a low valuation as its business prospects improved. Top performers in other areas included financial services provider State Street, natural gas pipeline operator Spectra Energy, and media company Time Warner.

Finding Opportunities Among Socially Responsible Companies

Although stock valuations have expanded after the recent market rally, we have continued to identify ample opportunities among socially responsible businesses. For example, in 2016 we added positions in Prudential Financial, Citrix Systems, and Best Buy, all of which offered attractive valuations, high-quality earnings, strong momentum, and high ESG ratings. As of year-end, we have identified a number of companies meeting our criteria in the health care and information technology sectors, but relatively few in the real estate and consumer discretionary sectors.

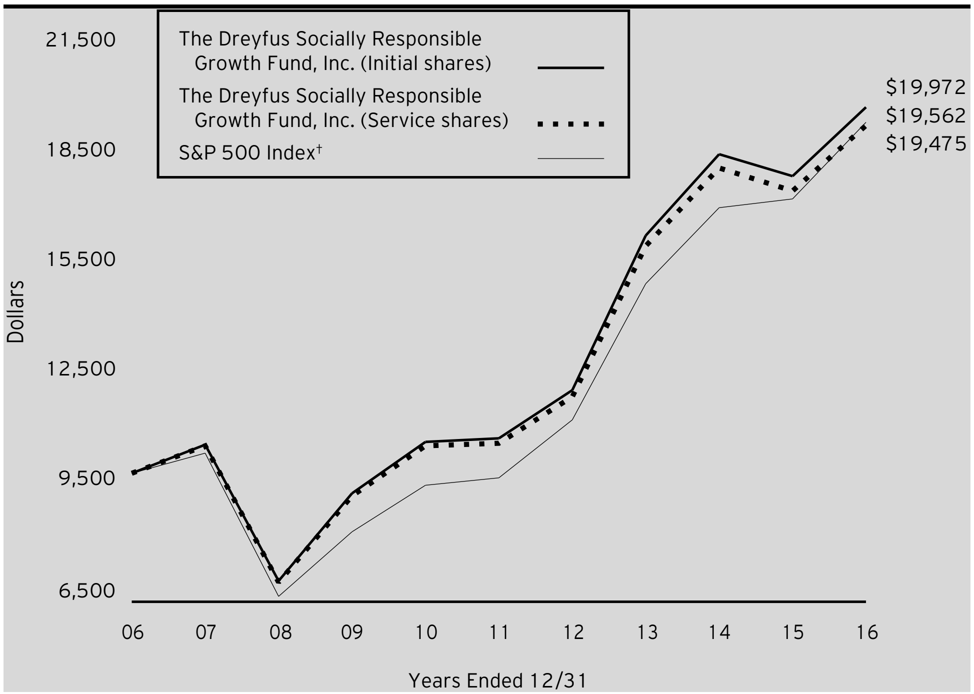
January 17, 2017

Please note, the position in any security highlighted with italicized typeface was sold during the reporting period.
Equities 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. — The S&P 500 Index is an unmanaged index of 500 common stocks chosen to reflect the industries of the U.S. economy and is often considered a proxy for the stock market in general. 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 S&P 500 Index (the "Index")

Average Annual Total Returns as of 12/31/16

	1 Year	5 Years	10 Years
Initial shares	**10.38%**	**12.77%**	**7.16%**
Service shares	**10.08%**	**12.48%**	**6.89%**
S&P 500 Index	**11.94%**	**14.65%**	**6.94%**

† *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 12/31/06 to a $10,000 investment made in 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 an unmanaged index of 500 common stocks chosen to reflect the industries of the U.S. economy and is often considered a proxy for the stock market in general. 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, 2016 to December 31, 2016. 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, 2016

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.57	$ 5.88
Ending value (after expenses)	$ 1,088.30	$ 1,087.10

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

Using the SEC's method to compare expenses

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

Expenses and Value of a $1,000 Investment
assuming a hypothetical 5% annualized return for the six months ended December 31, 2016

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.42	$ 5.69
Ending value (after expenses)	$ 1,020.76	$ 1,019.51

† *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 184/366 (to reflect the one-half year period).*

STATEMENT OF INVESTMENTS
December 31, 2016

Common Stocks - 99.3%	Shares		Value ($)
Banks - 3.9%			
Bank of America	38,400		848,640
JPMorgan Chase & Co.	5,300		457,337
People's United Financial	241,000	a	4,665,760
PNC Financial Services Group	25,500		2,982,480
			8,954,217
Capital Goods - 9.8%			
3M	31,150		5,562,455
Cummins	18,700		2,555,729
General Electric	225,150		7,114,740
Honeywell International	2,600		301,210
Ingersoll-Rand	7,000		525,280
Quanta Services	90,000	b	3,136,500
Rockwell Collins	39,200		3,636,192
			22,832,106
Consumer Durables & Apparel - 3.3%			
NIKE, Cl. B	81,200		4,127,396
PVH	39,500		3,564,480
			7,691,876
Diversified Financials - 6.1%			
American Express	6,650		492,632
BlackRock	10,300		3,919,562
Northern Trust	55,700		4,960,085
State Street	60,100		4,670,972
			14,043,251
Energy - 6.0%			
Exxon Mobil	23,800		2,148,188
FMC Technologies	48,500	b	1,723,205
Hess	76,850		4,786,986
Phillips 66	17,150		1,481,932
Spectra Energy	93,450		3,839,860
			13,980,171
Food, Beverage & Tobacco - 6.3%			
Campbell Soup	65,200	a	3,942,644
General Mills	49,800		3,076,146
J.M. Smucker	5,400		691,524
Kellogg	51,600		3,803,436
Mondelez International, Cl. A	18,600		824,538

Common Stocks - 99.3% (continued)	Shares		Value ($)
Food, Beverage & Tobacco - 6.3% (continued)			
PepsiCo	21,700		2,270,471
			14,608,759
Health Care Equipment & Services - 5.4%			
AmerisourceBergen	44,900		3,510,731
Cardinal Health	48,600		3,497,742
Cigna	9,400		1,253,866
Edwards Lifesciences	6,400	b	599,680
Henry Schein	23,400	b	3,550,014
			12,412,033
Household & Personal Products - 5.3%			
Clorox	26,550		3,186,531
Kimberly-Clark	34,300		3,914,316
Procter & Gamble	60,700		5,103,656
			12,204,503
Insurance - 3.2%			
Marsh & McLennan Cos.	58,100		3,926,979
Prudential Financial	33,200		3,454,792
			7,381,771
Materials - 1.7%			
Ecolab	34,250		**4,014,785**
Media - 2.2%			
Time Warner	19,800		1,911,294
Walt Disney	30,000		3,126,600
			5,037,894
Pharmaceuticals, Biotechnology & Life Sciences - 11.3%			
AbbVie	5,400		338,148
Agilent Technologies	97,350		4,435,266
Biogen	12,650	b	3,587,287
Gilead Sciences	30,850		2,209,169
Johnson & Johnson	9,500		1,094,495
Merck & Co.	67,100		3,950,177
Mettler-Toledo International	4,700	b	1,967,232
PerkinElmer	18,200		949,130
Waters	28,550	b	3,836,835
Zoetis	70,000		3,747,100
			26,114,839
Retailing - 4.2%			
Best Buy	89,700	a	3,827,499
Signet Jewelers	29,500		2,780,670

Common Stocks - 99.3% (continued)	Shares		Value ($)
Retailing - 4.2% (continued)			
Tiffany & Co.	41,800	a	3,236,574
			9,844,743
Semiconductors & Semiconductor Equipment - 3.0%			
Intel	64,600		2,343,042
NVIDIA	33,000		3,522,420
Texas Instruments	16,100		1,174,817
			7,040,279
Software & Services - 12.7%			
Accenture, Cl. A	44,750		5,241,567
Alphabet, Cl. A	5,870	b	4,651,681
Alphabet, Cl. C	6,000	b	4,630,920
Citrix Systems	8,000	b	714,480
Facebook, Cl. A	23,800	b	2,738,190
Microsoft	150,950		9,380,033
Teradata	80,200	b	2,179,034
			29,535,905
Technology Hardware & Equipment - 8.2%			
Apple	38,800		4,493,816
Cisco Systems	58,975		1,782,225
Corning	80,200		1,946,454
Hewlett Packard Enterprise	108,100		2,501,434
HP	264,700		3,928,148
Motorola Solutions	51,900		4,301,991
			18,954,068
Transportation - 2.2%			
Expeditors International of Washington	18,800		995,648
Norfolk Southern	36,600		3,955,362
Southwest Airlines	3,800		189,392
			5,140,402
Utilities - 4.5%			
Eversource Energy	24,300		1,342,089
Exelon	126,600		4,493,034
NextEra Energy	39,300		4,694,778
			10,529,901
Total Common Stocks (cost $191,204,946)			**230,321,503**
Other Investment - .7%			
Registered Investment Company;			
Dreyfus Institutional Preferred Government Plus Money Market Fund (cost $1,675,223)	1,675,223	c	**1,675,223**

Investment of Cash Collateral for Securities Loaned - 1.4%	Shares	Value ($)
Registered Investment Company;		
Dreyfus Institutional Preferred Money Market Fund, Hamilton Shares (cost $3,269,178)	3,269,178 [c]	**3,269,178**
Total Investments (cost $196,149,347)	**101.4%**	**235,265,904**
Liabilities, Less Cash and Receivables	**(1.4%)**	**(3,209,300)**
Net Assets	**100.0%**	**232,056,604**

[a] *Security, or portion thereof, on loan. At December 31, 2016, the value of the fund's securities on loan was $11,761,976 and the value of the collateral held by the fund was $12,049,080, consisting of cash collateral of $3,269,178 and U.S. Government & Agency securities valued at $8,779,902.*

[b] *Non-income producing security.*

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

Portfolio Summary (Unaudited) †	Value (%)
Software & Services	12.7
Pharmaceuticals, Biotechnology & Life Sciences	11.3
Capital Goods	9.8
Technology Hardware & Equipment	8.2
Food, Beverage & Tobacco	6.3
Diversified Financials	6.1
Energy	6.0
Health Care Equipment & Services	5.4
Household & Personal Products	5.3
Utilities	4.5
Retailing	4.2
Banks	3.9
Consumer Durables & Apparel	3.3
Insurance	3.2
Semiconductors & Semiconductor Equipment	3.0
Media	2.2
Transportation	2.2
Money Market Investments	2.1
Materials	1.7
	101.4

† *Based on net assets.*

See notes to financial statements.

STATEMENT OF ASSETS AND LIABILITIES
December 31, 2016

	Cost	Value
Assets ($):		
Investments in securities—See Statement of Investments		
(including securities on loan, valued at $11,761,976)—Note 1(b):		
Unaffiliated issuers	191,204,946	230,321,503
Affiliated issuers	4,944,401	4,944,401
Dividends and securities lending income receivable		351,719
Prepaid expenses		5,370
		235,622,993
Liabilities ($):		
Due to The Dreyfus Corporation and affiliates—Note 3(c)		169,225
Cash overdraft due to Custodian		5,478
Liability for securities on loan—Note 1(b)		3,269,178
Payable for shares of Common Stock redeemed		75,798
Accrued expenses		46,710
		3,566,389
Net Assets ($)		**232,056,604**
Composition of Net Assets ($):		
Paid-in capital		174,391,366
Accumulated undistributed investment income—net		2,740,173
Accumulated net realized gain (loss) on investments		15,808,508
Accumulated net unrealized appreciation (depreciation)		
on investments		39,116,557
Net Assets ($)		**232,056,604**

Net Asset Value Per Share	Initial Shares	Service Shares
Net Assets ($)	221,172,213	10,884,391
Shares Outstanding	5,842,179	290,575
Net Asset Value Per Share ($)	**37.86**	**37.46**

See notes to financial statements.

STATEMENT OF OPERATIONS
Year Ended December 31, 2016

Investment Income ($):	
Income:	
Cash dividends:	
Unaffiliated issuers	4,682,283
Affiliated issuers	5,216
Income from securities lending—Note 1(b)	41,076
Total Income	**4,728,575**
Expenses:	
Management fee—Note 3(a)	1,714,315
Professional fees	102,356
Directors' fees and expenses—Note 3(d)	59,816
Prospectus and shareholders' reports	42,621
Distribution fees—Note 3(b)	25,224
Custodian fees—Note 3(c)	17,525
Loan commitment fees—Note 2	4,736
Shareholder servicing costs—Note 3(c)	1,736
Miscellaneous	18,588
Total Expenses	**1,986,917**
Less—reduction in fees due to earnings credits—Note 3(c)	(64)
Net Expenses	**1,986,853**
Investment Income—Net	**2,741,722**
Realized and Unrealized Gain (Loss) on Investments—Note 4 ($):	
Net realized gain (loss) on investments	15,872,537
Net unrealized appreciation (depreciation) on investments	3,697,883
Net Realized and Unrealized Gain (Loss) on Investments	**19,570,420**
Net Increase in Net Assets Resulting from Operations	**22,312,142**

See notes to financial statements.

STATEMENT OF CHANGES IN NET ASSETS

	Year Ended December 31,	
	2016	2015
Operations ($):		
Investment income—net	2,741,722	2,961,712
Net realized gain (loss) on investments	15,872,537	22,653,145
Net unrealized appreciation (depreciation) on investments	3,697,883	(33,587,174)
Net Increase (Decrease) in Net Assets Resulting from Operations	**22,312,142**	**(7,972,317)**
Distributions to Shareholders from ($):		
Investment income—net:		
Initial Shares	(2,857,548)	(2,689,794)
Service Shares	(102,266)	(85,867)
Net realized gain on investments:		
Initial Shares	(21,711,406)	(33,743,127)
Service Shares	(979,667)	(1,384,964)
Total Distributions	**(25,650,887)**	**(37,903,752)**
Capital Stock Transactions ($):		
Net proceeds from shares sold:		
Initial Shares	6,741,612	12,284,196
Service Shares	1,365,965	1,679,368
Distributions reinvested:		
Initial Shares	24,568,954	36,432,921
Service Shares	1,081,933	1,470,831
Cost of shares redeemed:		
Initial Shares	(34,374,138)	(47,663,749)
Service Shares	(1,341,096)	(2,090,656)
Increase (Decrease) in Net Assets from Capital Stock Transactions	**(1,956,770)**	**2,112,911**
Total Increase (Decrease) in Net Assets	**(5,295,515)**	**(43,763,158)**
Net Assets ($):		
Beginning of Period	237,352,119	281,115,277
End of Period	**232,056,604**	**237,352,119**
Undistributed investment income—net	2,740,173	2,958,265
Capital Share Transactions (Shares):		
Initial Shares		
Shares sold	187,407	294,421
Shares issued for distributions reinvested	711,731	885,584
Shares redeemed	(956,073)	(1,165,121)
Net Increase (Decrease) in Shares Outstanding	**(56,935)**	**14,884**
Service Shares		
Shares sold	38,332	41,251
Shares issued for distributions reinvested	31,617	36,032
Shares redeemed	(37,803)	(52,097)
Net Increase (Decrease) in Shares Outstanding	**32,146**	**25,186**

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	2016	2015	2014	2013	2012
Per Share Data ($):					
Net asset value, beginning of period	38.56	45.97	44.09	33.24	29.91
Investment Operations:					
Investment income—net[a]	.44	.47	.45	.46	.44
Net realized and unrealized gain (loss) on investments	3.15	(1.54)	5.07	10.87	3.15
Total from Investment Operations	3.59	(1.07)	5.52	11.33	3.59
Distributions:					
Dividends from investment income—net	(.50)	(.47)	(.48)	(.48)	(.26)
Dividends from net realized gain on investments	(3.79)	(5.87)	(3.16)	–	–
Total Distributions	(4.29)	(6.34)	(3.64)	(.48)	(.26)
Net asset value, end of period	37.86	38.56	45.97	44.09	33.24
Total Return (%)	10.38	(3.20)	13.45	34.34	11.98
Ratios/Supplemental Data (%):					
Ratio of total expenses to average net assets	.86	.86	.84	.86	.85
Ratio of net expenses to average net assets	.86	.86	.84	.86	.85
Ratio of net investment income to average net assets	1.21	1.14	1.02	1.19	1.34
Portfolio Turnover Rate	60.67	59.57	45.05	38.81	48.84
Net Assets, end of period ($ x 1,000)	221,172	227,483	270,483	264,713	207,383

[a] *Based on average shares outstanding.*
See notes to financial statements.

	Year Ended December 31,				
Service Shares	2016	2015	2014	2013	2012
Per Share Data ($):					
Net asset value, beginning of period	38.19	45.58	43.76	33.01	29.70
Investment Operations:					
Investment income—net[a]	.34	.36	.33	.36	.36
Net realized and unrealized gain (loss) on investments	3.12	(1.52)	5.04	10.78	3.13
Total from Investment Operations	3.46	(1.16)	5.37	11.14	3.49
Distributions:					
Dividends from investment income—net	(.40)	(.36)	(.39)	(.39)	(.18)
Dividends from net realized gain on investments	(3.79)	(5.87)	(3.16)	–	–
Total Distributions	(4.19)	(6.23)	(3.55)	(.39)	(.18)
Net asset value, end of period	37.46	38.19	45.58	43.76	33.01
Total Return (%)	10.08	(3.41)	13.13	33.99	11.70
Ratios/Supplemental Data (%):					
Ratio of total expenses to average net assets	1.11	1.11	1.09	1.11	1.10
Ratio of net expenses to average net assets	1.11	1.11	1.09	1.11	1.10
Ratio of net investment income to average net assets	.96	.89	.76	.93	1.09
Portfolio Turnover Rate	60.67	59.57	45.05	38.81	48.84
Net Assets, end of period ($ x 1,000)	10,884	9,869	10,632	8,767	6,552

[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 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 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, 2016 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†	227,540,833	-	-	**227,540,833**
Equity Securities - Foreign Common Stocks†	2,780,670	-	-	**2,780,670**
Registered Investment Companies	4,944,401	-	-	**4,944,401**

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

At December 31, 2016, 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. Additionally, the contractual maturity of security lending transactions are on an overnight and continuous basis. During the period ended December 31, 2016, The Bank of New York Mellon earned $9,771 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, 2016 were as follows:

Affiliated Investment Company	Value 12/31/2015 ($)	Purchases ($)	Sales ($)	Value 12/31/2016 ($)	Net Assets (%)
Dreyfus Institutional Cash Advantage Fund, Institutional Shares†	2,079,721	24,643,123	26,722,844	-	-

Affiliated Investment Company	Value 12/31/2015 ($)	Purchases ($)	Sales ($)	Value 12/31/2016 ($)	Net Assets (%)
Dreyfus Institutional Preferred Government Plus Money Market Fund††	2,404,446	27,106,557	27,835,780	1,675,223	.7
Dreyfus Institutional Preferred Money Market Fund, Hamilton Shares†	-	9,625,908	6,356,730	3,269,178	1.4
Total	**4,484,167**	**61,375,588**	**60,915,354**	**4,944,401**	**2.1**

† *During the period ended December 31, 2016, Dreyfus Institutional Cash Advantage Fund was acquired by Dreyfus Institutional Preferred Money Market Fund.*

†† *Formerly Dreyfus Institutional Preferred Plus Money Market Fund.*

(d) Dividends and distributions to shareholders: Dividends and distributions 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, 2016, 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, 2016, the fund did not incur any interest or penalties.

Each tax year in the four-year period ended December 31, 2016 remains subject to examination by the Internal Revenue Service and state taxing authorities.

At December 31, 2016, the components of accumulated earnings on a tax basis were as follows: undistributed ordinary income $4,612,931, undistributed capital gains $14,028,572 and unrealized appreciation $39,023,735.

The tax character of distributions paid to shareholders during the fiscal periods ended December 31, 2016 and December 31, 2015 were as follows: ordinary income $2,959,814 and $4,666,391, and long-term capital gains $22,691,073 and $33,237,361, respectively.

NOTE 2—Bank Lines of Credit:

The fund participates with other Dreyfus-managed funds in an $810 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 5, 2016, the unsecured credit facility with Citibank, N.A. was $555 million and prior to January 11, 2016, the unsecured credit facility with Citibank, N.A. was $480 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, 2016, 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, 2016, Service shares were charged $25,224 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, 2016, Initial shares were not charged pursuant to the Shareholder 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, 2016, the fund was charged $1,427 for transfer agency services and $137 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 $64.

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, 2016, the fund was charged $17,525 pursuant to the custody agreement.

During the period ended December 31, 2016, the fund was charged $9,640 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 $148,800, Distribution Plan fees $2,311, custodian fees $10,504, Chief Compliance Officer fees $7,314 and transfer agency fees $296.

(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, 2016, amounted to $137,910,837 and $162,032,445, respectively.

At December 31, 2016, the cost of investments for federal income tax purposes was $196,242,169; accordingly, accumulated net unrealized appreciation on investments was $39,023,735, consisting of $42,989,599 gross unrealized appreciation and $3,965,864 gross unrealized depreciation.

NOTE 5—Other Matters:

On November 17, 2016, the Board approved, subject to shareholder approval, various investment management-related changes, including the following: (1) changes to the fund's investment strategy, including the removal of the current fundamental social investment policy and related fundamental social considerations, and changes to the fund's fundamental investment objective, (2) the engagement of Newton Investment Management (North America) Limited ("Newton"), an affiliate of Dreyfus, as sub-adviser for the fund, and (3) a "manager of managers" arrangement for the fund whereby Dreyfus, under certain circumstances, would be able to hire and replace affiliated and unaffiliated sub-advisers for the fund without obtaining shareholder approval (the "Shareholder Proposals"). The Shareholder Proposals will be considered at a special meeting of shareholders to be held on March 9, 2017. If shareholders approve the removal of the current fundamental social investment policy and related fundamental social considerations and the engagement of Newton as sub-adviser for the fund, Dreyfus will contractually reduce the annual management fee rate from 0.75% to 0.60%, and the name of the fund will be changed to "The Dreyfus Sustainable U.S. Equity Portfolio, Inc." If the Shareholder Proposals are approved, all changes will be effective on or about May 1, 2017.

On November 17, 2016, the Board also approved the removal of the current policy to invest at least 80% of the fund's net assets in the common stocks of companies that, in the opinion of the fund's management, meet traditional investment standards and conduct their business in a manner that contributes to the enhancement of the quality of life in America. This policy will be removed on or about February 10, 2017, irrespective of whether the Shareholder Proposals are approved.

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, 2016, 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, 2016 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, 2016, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

New York, New York
February 10, 2017

IMPORTANT TAX INFORMATION (Unaudited)

For federal tax purposes, the portfolio hereby reports 100% of the ordinary dividends paid during the fiscal year ended December 31, 2016 as qualifying for the corporate dividends received deduction. Shareholders will receive notification in early 2017 of the percentage applicable to the preparation of their 2016 income tax returns. Also, the fund hereby reports $3.7868 per share as a long-term capital gain distribution paid on March 21, 2016.

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

At a meeting of the fund's Board of Directors held on July 20-21, 2016, 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 Broadridge Financial Solutions, Inc. ("Broadridge"), 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 Broadridge category as that of the fund, all for various periods ended May 31, 2016, (2) at the request of Dreyfus, the fund's performance with the performance of a group of social criteria funds from various Broadridge categories ("Performance Group 2") and with a broader group of social criteria funds ("Performance Universe 2"), all for various periods ended May 31, 2016, 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 Broadridge as of the date of its analysis. Dreyfus previously had furnished the Board with a description of the methodology Broadridge 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. They also noted that performance generally should be considered over longer periods of time, although it is possible that long-term performance can be adversely affected by even one period of significant underperformance so that a single investment decision or theme has the ability to affect disproportionately long-term performance. The Board discussed the results of the comparisons and noted that the fund's total return performance was: variously at, above or below the Performance Group 1 median for all periods; above the Performance Group 2 median for all periods except the one-year period, when it was below the median; and below the Performance Universe 1 and 2 medians for all periods except the five- and ten-year periods, when it was above the medians. They noted the relative proximity to the median of the Performance Group and/or Performance Universe of the fund's performance in certain periods. Dreyfus also provided a comparison of the fund's calendar year total returns to the returns of the fund's benchmark index.

The Board also reviewed the range of actual and contractual management fees and total expenses of the funds in each Expense Group and Expense Universe and discussed the results of the comparisons. The Board noted that: the fund's contractual management fee was at 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 Broadridge 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 of the fund's management fee.

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

The Board considered, on the advice of its counsel, the profitability analysis (1) as part of its evaluation of whether the fees under the Agreement, considered in relation to the mix of services provided by Dreyfus, including the nature, extent and quality of such services, supported the renewal of the Agreement 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 supported the renewal of the Agreement 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 (73)
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: 135

Francine J. Bovich (65)
Board Member (2015)

Principal Occupation During Past 5 Years:

- Trustee, The Bradley Trusts, private trust funds (2011-present)

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: 76

Gordon J. Davis (75)
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: 58

Nathan Leventhal (73)
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: 48

Robin A. Melvin (53)
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; 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: 107

Roslyn M. Watson (67)
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: 62

Benaree Pratt Wiley (70)
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: 86

INTERESTED BOARD MEMBERS

J. Charles Cardona (61)
Board Member (2014)

Principal Occupation During Past 5 Years:

- Retired President and a Director of the Manager (2008-2016), Chairman of the Distributor (2013-2016, Executive Vice President, 1997-2013),

No. of Portfolios for which Board Member Serves: 34

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 (69)
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: 34

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. He is an officer of 64 investment companies (comprised of 135 portfolios) managed by the Manager. He is 58 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 and Associate General Counsel and Managing Director of BNY Mellon since June 2015; from June 2005 to June 2015, he served in various capacities with Deutsche Bank – Asset & Wealth Management Division, including as Director and Associate General Counsel, and Chief Legal Officer of Deutsche Investment Management Americas Inc. from June 2012 to May 2015. He is an officer of 65 investment companies (comprised of 160 portfolios) managed by the Manager. He is 45 years old and has been an employee of the Manager since June 2015.

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

Associate General Counsel of BNY Mellon, and an officer of 65 investment companies (comprised of 160 portfolios) managed by the Manager. She is 54 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 65 investment companies (comprised of 160 portfolios) managed by the Manager. He is 50 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 65 investment companies (comprised of 160 portfolios) managed by the Manager. She is 61 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 65 investment companies (comprised of 160 portfolios) managed by the Manager. He is 55 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 65 investment companies (comprised of 160 portfolios) managed by the Manager. She is 54 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 since March 2013, from August 2005 to March 2013, Associate General Counsel of Third Avenue Management. She is an officer of 65 investment companies (comprised of 160 portfolios) managed by the Manager. She is 41 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 65 investment companies (comprised of 160 portfolios) managed by the Manager. He is 51 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 65 investment companies (comprised of 160 portfolios) managed by the Manager. He is 58 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, Municipal Bond and Equity Funds of the Manager, and an officer of 65 investment companies (comprised of 160 portfolios) managed by the Manager. He is 57 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 65 investment companies (comprised of 160 portfolios) managed by the Manager. He is 48 years old and has been an employee of the Manager since April 1991.

ROBERT S. ROBOL, Assistant Treasurer since August 2005.

Senior Accounting Manager of the Manager, and an officer of 65 investment companies (comprised of 160 portfolios) managed by the Manager. He is 52 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 65 investment companies (comprised of 160 portfolios) managed by the Manager. He is 49 years old and has been an employee of the Manager since June 1989.

ROBERT SVAGNA, Assistant Treasurer since December 2002.

Senior Accounting Manager – Fixed Income and Equity Funds of the Manager, and an officer of 65 investment companies (comprised of 160 portfolios) managed by the Manager. He is 49 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 (65 investment companies, comprised of 160 portfolios). He is 59 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.

CARIDAD 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 60 investment companies (comprised of 155 portfolios) managed by the Manager. She is 48 years old and has been an employee of the Distributor since 1997.

NOTES

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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 1-800-258-4260 or 1-800-258-4261

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

Annual Report to Shareholders December 31, 2016

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, 2016, Series I shares of Invesco V.I. Managed Volatility Fund (the Fund) underperformed the Russell 1000 Value Index.

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

Fund vs. Indexes

Total returns, 12/31/15 to 12/31/16, excluding variable product issuer charges. If variable product issuer charges were included, returns would be lower.

Series I Shares	10.61%
Series II Shares	10.31
Russell 1000 Value Index▼ (Broad Market Index)	17.34
Bloomberg Barclays U.S. Government/Credit Index▼ (Style-Specific Index)	3.05
Lipper VUF Mixed-Asset Target Allocation Growth Funds Index■ (Peer Group Index)	6.87

Source(s): ▼FactSet Research Systems Inc.; ■Lipper Inc.

Market conditions and your Fund

Stocks began the year on a negative note, driven by investor concerns about economic weakness in China, falling oil prices and uncertainty over the US Federal Reserve's (the Fed) monetary policy. Markets recovered in February and posted gains until June, when UK voters opted to leave the European Union, sending markets sharply lower. Markets again recovered, and major US equity indexes hit record highs during the summer. The markets turned even higher after the surprise outcome of the US presidential election. This rally was led by financials, gaining on the belief that they might benefit from higher interest rates and lower taxes. Also in November, OPEC agreed to cut production for the first time in eight years, which helped support higher oil prices. The Fed raised interest rates by a quarter point in December 2016 – its only increase during the reporting period.

For the reporting period, most US equity market indexes delivered modest gains, with value stocks, as a group, outperforming growth stocks by a large margin, regardless of market-cap. All sectors within the Russell 1000 Value Index had positive performance, with the materials, energy, telecommunication services, industrials and financials sectors posting returns of over 20% for the reporting period.

Strong stock selection in and an overweight allocation to the financials sector was the largest contributor to the Fund's performance versus the Russell 1000 Value Index for the year. Specifically, banks and diversified financial services companies were the Fund's top contributors; these included **Bank of America**, **JP Morgan Chase**, **Comerica, Morgan Stanley** and **Citizens Financial Group**. These companies benefited from the strong rally in financial stocks following the election results, as investor optimism on future interest rates and the economy fueled returns.

Stock selection in and an underweight allocation to the consumer staples sector also contributed to the Fund's relative performance. Within this sector, **ADM** and **Sysco** were key contributors. ADM moved higher throughout the year as expectations for improvement in grain shipment volumes increased. We sold our positions in ADM and Sysco, respectively, during the reporting period to lock in gains.

Having no exposure to the real estate sector also added to the Fund's relative returns. Although the real estate sector posted positive returns for the year, it was a bottom-performing sector within the Russell 1000 Value Index. The Fund remained materially underweight within this sector because we believed it to be overvalued, as investors drove up stock prices in a quest for yield in a low interest rate environment.

Stock selection in the telecommunication services sector hurt the Fund's performance versus the Russell 1000 Value Index. UK-based **Vodafone Group** was a large detractor from Fund performance within the sector. The company underperformed as its earnings expectations were lowered. In addition, not owning AT&T hurt Fund performance, as the stock performed well for the reporting period.

Weak stock selection in the health care sector detracted from the Fund's relative returns. Much of the Fund's underperformance within the sector was attributed to its pharmaceutical holdings, such as **Eli Lilly**, **Novartis**, and **Teva Pharmaceutical Industries**. Eli Lilly's stock declined after it was reported that its Alzheimer's drug would not be approved by the Food and Drug Administration. Teva's stock declined after company management announced a delay in the acquisition of a generic drug maker. We sold our position in Teva during the reporting period.

Portfolio Composition

By sector	*% of total net assets*
Financials	28.7%
Information Technology	12.5
Health Care	11.1
Energy	10.3
Consumer Discretionary	8.4
U.S. Treasury Securities	6.4
Industrials	6.1
Consumer Staples	4.1
Telecommunication Services	2.2
Materials	2.1
Utilities	1.5
Real Estate	1.2
Money Market Funds Plus Other Assets Less Liabilities	5.4

Top 10 Equity Holdings*

	% of total net assets
1. Citigroup Inc.	3.4%
2. JPMorgan Chase & Co.	2.9
3. Bank of America Corp.	2.7
4. Morgan Stanley	2.0
5. Apache Corp.	1.7
6. Citizens Financial Group, Inc.	1.7
7. Devon Energy Corp.	1.5
8. Baker Hughes Inc.	1.4
9. Royal Dutch Shell PLC-Class A	1.4
10. Walgreens Boots Alliance, Inc.	1.4

Total Net Assets	$51.6 million
Total Number of Holdings*	264

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, 2016.

An underweight allocation to the materials sector also hurt the Fund's relative performance. The Fund had very little exposure to metals and mining companies that, as a group, posted outsized returns during the reporting period, as metal prices recovered from the prior year's weakness.

During the reporting period, the Fund's allocation to high grade bonds was a valuable source of income that helped to dampen overall portfolio volatility. However, these instruments detracted from the Fund's performance versus the Russell 1000 Value Index, as bonds underperformed equities during the reporting period. Similarly, the Fund's allocation to convertible securities posted double-digit returns on an absolute basis, but detracted from relative performance as convertibles underperformed the Russell 1000 Value Index.

We used currency forward contracts for the purpose of hedging currency exposure of non-US-based companies held in the portfolio. Derivatives were used solely for the purpose of hedging and not for speculative purposes or leverage. The use of currency forward contracts had a positive impact on the Fund's performance relative to the Russell 1000 Value Index for the reporting period, largely due to the strength of the US dollar compared to the foreign currencies in which the Fund's non-US holdings were denominated.

As part of our mandate, and to potentially reduce portfolio volatility during a market downturn, we sold short S&P 500 futures contracts during the reporting period for the purpose of reducing equity exposure in the Fund. Derivatives were used solely for the purpose of reducing volatility and not for speculative purposes. The use of S&P 500 futures contracts had a negative impact on the Fund's performance relative to the Russell 1000 Value Index for the reporting period.

During the year, we increased our exposure to the energy and materials sectors and reduced our exposure to the consumer staples and health care sectors. At the end of the reporting period, the Fund's largest overweight allocations relative to the Russell 1000 Value Index were in the financials and consumer discretionary sectors, while the largest underweight allocations were in the real estate and utilities sectors.

Equity markets were positive during the reporting period, but had significant volatility at times as macroeconomic events generally overshadowed company fundamentals in investors' minds. 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 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 lead 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 the 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.

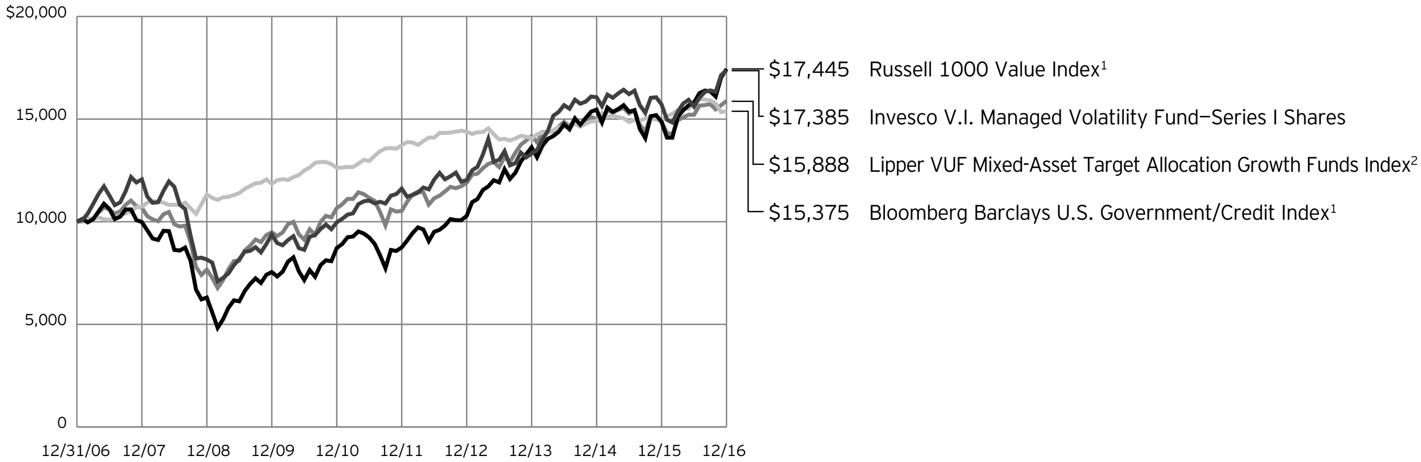
James Roeder
Chartered Financial Analyst, Portfolio Manager, is manager of Invesco V.I. Managed Volatility Fund. He joined Invesco in 2010. Mr. Roeder earned a BS in accounting from Clemson University and an MBA in economics and finance from the University of Chicago Booth School of Business.

Matthew Titus
Chartered Financial Analyst, Portfolio Manager, is manager of Invesco V.I. Managed Volatility Fund. He joined Invesco in 2016. 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 12/31/06



1 Source: FactSet Research Systems Inc.
2 Source: Lipper Inc.

Past performance cannot guarantee comparable future results.

Average Annual Total Returns *As of 12/31/16*	
Series I Shares	
Inception (12/30/94)	7.35%
10 Years	5.69
5 Years	8.41
1 Year	10.61
Series II Shares	
Inception (4/30/04)	9.20%
10 Years	5.42
5 Years	8.14
1 Year	10.31

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, 2018. 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, 2016, 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

Changing fixed income market conditions risk. The current low interest rate environment was created in part by the Federal Reserve Board (FRB) and certain foreign central banks keeping the federal funds and equivalent foreign rates at, near or below zero. Increases in the federal funds and equivalent foreign rates may expose fixed income markets to heightened volatility and reduced liquidity for certain fixed income investments, particularly those with longer maturities. In addition, decreases in fixed income dealer market-making capacity may also potentially lead to heightened volatility and reduced liquidity in the fixed income markets. As a result, the value of the Fund's investments and share price may decline. Changes in central bank policies could also result in higher than normal shareholder redemptions, which could potentially increase portfolio turnover and the Fund's transaction costs.

Convertible securities risk. The market values of convertible securities are affected by market interest rates, the risk of actual issuer default on interest or principal payments and the value of the underlying common stock into which the convertible security may be converted. Additionally, a convertible security is subject to the same types of market and issuer risks as apply to the underlying common stock. In addition, certain convertible securities are subject to involuntary conversions and may undergo principal write-downs upon the occurrence of certain triggering events, and, as a result, are subject to an increased risk of loss.

Debt securities risk. The prices of debt securities held by the Fund will be affected by changes in interest rates, the creditworthiness of the issuer and other factors. An increase in prevailing interest rates typically causes the value of existing debt securities to fall and often has a greater impact on longer-duration debt securities and higher quality debt securities. Falling interest rates will cause the Fund to reinvest the proceeds of debt securities that have been repaid by the issuer at lower interest rates. Falling interest rates may also reduce the Fund's distributable income because interest payments on floating rate debt instruments held by the Fund will decline. The Fund could lose money on investments in debt securities if the issuer or borrower fails to meet its obligations to make interest payments and/or to repay principal in a timely manner. Changes in an issuer's financial strength, the market's perception of such strength or in the credit rating of the issuer or the security may affect the value of debt securities. The Adviser's credit analysis may fail to anticipate such changes, which could result in buying a debt security at an inopportune time or failing to sell a debt security in advance of a price decline or other credit event.

Depositary receipts risk. Investing in depositary receipts involves the same risks as direct investments in foreign securities. In addition, the underlying issuers of certain depositary receipts are under no obligation to distribute shareholder communications or pass through any voting rights with respect to the deposited securities to the holders of such receipts. The Fund may therefore receive less timely information or have less control than if it invested directly in the foreign issuer.

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 adversely affected by political and social instability, changes in economic or taxation policies, difficulty in enforcing obligations, decreased liquidity or increased volatility. Foreign investments also involve the risk of the possible seizure, nationalization or expropriation of the issuer or foreign deposits (in which the Fund could lose its entire investments in a certain market) and the possible adoption of foreign governmental restrictions such as exchange controls. Unless the Fund has hedged its foreign securities risk, foreign securities risk also involves the risk of negative foreign currency rate fluctuations, which may cause the value of securities denominated in such foreign currency (or other instruments through which the Fund has exposure to foreign currencies) to decline in value. Currency exchange rates may fluctuate significantly over short periods of time. Currency hedging strategies, if used, are not always successful.

Management risk. The Fund is actively managed and depends heavily on the Adviser's judgment about markets, interest rates or the attractiveness, relative values, liquidity, or potential appreciation of particular investments made for the Fund's portfolio. The Fund could experience losses if these judgments prove to be incorrect. There is no guarantee that the portfolio manager's stock selection process will produce lower volatility than the broader markets in which the Fund invests. In addition, the Fund's investment strategy to seek lower 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. Additionally, legislative, regulatory, or tax developments may adversely affect management of the Fund and, therefore, the ability of the Fund to achieve its investment objective.

Market risk. The market values of the Fund's investments, and therefore the value of the Fund's shares, will go up and down, sometimes rapidly or unpredictably. Market risk may affect a single issuer, industry or section of the economy, or it may affect the market as a whole. Individual stock prices tend to go up and down more dramatically than those of certain other types of investments, such as bonds. During a general downturn in the financial markets, multiple asset classes may decline in value. When markets perform well, there can be no assurance that specific investments held by the Fund will rise in value.

Preferred securities risk. Preferred securities are subject to issuer-specific and market risks applicable generally to equity securities. Preferred securities also may be subordinated to bonds or other debt instruments, subjecting them to a greater risk of non-payment, may be less liquid than many other securities, such as common stocks, and generally offer no voting rights with respect to the issuer.

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.

Sector focus risk. The Fund may from time to time invest a significant amount of its assets (i.e. over 25%) in one market sector or group of related industries. In this event, the Fund's performance will depend to a greater extent on the overall condition of the sector or group of industries and there is increased risk that the Fund will lose significant value if conditions adversely affect that sector or group of industries.

Short position risk. Because the Fund's potential loss on a short position arises from increases in the value of the asset sold short, the Fund will incur a loss on a short position, which is theoretically unlimited, if the price of the asset sold short increases from the short sale price. The counterparty to a short position or other market factors may prevent the Fund from closing out a short position at a desirable time or price and may reduce or eliminate any gain or result in a loss. In a rising market, the Fund's short positions will cause the Fund to underperform the overall market and its peers that do not engage in shorting. If the Fund holds both long and short positions, and both positions decline simultaneously, the short positions will not provide any buffer (hedge) from declines in value of the Fund's long positions. Certain types of short positions involve leverage, which may exaggerate any losses, potentially more than the actual cost of the investment, and will increase the volatility of the Fund's returns.

Small- and mid-capitalization companies risks. Small- and mid-capitalization companies tend to be more vulnerable to changing market conditions, may have little or no operating history or track record of success, and may have more limited product lines and markets, less experienced management and fewer financial resources than larger companies. These companies' securities may be more volatile and less liquid than those of more established companies, and their returns may vary, sometimes significantly, from the overall securities market.

Value investing style risk. A value investing style subjects the Fund 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.

Volatility management risk. The Adviser's strategy for managing portfolio volatility may not produce the desired result and 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 Adviser uses a combination of proprietary and third-party systems and risk models to help it estimate the Fund's expected volatility, which 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.

Warrants risk. Warrants may be significantly less valuable or worth lesson their expiration date and may also be postponed or terminated early, resulting in a partial or total loss. Warrants may also be illiquid.

Zero coupon or pay-in-kind 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 loans that periodically pay interest.

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 **Bloomberg Barclays U.S. Government/Credit Index** is a broad-based benchmark that includes investment-grade, US dollar-denominated, fixed-rate Treasuries, government-related and corporate securities.

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 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, 2016

	Shares	Value
Common Stocks & Other Equity Interests–65.13%		
Aerospace & Defense–0.93%		
General Dynamics Corp.	2,786	$ 481,031
Apparel, Accessories & Luxury Goods–0.52%		
Michael Kors Holdings Ltd.[b]	6,191	266,089
Application Software–0.51%		
Citrix Systems, Inc.[b]	2,950	263,464
Asset Management & Custody Banks–1.81%		
Northern Trust Corp.	4,649	413,993
State Street Corp.	6,711	521,579
		935,572
Automobile Manufacturers–0.77%		
General Motors Co.	11,356	395,643
Biotechnology–0.58%		
Amgen Inc.	2,046	299,146
Broadcasting–0.20%		
CBS Corp.-Class B	1,607	102,237
Building Products–0.60%		
Johnson Controls International PLC	7,585	312,426
Cable & Satellite–1.57%		
Charter Communications, Inc.-Class A[b]	1,068	307,498
Comcast Corp.-Class A	7,255	500,958
		808,456
Communications Equipment–1.99%		
Cisco Systems, Inc.	17,711	535,227
Juniper Networks, Inc.	17,517	495,030
		1,030,257
Construction Machinery & Heavy Trucks–0.88%		
Caterpillar Inc.	4,924	456,652
Data Processing & Outsourced Services–0.59%		
PayPal Holdings, Inc.[b]	7,689	303,485
Diversified Banks–9.92%		
Bank of America Corp.	63,628	1,406,179
Citigroup Inc.	29,494	1,752,828
Comerica Inc.	6,627	451,365
JPMorgan Chase & Co.	17,514	1,511,283
		5,121,655
Diversified Metals & Mining–0.50%		
BHP Billiton Ltd. (Australia)	14,429	257,575
Drug Retail–1.36%		
Walgreens Boots Alliance, Inc.	8,487	702,384

	Shares	Value
Electric Utilities–0.85%		
FirstEnergy Corp.	5,498	$ 170,273
PG&E Corp.	4,445	270,123
		440,396
Fertilizers & Agricultural Chemicals–1.52%		
Agrium Inc. (Canada)	2,526	253,989
Mosaic Co. (The)	18,026	528,703
		782,692
Financial Exchanges & Data–0.28%		
CME Group Inc.-Class A	1,269	146,379
Health Care Equipment–1.40%		
Baxter International Inc.	7,239	320,977
Medtronic PLC	5,654	402,735
		723,712
Health Care Services–0.41%		
Express Scripts Holding Co.[b]	3,105	213,593
Home Improvement Retail–0.50%		
Kingfisher PLC (United Kingdom)	60,088	258,824
Hotels, Resorts & Cruise Lines–1.17%		
Carnival Corp.	11,657	606,863
Industrial Conglomerates–1.16%		
General Electric Co.	18,949	598,788
Industrial Machinery–0.69%		
Ingersoll-Rand PLC	4,770	357,941
Insurance Brokers–1.88%		
Aon PLC	3,830	427,160
Marsh & McLennan Cos., Inc.	3,840	259,546
Willis Towers Watson PLC	2,340	286,135
		972,841
Integrated Oil & Gas–3.37%		
Exxon Mobil Corp.	3,454	311,758
Occidental Petroleum Corp.	4,658	331,790
Royal Dutch Shell PLC-Class A (United Kingdom)	25,883	713,372
TOTAL S.A. (France)	7,563	386,037
		1,742,957
Integrated Telecommunication Services–0.67%		
Orange S.A. (France)	5,065	76,858
Verizon Communications Inc.	5,081	271,224
		348,082
Internet Software & Services–0.80%		
eBay Inc.[b]	13,863	411,592

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

	Shares	Value
Investment Banking & Brokerage-3.69%		
Charles Schwab Corp. (The)	10,166	$ 401,252
Goldman Sachs Group, Inc. (The)	1,956	468,364
Morgan Stanley	24,539	1,036,773
		1,906,389
IT Consulting & Other Services-0.34%		
Cognizant Technology Solutions Corp.-Class A[b]	3,143	176,102
Managed Health Care-0.49%		
Anthem, Inc.	1,771	254,617
Movies & Entertainment-0.57%		
Time Warner Inc.	3,048	294,223
Oil & Gas Equipment & Services-1.40%		
Baker Hughes Inc.	11,102	721,297
Oil & Gas Exploration & Production-4.28%		
Apache Corp.	13,818	877,029
Canadian Natural Resources Ltd. (Canada)	17,479	556,969
Devon Energy Corp.	17,004	776,573
		2,210,571
Other Diversified Financial Services-0.50%		
Voya Financial, Inc.	6,553	257,009
Packaged Foods & Meats-0.74%		
Mondelez International, Inc.-Class A	8,649	383,410
Pharmaceuticals-4.19%		
Eli Lilly and Co.	3,005	221,018
Merck & Co., Inc.	10,879	640,447
Novartis AG (Switzerland)	5,061	368,262
Pfizer Inc.	18,423	598,379
Sanofi (France)	4,132	334,449
		2,162,555
Railroads-0.84%		
CSX Corp.	12,049	432,921
Regional Banks-5.26%		
BB&T Corp.	5,014	235,758
Citizens Financial Group, Inc.	24,002	855,191
Fifth Third Bancorp	23,000	620,310
First Horizon National Corp.	16,597	332,106
PNC Financial Services Group, Inc. (The)	5,764	674,158
		2,717,523
Semiconductor Equipment-0.68%		
Applied Materials, Inc.	10,807	348,742
Semiconductors-1.82%		
Intel Corp.	10,674	387,146
QUALCOMM, Inc.	8,459	551,527
		938,673

	Shares	Value
Systems Software-1.80%		
Microsoft Corp.	5,439	$ 337,979
Oracle Corp.	15,390	591,746
		929,725
Tobacco-0.66%		
Philip Morris International Inc.	3,698	338,330
Wireless Telecommunication Services-0.44%		
Vodafone Group PLC-ADR (United Kingdom)	9,208	224,951
Total Common Stocks & Other Equity Interests (Cost $28,427,584)		33,637,770
	Principal Amount	
Bonds and Notes-22.92%		
Aerospace & Defense-0.07%		
Northrop Grumman Corp., Sr. Unsec. Global Notes, 3.85%, 04/15/2045	$ 10,000	9,514
Precision Castparts Corp., Sr. Unsec. Global Notes, 1.25%, 01/15/2018	25,000	24,971
		34,485
Air Freight & Logistics-0.01%		
United Parcel Service, Inc., Sr. Unsec. Notes, 3.40%, 11/15/2046	4,000	3,700
Airlines-0.12%		
American Airlines Pass Through Trust, Series 2014-1, Class A, Sr. Sec. First Lien Pass Through Ctfs., 3.70%, 04/01/2028	22,135	22,342
United Airlines Pass Through Trust, Series 2014-2, Class A, Sr. Sec. First Lien Pass Through Ctfs., 3.75%, 09/03/2026	28,270	28,499
Virgin Australia Pass Through Trust (Australia), Series 2013-1, Class A, Sec. Gtd. Pass Through Ctfs., 5.00%, 04/23/2025[c]	12,086	12,426
		63,267
Apparel Retail-0.04%		
Ross Stores, Inc., Sr. Unsec. Notes, 3.38%, 09/15/2024	19,000	19,102
Application Software-0.56%		
Citrix Systems, Inc., Sr. Unsec. Conv. Bonds, 0.50%, 04/15/2019	206,000	239,475
Nuance Communications, Inc., Sr. Unsec. Conv. Bonds, 1.00%, 12/15/2022[d]	55,000	49,947
		289,422
Asset Management & Custody Banks-0.57%		
Apollo Management Holdings L.P., Sr. Unsec. Gtd. Notes, 4.00%, 05/30/2024[c]	40,000	39,846
4.40%, 05/27/2026[c]	2,000	2,003
Blackstone Holdings Finance Co. LLC, Sr. Unsec. Gtd. Notes, 5.00%, 06/15/2044[c]	150,000	148,305

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

	Principal Amount	Value
Asset Management & Custody Banks-(continued)		
Brookfield Asset Management Inc. (Canada), Sr. Unsec. Notes, 4.00%, 01/15/2025	$ 25,000	$ 24,355
KKR Group Finance Co. III LLC, Sr. Unsec. Gtd. Bonds, 5.13%, 06/01/2044[(c)]	85,000	81,012
		295,521
Automobile Manufacturers-0.47%		
Ford Motor Credit Co. LLC, Sr. Unsec. Global Notes, 4.13%, 08/04/2025	200,000	201,062
General Motors Co., Sr. Unsec. Global Notes, 6.60%, 04/01/2036	16,000	18,118
General Motors Financial Co., Inc., Sr. Unsec. Gtd. Global Notes, 5.25%, 03/01/2026	21,000	21,890
		241,070
Biotechnology-0.58%		
AbbVie Inc., Sr. Unsec. Global Notes, 4.50%, 05/14/2035	38,000	37,471
BioMarin Pharmaceutical Inc., Sr. Unsec. Sub. Conv. Notes, 1.50%, 10/15/2020	117,000	137,695
Celgene Corp., Sr. Unsec. Global Notes, 4.63%, 05/15/2044	100,000	98,201
Gilead Sciences, Inc., Sr. Unsec. Global Notes, 4.40%, 12/01/2021	25,000	26,905
		300,272
Brewers-0.35%		
Anheuser-Busch InBev Finance, Inc. (Belgium), Sr. Unsec. Gtd. Global Notes, 2.65%, 02/01/2021	30,000	30,139
3.30%, 02/01/2023	25,000	25,462
4.70%, 02/01/2036	45,000	47,429
4.90%, 02/01/2046	47,000	50,973
Molson Coors Brewing Co., Sr. Unsec. Gtd. Global Notes, 1.45%, 07/15/2019	13,000	12,807
4.20%, 07/15/2046	16,000	14,965
		181,775
Broadcasting-0.74%		
Liberty Media Corp., Sr. Unsec. Conv. Deb., 2.25%, 10/05/2021[(c)(d)]	55,000	58,231
REGS, Sr. Unsec. Conv. Notes, 1.38%, 10/15/2023[(c)]	299,000	322,546
		380,777
Cable & Satellite-1.09%		
Charter Communications Operating, LLC/Charter Communications Operating Capital Corp., Sr. Sec. Gtd. First Lien Global Notes, 4.46%, 07/23/2022	60,000	62,989
Comcast Corp., Sr. Unsec. Gtd. Global Notes, 5.70%, 05/15/2018	150,000	158,350
Cox Communications, Inc., Sr. Unsec. Notes, 8.38%, 03/01/2039[(c)]	150,000	186,826

	Principal Amount	Value
Cable & Satellite-(continued)		
Dish Network Corp., Sr. Unsec. Conv. Notes, 3.38%, 08/15/2026[(c)]	$ 136,000	$ 155,465
		563,630
Communications Equipment-0.61%		
Ciena Corp., Sr. Unsec. Conv. Notes, 4.00%, 12/15/2020[(c)]	75,000	105,000
Finisar Corp., Sr. Unsec. Conv. Notes, 0.50%, 12/15/2021[(c)(d)]	39,000	39,415
Viavi Solutions Inc., Sr. Unsec. Conv. Deb., 0.63%, 08/15/2018[(d)]	167,000	173,471
		317,886
Construction & Engineering-0.04%		
Valmont Industries, Inc., Sr. Unsec. Gtd. Global Notes, 5.25%, 10/01/2054	22,000	19,184
Construction Machinery & Heavy Trucks-0.14%		
Caterpillar Financial Services Corp., Sr. Unsec. Notes, 1.75%, 03/24/2017	70,000	70,110
Consumer Finance-0.03%		
American Express Co., Unsec. Sub. Global Notes, 3.63%, 12/05/2024	18,000	18,142
Data Processing & Outsourced Services-0.30%		
Blackhawk Network Holdings, Inc., Sr. Unsec. Conv. Notes, 1.50%, 01/15/2022[(c)]	119,000	122,570
Visa Inc., Sr. Unsec. Global Notes, 4.15%, 12/14/2035	30,000	31,381
		153,951
Diversified Banks-1.21%		
Bank of America Corp., Sr. Unsec. Medium-Term Global Notes, 3.50%, 04/19/2026	25,000	24,677
Sr. Unsec. Medium-Term Notes, 3.25%, 10/21/2027	10,000	9,562
Citigroup Inc., Unsec. Sub. Notes, 4.00%, 08/05/2024	60,000	60,233
4.75%, 05/18/2046	15,000	15,031
JPMorgan Chase & Co., Sr. Unsec. Global Notes, 3.20%, 06/15/2026	15,000	14,623
Unsec. Sub. Global Notes, 4.25%, 10/01/2027	15,000	15,384
Series V, Jr. Unsec. Sub. Global Notes, 5.00%[(e)]	150,000	150,375
Series Z, Jr. Unsec. Sub. Global Notes, 5.30%[(e)]	40,000	41,000
U.S. Bancorp, Series W, Unsec. Sub. Medium-Term Notes, 3.10%, 04/27/2026	10,000	9,727

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	$ 29,877
Sr. Unsec. Notes, 3.90%, 05/01/2045	60,000	56,640
Unsec. Sub. Medium-Term Notes, 4.10%, 06/03/2026	95,000	96,559
4.65%, 11/04/2044	100,000	99,202
		622,890
Diversified Chemicals-0.08%		
Eastman Chemical Co., Sr. Unsec. Global Notes, 2.70%, 01/15/2020	43,000	43,150
Diversified REIT's-0.03%		
Spirit Realty, L.P., Sr. Unsec. Gtd. Notes, 4.45%, 09/15/2026[c]	18,000	16,896
Drug Retail-0.17%		
CVS Health Corp., Sr. Unsec. Global Bonds, 3.38%, 08/12/2024	20,000	20,053
Walgreens Boots Alliance Inc., Sr. Unsec. Global Notes, 3.30%, 11/18/2021	32,000	32,607
3.10%, 06/01/2023	11,000	10,921
4.50%, 11/18/2034	24,000	24,079
		87,660
Electrical Components & Equipment-0.18%		
Eaton Corp., Sr. Unsec. Gtd. Global Notes, 1.50%, 11/02/2017	95,000	95,101
Environmental & Facilities Services-0.05%		
Waste Management, Inc., Sr. Unsec. Gtd. Global Notes, 3.90%, 03/01/2035	25,000	24,829
Fertilizers & Agricultural Chemicals-0.03%		
Monsanto Co., Sr. Unsec. Global Notes, 2.13%, 07/15/2019	15,000	14,966
General Merchandise Stores-0.04%		
Dollar General Corp., Sr. Unsec. Global Notes, 3.25%, 04/15/2023	20,000	19,814
Health Care Equipment-1.02%		
Becton, Dickinson and Co., Sr. Unsec. Global Notes, 4.88%, 05/15/2044	170,000	178,239
Sr. Unsec. Notes, 2.68%, 12/15/2019	15,000	15,229
Medtronic, Inc., Sr. Unsec. Gtd. Global Notes, 3.15%, 03/15/2022	58,000	59,315
4.38%, 03/15/2035	20,000	21,141
NuVasive, Inc., Sr. Unsec. Conv. Notes, 2.25%, 03/15/2021[c]	80,000	101,950
Wright Medical Group N.V., Sr. Unsec. Conv. Notes, 2.25%, 11/15/2021[c]	39,000	48,823
Wright Medical Group, Inc., Sr. Unsec. Conv. Bonds, 2.00%, 02/15/2020	99,000	103,641
		528,338

	Principal Amount	Value
Health Care Facilities-0.86%		
Brookdale Senior Living Inc., Sr. Unsec. Conv. Notes, 2.75%, 06/15/2018	$ 173,000	$ 168,999
HealthSouth Corp., Sr. Unsec. Sub. Conv. Notes, 2.00%, 12/01/2020[d]	232,000	275,790
		444,789
Health Care REIT's-0.05%		
HCP, Inc., Sr. Unsec. Global Notes, 3.88%, 08/15/2024	25,000	24,853
Health Care Services-0.16%		
Express Scripts Holding Co., Sr. Unsec. Gtd. Global Notes, 2.25%, 06/15/2019	30,000	30,009
Laboratory Corp. of America Holdings, Sr. Unsec. Notes, 3.20%, 02/01/2022	33,000	33,170
4.70%, 02/01/2045	22,000	21,753
		84,932
Home Improvement Retail-0.05%		
Home Depot, Inc. (The), Sr. Unsec. Global Notes, 2.00%, 04/01/2021	27,000	26,816
Housewares & Specialties-0.02%		
Newell Brands Inc., Sr. Unsec. Global Notes, 5.50%, 04/01/2046	9,000	10,354
Hypermarkets & Super Centers-0.20%		
Wal-Mart Stores, Inc., Sr. Unsec. Notes, 5.52%, 06/01/2017[f]	100,000	101,562
Integrated Oil & Gas-0.28%		
Chevron Corp., Sr. Unsec. Global Notes, 1.37%, 03/02/2018	77,000	77,288
Occidental Petroleum Corp., Sr. Unsec. Global Notes, 3.40%, 04/15/2026	15,000	15,113
Shell International Finance B.V. (Netherlands), Sr. Unsec. Gtd. Global Notes, 4.00%, 05/10/2046	37,000	35,380
Suncor Energy Inc. (Canada), Sr. Unsec. Notes, 3.60%, 12/01/2024	18,000	18,329
		146,110
Integrated Telecommunication Services-1.06%		
AT&T Inc., Sr. Unsec. Global Notes, 3.00%, 06/30/2022	28,000	27,486
3.40%, 05/15/2025	15,000	14,422
4.50%, 05/15/2035	25,000	24,201
5.15%, 03/15/2042	150,000	149,721
4.80%, 06/15/2044	40,000	37,995
Telefonica Emisiones S.A.U. (Spain), Sr. Unsec. Gtd. Global Notes, 7.05%, 06/20/2036	150,000	174,231
Verizon Communications Inc., Sr. Unsec. Global Notes, 4.40%, 11/01/2034	120,000	118,349
		546,405

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

	Principal Amount	Value
Internet & Direct Marketing Retail–0.50%		
Amazon.com, Inc., Sr. Unsec. Global Notes, 4.80%, 12/05/2034	$ 9,000	$ 9,905
Ctrip.com International, Ltd. (China), Sr. Unsec. Conv. Notes, 1.25%, 09/15/2019[(c)(d)]	113,000	109,327
Liberty Interactive LLC, Sr. Unsec. Conv. Deb., 1.75%, 10/05/2023[(c)(d)]	85,000	91,800
QVC, Inc., Sr. Sec. Gtd. First Lien Global Notes, 5.45%, 08/15/2034	50,000	45,450
		256,482
Investment Banking & Brokerage–0.90%		
Goldman Sachs Group, Inc. (The), Unsec. Sub. Notes, 4.25%, 10/21/2025	27,000	27,425
Jefferies Group LLC, Sr. Unsec. Conv. Deb., 3.88%, 11/01/2017[(d)]	161,000	163,214
Lazard Group LLC, Sr. Unsec. Global Notes, 3.75%, 02/13/2025	62,000	60,683
Morgan Stanley, Sr. Unsec. Medium-Term Global Notes, 2.38%, 07/23/2019	175,000	175,595
4.00%, 07/23/2025	35,000	35,802
		462,719
Life & Health Insurance–0.27%		
Jackson National Life Global Funding, Sr. Sec. Notes, 2.10%, 10/25/2021[(c)]	10,000	9,758
Nationwide Financial Services Inc., Sr. Unsec. Notes, 5.30%, 11/18/2044[(c)]	50,000	51,427
Prudential Financial, Inc., Series D, Sr. Unsec. Medium-Term Notes, 6.00%, 12/01/2017	55,000	57,161
Reliance Standard Life Global Funding II, Sr. Sec. First Lien Notes, 3.05%, 01/20/2021[(c)]	20,000	20,171
		138,517
Managed Health Care–0.03%		
Aetna Inc., Sr. Unsec. Global Notes, 4.38%, 06/15/2046	14,000	14,042
Movies & Entertainment–0.13%		
Live Nation Entertainment, Inc., Sr. Unsec. Conv. Bonds, 2.50%, 05/15/2019	61,000	65,308
Multi-Line Insurance–0.82%		
American Financial Group, Inc., Sr. Unsec. Notes, 9.88%, 06/15/2019	150,000	175,886
American International Group, Inc., Sr. Unsec. Global Notes, 2.30%, 07/16/2019	20,000	20,117
4.38%, 01/15/2055	40,000	36,902
Farmers Exchange Capital III, Unsec. Sub. Notes, 5.45%, 10/15/2054[(c)]	70,000	69,034
New York Life Global Funding, Sec. Notes, 1.65%, 05/15/2017[(c)]	120,000	120,300
		422,239

	Principal Amount	Value
Multi-Utilities–0.38%		
Enable Midstream Partners, LP, Sr. Unsec. Global Notes, 2.40%, 05/15/2019	$ 200,000	$ 196,578
Office REIT's–0.29%		
Highwoods Realty L.P., Sr. Unsec. Notes, 3.20%, 06/15/2021	150,000	150,374
Oil & Gas Drilling–0.15%		
Ensco Jersey Finance Ltd., Sr. Unsec. Gtd. Sub. Conv. Notes, 3.00%, 01/31/2024[(c)]	73,000	75,464
Oil & Gas Equipment & Services–0.32%		
Helix Energy Solutions Group, Inc., Sr. Unsec. Conv. Notes, 4.25%, 05/01/2022	40,000	41,525
Weatherford International Ltd., Sr. Unsec. Gtd. Conv. Notes, 5.88%, 07/01/2021	114,000	123,975
		165,500
Oil & Gas Exploration & Production–0.33%		
Anadarko Petroleum Corp., Sr. Unsec. Notes, 4.85%, 03/15/2021	11,000	11,774
6.60%, 03/15/2046	18,000	22,290
Chesapeake Energy Corp., Sr. Unsec. Gtd. Conv. Notes, 5.50%, 09/15/2026[(c)]	37,000	40,238
ConocoPhillips Co., Sr. Unsec. Gtd. Global Notes, 2.88%, 11/15/2021	46,000	46,522
4.15%, 11/15/2034	49,000	48,286
		169,110
Oil & Gas Storage & Transportation–0.15%		
Enbridge Inc. (Canada), Sr. Unsec. Global Notes, 5.50%, 12/01/2046	16,000	17,240
Energy Transfer Partners, L.P., Sr. Unsec. Notes, 4.90%, 03/15/2035	19,000	17,923
Enterprise Products Operating LLC, Sr. Unsec. Gtd. Notes, 2.55%, 10/15/2019	20,000	20,324
Kinder Morgan Inc., Sr. Unsec. Gtd. Notes, 5.30%, 12/01/2034	23,000	23,544
		79,031
Other Diversified Financial Services–0.16%		
Athene Global Funding, Sec. Notes, 2.88%, 10/23/2018[(c)]	31,000	31,002
ERAC USA Finance LLC, Sr. Unsec. Gtd. Notes, 2.35%, 10/15/2019[(c)]	50,000	49,977
		80,979
Packaged Foods & Meats–0.52%		
General Mills, Inc., Sr. Unsec. Global Notes, 2.20%, 10/21/2019	45,000	45,210
Kellogg Co., Sr. Unsec. Global Notes, 1.75%, 05/17/2017	125,000	125,167

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

	Principal Amount	Value
Packaged Foods & Meats-(continued)		
Kraft Heinz Foods Co. (The), Sr. Unsec. Gtd. Global Notes, 2.25%, 06/05/2017	$ 30,000	$ 30,078
1.60%, 06/30/2017	56,000	56,007
Mead Johnson Nutrition Co., Sr. Unsec. Global Notes, 4.13%, 11/15/2025	3,000	3,067
Tyson Foods, Inc., Sr. Unsec. Gtd. Global Bonds, 4.88%, 08/15/2034	11,000	11,305
		270,834
Pharmaceuticals-1.32%		
Actavis Funding SCS, Sr. Unsec. Gtd. Global Notes, 1.85%, 03/01/2017	49,000	49,002
4.85%, 06/15/2044	150,000	149,660
Bayer US Finance LLC (Germany), Sr. Unsec. Gtd. Notes, 3.00%, 10/08/2021[c]	200,000	201,239
GlaxoSmithKline Capital PLC (United Kingdom), Sr. Unsec. Gtd. Global Notes, 1.50%, 05/08/2017	110,000	110,149
Jazz Investments I Ltd., Sr. Unsec. Gtd. Conv. Bonds, 1.88%, 08/15/2021	76,000	73,198
Medicines Co. (The), Sr. Unsec. Conv. Notes, 2.75%, 07/15/2023[c]	37,000	35,774
Mylan N.V., Sr. Unsec. Gtd. Notes, 3.15%, 06/15/2021[c]	17,000	16,678
5.25%, 06/15/2046[c]	25,000	23,176
Teva Pharmaceutical Finance Netherlands III B.V. (Israel), Sr. Unsec. Gtd. Global Notes, 2.80%, 07/21/2023	14,000	13,180
4.10%, 10/01/2046	13,000	11,167
		683,223
Property & Casualty Insurance-0.38%		
Allstate Corp. (The), Sr. Unsec. Bonds, 3.28%, 12/15/2026	10,000	10,038
Liberty Mutual Group Inc., Sr. Unsec. Gtd. Bonds, 4.85%, 08/01/2044[c]	115,000	113,594
Old Republic International Corp., Sr. Unsec. Conv. Notes, 3.75%, 03/15/2018	59,000	74,119
		197,751
Railroads-0.05%		
Union Pacific Corp., Sr. Unsec. Notes, 4.15%, 01/15/2045	25,000	25,196
Regional Banks-0.03%		
Citizens Financial Group, Inc., Sr. Unsec. Global Notes, 2.38%, 07/28/2021	15,000	14,710
Renewable Electricity-0.29%		
Oglethorpe Power Corp., Sr. Sec. First Mortgage Bonds, 4.55%, 06/01/2044	150,000	149,609
Research & Consulting Services-0.02%		
Verisk Analytics, Inc., Sr. Unsec. Global Notes, 5.50%, 06/15/2045	10,000	10,592

	Principal Amount	Value
Retail REIT's-0.29%		
Realty Income Corp., Sr. Unsec. Notes, 2.00%, 01/31/2018	$ 150,000	$ 150,436
Semiconductor Equipment-0.47%		
Lam Research Corp., Series B, Sr. Unsec. Conv. Notes, 1.25%, 05/15/2018	139,000	244,553
Semiconductors-0.97%		
Intel Corp., Sr. Unsec. Global Notes, 1.35%, 12/15/2017	30,000	30,054
Microchip Technology Inc., Sr. Unsec. Sub. Conv. Bonds, 1.63%, 02/15/2025	93,000	120,900
Micron Technology, Inc., Series G, Sr. Unsec. Conv. Global Bonds, 3.00%, 11/15/2028[d]	238,000	237,554
ON Semiconductor Corp., Sr. Unsec. Gtd. Conv. Bonds, 1.00%, 12/01/2020	108,000	111,172
		499,680
Specialized Finance-0.42%		
Air Lease Corp., Sr. Unsec. Global Notes, 2.63%, 09/04/2018	45,000	45,197
3.00%, 09/15/2023	24,000	22,852
4.25%, 09/15/2024	35,000	35,656
Aviation Capital Group Corp., Sr. Unsec. Notes, 2.88%, 09/17/2018[c]	35,000	35,392
4.88%, 10/01/2025[c]	40,000	42,848
National Rural Utilities Cooperative Finance Corp. (The), Sr. Unsec. Medium-Term Notes, 0.95%, 04/24/2017	35,000	34,977
		216,922
Specialized REIT's-0.51%		
Crown Castle Towers LLC, Sr. Sec. Gtd. First Lien Notes, 4.88%, 08/15/2040[c]	178,000	189,768
EPR Properties, Sr. Unsec. Gtd. Global Notes, 4.75%, 12/15/2026	75,000	74,325
		264,093
Systems Software-0.40%		
FireEye, Inc., Series A, Sr. Unsec. Conv. Bonds, 1.00%, 06/01/2020[d]	51,000	47,366
Series B, Sr. Unsec. Conv. Bonds, 1.63%, 06/01/2022[d]	51,000	46,187
Microsoft Corp., Sr. Unsec. Global Notes, 3.50%, 02/12/2035	37,000	35,402
Oracle Corp., Sr. Unsec. Global Notes, 1.90%, 09/15/2021	50,000	48,875
4.30%, 07/08/2034	30,000	30,981
		208,811
Technology Distributors-0.06%		
Avnet, Inc., Sr. Unsec. Global Notes, 4.63%, 04/15/2026	30,000	29,160

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

	Principal Amount	Value
Technology Hardware, Storage & Peripherals-0.60%		
Apple Inc., Sr. Unsec. Global Notes, 2.15%, 02/09/2022	$ 39,000	$ 38,205
Diamond 1 Finance Corp./Diamond 2 Finance Corp., Sr. Sec. Gtd. First Lien Notes, 5.45%, 06/15/2023[(c)]	26,000	27,674
NetApp, Inc., Sr. Unsec. Global Notes, 3.38%, 06/15/2021	25,000	25,315
SanDisk Corp., Sr. Unsec. Gtd. Conv. Bonds, 0.50%, 10/15/2020	140,000	127,939
Seagate HDD Cayman, Sr. Unsec. Gtd. Global Bonds, 4.75%, 01/01/2025	65,000	61,628
5.75%, 12/01/2034	37,000	31,635
		312,396
Thrifts & Mortgage Finance-0.77%		
MGIC Investment Corp., Sr. Unsec. Conv. Notes, 5.00%, 05/01/2017	173,000	177,001
2.00%, 04/01/2020	42,000	62,475
Radian Group Inc., Sr. Unsec. Conv. Notes, 3.00%, 11/15/2017	73,000	111,964
2.25%, 03/01/2019	28,000	46,182
		397,622
Tobacco-0.13%		
Philip Morris International Inc., Sr. Unsec. Global Bonds, 1.25%, 08/11/2017	11,000	11,008
Sr. Unsec. Global Notes, 1.63%, 03/20/2017	55,000	55,054
		66,062
Wireless Telecommunication Services-0.05%		
Vodafone Group PLC (United Kingdom), Sr. Unsec. Global Notes, 1.63%, 03/20/2017	25,000	25,010
Total Bonds and Notes (Cost $11,723,914)		11,834,762

	Principal Amount	Value
U.S. Treasury Securities-6.41%		
U.S. Treasury Notes-6.39%		
0.50%, 04/30/2017	$ 500,000	$ 499,991
1.00%, 11/30/2018	2,403,000	2,395,089
1.38%, 12/15/2019	235,000	234,329
1.75%, 11/30/2021	7,900	7,834
2.13%, 11/30/2023	151,000	149,834
2.00%, 11/15/2026	13,700	13,162
		3,300,239
U.S. Treasury Bonds-0.02%		
2.25%, 08/15/2046	10,400	8,723
Total U.S. Treasury Securities (Cost $3,308,723)		3,308,962
	Shares	
Preferred Stocks-0.18%		
Asset Management & Custody Banks-0.18%		
AMG Capital Trust II, $2.58 Jr. Unsec. Gtd. Sub. Conv. Pfd. (Cost $106,269)	1,700	93,235
Money Market Funds-5.36%		
Government & Agency Portfolio-Institutional Class, 0.43%[(g)]	1,662,182	1,662,182
Treasury Portfolio-Institutional Class, 0.37%[(g)]	1,108,122	1,108,122
Total Money Market Funds (Cost $2,770,304)		2,770,304
TOTAL INVESTMENTS-100.00% (Cost $46,336,794)		51,645,033
OTHER ASSETS LESS LIABILITIES-0.00%		46
NET ASSETS-100.00%		$51,645,079

Investment Abbreviations:

ADR - American Depositary Receipt
Conv. - Convertible
Ctfs. - Certificates
Deb. - Debentures
Gtd. - Guaranteed
Jr. - Junior
Pfd. - Preferred
REGS - Regulation S
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) 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, 2016 was $2,795,955, which represented 5.41% of the Fund's Net Assets.
(d) Security has an irrevocable call by the issuer or mandatory put by the holder. Maturity date reflects such call or put.
(e) Perpetual bond with no specified maturity date.
(f) Step coupon bond. The interest rate represents the coupon rate at which the bond will accrue at a specified future 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, 2016.

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

Statement of Assets and Liabilities

December 31, 2016

Assets:	
Investments, at value (Cost $43,566,490)	$48,874,729
Investments in affiliated money market funds, at value and cost	2,770,304
Total investments, at value (Cost $46,336,794)	51,645,033
Foreign currencies, at value (Cost $38,827)	38,961
Receivable for:	
Investments sold	21,632
Fund shares sold	136,803
Dividends and interest	157,819
Investment for trustee deferred compensation and retirement plans	66,140
Unrealized appreciation on forward foreign currency contracts outstanding	53,495
Other assets	4,055
Total assets	52,123,938
Liabilities:	
Payable for:	
Investments purchased	134,861
Fund shares reacquired	191,539
Accrued fees to affiliates	39,264
Accrued trustees' and officers' fees and benefits	401
Accrued other operating expenses	42,184
Trustee deferred compensation and retirement plans	70,610
Total liabilities	478,859
Net assets applicable to shares outstanding	$51,645,079
Net assets consist of:	
Shares of beneficial interest	$47,284,084
Undistributed net investment income	420,045
Undistributed net realized gain (loss)	(1,420,634)
Net unrealized appreciation	5,361,584
	$51,645,079
Net Assets:	
Series I	$50,182,673
Series II	$ 1,462,406
Shares outstanding, no par value, with an unlimited number of shares authorized:	
Series I	4,192,616
Series II	123,503
Series I:	
Net asset value per share	$ 11.97
Series II:	
Net asset value per share	$ 11.84

Statement of Operations

For the year ended December 31, 2016

Investment income:	
Dividends (net of foreign withholding taxes of $19,018)	$ 808,928
Dividends from affiliated money market funds	9,441
Interest	385,025
Total investment income	1,203,394
Expenses:	
Advisory fees	298,982
Administrative services fees	144,209
Custodian fees	17,167
Distribution fees — Series II	3,545
Transfer agent fees	21,877
Trustees' and officers' fees and benefits	20,486
Reports to shareholders	10,301
Professional services fees	49,342
Other	15,091
Total expenses	581,000
Less: Fees waived	(3,446)
Net expenses	577,554
Net investment income	625,840
Realized and unrealized gain (loss) from:	
Net realized gain (loss) from:	
Investment securities	427,466
Foreign currencies	(835)
Forward foreign currency contracts	147,944
Futures contracts	(1,760,993)
	(1,186,418)
Change in net unrealized appreciation of:	
Investment securities	5,440,719
Foreign currencies	674
Forward foreign currency contracts	24,605
Futures contracts	224
	5,466,222
Net realized and unrealized gain	4,279,804
Net increase in net assets resulting from operations	$ 4,905,644

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, 2016 and 2015

	2016	2015
Operations:		
Net investment income	$ 625,840	$ 693,062
Net realized gain (loss)	(1,186,418)	1,602,685
Change in net unrealized appreciation (depreciation)	5,466,222	(3,511,913)
Net increase (decrease) in net assets resulting from operations	4,905,644	(1,216,166)
Distributions to shareholders from net investment income:		
Series I	(906,262)	(883,070)
Series II	(22,509)	(18,185)
Total distributions from net investment income	(928,771)	(901,255)
Distributions to shareholders from net realized gains:		
Series I	(1,460,269)	(22,008,256)
Series II	(42,846)	(561,485)
Total distributions from net realized gains	(1,503,115)	(22,569,741)
Share transactions–net:		
Series I	(4,579,259)	5,715,114
Series II	(110,167)	321,994
Net increase (decrease) in net assets resulting from share transactions	(4,689,426)	6,037,108
Net increase (decrease) in net assets	(2,215,668)	(18,650,054)
Net assets:		
Beginning of year	53,860,747	72,510,801
End of year (includes undistributed net investment income of $420,045 and $779,551, respectively)	$51,645,079	$ 53,860,747

Notes to Financial Statements

December 31, 2016

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 Fund is an investment company and accordingly follows the investment company accounting and reporting guidance in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 946, Financial Services – Investment Companies.

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 the daily mark-to-market obligation for forward foreign currency contracts.

A forward foreign currency contract is an obligation between two parties ("Counterparties") to purchase or sell a specific currency for an agreed-upon price at a future date. The use of forward foreign currency contracts does not eliminate fluctuations in the price of the underlying securities the Fund owns or intends to acquire but establishes a rate of exchange in advance. Fluctuations in the value of these contracts are measured by the difference in the contract date and reporting date exchange rates and are recorded as unrealized appreciation (depreciation) until the contracts are closed. When the contracts are closed, realized gains (losses) are recorded. Realized and unrealized gains (losses) on the contracts are included in the Statement of Operations. The primary risks associated with forward foreign currency contracts include failure of the Counterparty to meet the terms of the contract and the value of the foreign currency changing unfavorably. These risks may be in excess of the amounts reflected in the Statement of Assets and Liabilities.

K. Futures Contracts – The Fund may enter into futures contracts to manage exposure to interest rate, equity and market price movements and/or currency risks. A futures contract is an agreement between Counterparties to purchase or sell a specified underlying security, currency or commodity (or delivery of a cash settlement price, in the case of an index future) for a fixed price at a future date. The Fund currently invests only in exchange-traded futures and they are standardized as to maturity date and underlying financial instrument. Initial margin deposits required upon entering into futures contracts are satisfied by the segregation of specific securities or cash as collateral at the futures commission merchant (broker). During the period the futures contracts are open, changes in the value of the contracts are recognized as unrealized gains or losses by recalculating the value of the contracts on a daily basis. Subsequent or variation margin payments are received or made depending upon whether unrealized gains or losses are incurred. These amounts are reflected as receivables or payables on the Statement of Assets and Liabilities. When the contracts are closed or expire, the Fund recognizes a realized gain or loss equal to the difference between the proceeds from, or cost of, the closing transaction and the Fund's basis in the contract. The net realized gain (loss) and the change in unrealized gain (loss) on futures contracts held during the period is included on the Statement of Operations. The primary risks associated with futures contracts are market risk and the absence of a liquid secondary market. If the Fund were unable to liquidate a futures contract and/or enter into an offsetting closing transaction, the Fund would continue to be subject to market risk with respect to the value of the contracts and continue to be required to maintain the margin deposits on the futures contracts. Futures contracts have minimal Counterparty risk since the exchange's clearinghouse, as

Counterparty to all exchange-traded futures, guarantees the futures against default. Risks may exceed amounts recognized in the Statement of Assets and Liabilities.

L. 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.

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, will 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).

The Adviser has contractually agreed, through at least June 30, 2017, 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 (the "expense limits"). 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, 2017. During its term, the fee waiver agreement cannot be terminated or amended to increase expense limits without approval of the Board of Trustees. The Adviser did not waive fees and/or reimburse expenses during the period under these expense limits

Further, the Adviser has contractually agreed, through at least June 30, 2018, 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, 2016, the Adviser waived advisory fees of $3,446.

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 fees paid to insurance companies that have agreed to provide certain administrative services to the Fund. These administrative services provided by the insurance companies may include, among other things: maintenance of master accounts with the Fund; tracking, recording and transmitting net purchase and redemption orders for Fund shares; maintaining and preserving records related to the purchase, redemption and other account activity of variable product owners; distributing copies of Fund documents such as prospectuses, proxy materials and periodic reports, to variable product owners, and responding to inquiries from variable product owners about the Fund. Pursuant to such agreement, for the year ended December 31, 2016, Invesco was paid $50,000 for accounting and fund administrative services and was reimbursed $94,209 for fees paid to 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, 2016, 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, 2016, expenses incurred under the Plan are detailed in the Statement of Operations as *Distribution fees*.

For the year ended December 31, 2016, the Fund incurred $82 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, 2016. 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
Common Stocks & Other Equity Interests	$31,945,104	$ 1,692,666	$–	$33,637,770
Bonds and Notes	–	11,834,762	–	11,834,762
U.S. Treasury Securities	–	3,308,962	–	3,308,962
Preferred Stocks	–	93,235	–	93,235
Money Market Funds	2,770,304	–	–	2,770,304
	34,715,408	16,929,625	–	51,645,033
Forward Foreign Currency Contracts*	–	53,495	–	53,495
Total Investments	$34,715,408	$16,983,120	$–	$51,698,528

* Unrealized appreciation.

NOTE 4—Derivative Investments

The Fund may enter into an International Swaps and Derivatives Association Master Agreement ("ISDA Master Agreement") under which a Fund may trade OTC derivatives. An OTC transaction entered into under an ISDA Master Agreement typically involves a collateral posting arrangement, payment netting provisions and close-out netting provisions. These netting provisions allow for reduction of credit risk through netting of contractual obligations. The enforceability of the netting provisions of the ISDA Master Agreement depends on the governing law of the ISDA Master Agreement, among other factors.

For financial reporting purposes, the Fund does not offset OTC derivative assets or liabilities that are subject to ISDA Master Agreements in the Statement of Assets and Liabilities.

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, 2016:

Derivative Assets	Value Currency Risk
Unrealized appreciation on forward foreign currency contracts outstanding	$53,495
Derivatives not subject to master netting agreements	–
Total derivative assets subject to master netting agreements	$53,495

Open Forward Foreign Currency Contracts

Settlement Date	Counterparty	Contract to Deliver	Contract to Receive	Notional Value	Unrealized Appreciation
01/20/17	Bank of New York Mellon (The)	AUD 142,481	USD 106,788	$102,765	$ 4,023
01/20/17	Bank of New York Mellon (The)	CAD 290,080	USD 221,202	216,077	5,125
01/20/17	Bank of New York Mellon (The)	CHF 133,270	USD 132,152	131,082	1,070
01/20/17	Bank of New York Mellon (The)	EUR 294,720	USD 314,280	310,569	3,711
01/20/17	Bank of New York Mellon (The)	GBP 350,898	USD 445,669	432,815	12,854
01/20/17	State Street Bank and Trust Co.	AUD 142,347	USD 106,716	102,668	4,048
01/20/17	State Street Bank and Trust Co.	CAD 290,136	USD 221,203	216,119	5,084
01/20/17	State Street Bank and Trust Co.	CHF 133,191	USD 132,036	131,005	1,031
01/20/17	State Street Bank and Trust Co.	EUR 295,111	USD 314,712	310,981	3,731
01/20/17	State Street Bank and Trust Co.	GBP 350,948	USD 445,695	432,877	12,818
Total open forward foreign currency contracts — currency risk					$53,495

Currency Abbreviations:

AUD – Australian Dollar
EUR – Euro
CAD – Canadian Dollar
GBP – British Pound Sterling
CHF – Swiss Franc
USD – U.S. Dollar

Offsetting Assets and Liabilities

The table below reflects the Fund's exposure to Counterparties subject to either an ISDA Master Agreement or other agreement for OTC derivative transactions as of December 31, 2016.

	Financial Derivative Assets	Financial Derivative Liabilities		Collateral (Received)/Pledged		
Counterparty	Forward Foreign Currency Contracts	Forward Foreign Currency Contracts	Net Value of Derivatives	Non-Cash	Cash	Net Amount
Bank of New York Mellon (The)	$26,783	$–	$26,783	$–	$–	$26,783
State Street Bank and Trust Co.	26,712	–	26,712	–	–	26,712
Total	$53,495	$–	$53,495	$–	$–	$53,495

Effect of Derivative Investments for the year ended December 31, 2016

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		
	Currency Risk	Interest Rate Risk	Total
Realized Gain (Loss):			
Forward foreign currency contracts	$147,944	$ –	$ 147,944
Futures contracts	–	(1,760,993)	(1,760,993)
Change in Net Unrealized Appreciation:			
Forward foreign currency contracts	24,605	–	24,605
Futures contracts	–	224	224
Total	$172,549	$(1,760,769)	$(1,588,220)

The table below summarizes the twelve months average notional value of forward foreign currency contracts and the five months average notional value of futures contracts outstanding during the period.

	Forward Foreign Currency Contracts	Futures Contracts
Average notional value	$2,805,265	$9,372,226

NOTE 5—Security Transactions with Affiliated Funds

The Fund is permitted to purchase or sell securities from or to certain other Invesco Funds under specified conditions outlined in procedures adopted by the Board of Trustees of the Trust. The procedures have been designed to ensure that any purchase or sale of securities by the Fund from or to another fund or portfolio that is or could be considered an affiliate by virtue of having a common investment adviser (or affiliated investment advisers), common Trustees and/or common officers complies with Rule 17a-7 of the 1940 Act. Further, as defined under the procedures, each transaction is effected at the current market price. Pursuant to these procedures, for the year ended December 31, 2016, the Fund engaged in securities purchases of $239,287.

NOTE 6—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 7—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 8—Distributions to Shareholders and Tax Components of Net Assets

Tax Character of Distributions to Shareholders Paid During the Fiscal Years Ended December 31, 2016 and 2015:

	2016	2015
Ordinary income	$1,039,201	$ 2,074,591
Long-term capital gain	1,392,685	21,396,405
Total distributions	$2,431,886	$23,470,996

Tax Components of Net Assets at Period-End:

	2016
Undistributed ordinary income	$ 594,535
Net unrealized appreciation — investments	4,947,351
Net unrealized appreciation (depreciation) — other investments	(150)
Temporary book/tax differences	(68,450)
Capital loss carryforward	(1,112,291)
Shares of beneficial interest	47,284,084
Total net assets	$51,645,079

The difference between book-basis and tax-basis unrealized appreciation (depreciation) is due to differences in the timing of recognition of gains and losses on investments for tax and book purposes. The Fund's net unrealized appreciation difference is attributable primarily to wash sales and adjustments to contingent payment debt instruments.

The temporary book/tax differences are a result of timing differences between book and tax recognition of income and/or expenses. The Fund's temporary book/tax differences are the result of the trustee deferral of compensation and retirement plan benefits.

Capital loss carryforward is calculated and reported as of a specific date. Results of transactions and other activity after that date may affect the amount of capital loss carryforward actually available for the Fund to utilize. Capital losses generated in years beginning after December 22, 2010 can be carried forward for an unlimited period, whereas previous losses expire in eight tax years. Capital losses with an expiration period may not be used to offset capital gains until all net capital losses without an expiration date have been utilized. Capital loss carryforwards with no expiration date will retain their character as either short-term or long-term capital losses instead of as short-term capital losses as under prior law. The ability to utilize capital loss carryforwards in the future may be limited under the Internal Revenue Code and related regulations based on the results of future transactions.

The Fund has a capital loss carryforward as of December 31, 2016, as follows:

Capital Loss Carryforward*

Expiration	Short-Term	Long-Term	Total
Not subject to expiration	$867,268	$245,023	$1,112,291

* Capital loss carryforward as of the date listed above is reduced for limitations, if any, to the extent required by the Internal Revenue Code and may be further limited depending upon a variety of factors, including the realization of net unrealized gains or losses as of the date of any reorganization.

NOTE 9—Investment Securities

The aggregate amount of investment securities (other than short-term securities, U.S. Treasury obligations and money market funds, if any) purchased and sold by the Fund during the year ended December 31, 2016 was $9,586,189 and $19,009,304, respectively. During the same period, purchases and sales of U.S. Treasury obligations were $34,227,608 and $33,775,430, 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	$ 6,181,167
Aggregate unrealized (depreciation) of investment securities	(1,233,816)
Net unrealized appreciation of investment securities	$ 4,947,351

Cost of investments for tax purposes is $46,697,682.

NOTE 10—Reclassification of Permanent Differences

Primarily as a result of differing book/tax treatment of distributions, on December 31, 2016, undistributed net investment income was decreased by $56,575, undistributed net realized gain (loss) was increased by $56,575. This reclassification had no effect on the net assets of the Fund.

NOTE 11—Share Information

	Summary of Share Activity			
	Years ended December 31,			
	2016[(a)]		2015	
	Shares	Amount	Shares	Amount
Sold:				
Series I	300,423	$ 3,419,830	281,770	$ 4,951,536
Series II	8,242	92,158	4,400	73,277
Issued as reinvestment of dividends:				
Series I	209,985	2,366,531	2,053,034	22,891,326
Series II	5,856	65,355	52,506	579,670
Reacquired:				
Series I	(918,562)	(10,365,620)	(1,451,733)	(22,127,748)
Series II	(23,850)	(267,680)	(18,649)	(330,953)
Net increase (decrease) in share activity	(417,906)	$ (4,689,426)	921,328	$ 6,037,108

(a) There are entities that are record owners of more than 5% of the outstanding shares of the Fund and in the aggregate own 57% 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 12—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 12/31/16	$11.38	$0.14	$ 1.03	$ 1.17	$(0.22)	$(0.36)	$(0.58)	$11.97	10.61%	$50,183	1.15%[(d)]	1.16%[(d)]	1.26%[(d)]	92%
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	1.10	1.07	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
Series II														
Year ended 12/31/16	11.26	0.11	1.02	1.13	(0.19)	(0.36)	(0.55)	11.84	10.31	1,462	1.40[(d)]	1.41[(d)]	1.01[(d)]	92
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	1.35	0.82	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

(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 $48,412 and $1,418 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 the 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 the Invesco V.I. Managed Volatility Fund (one of the portfolios constituting the AIM Variable Insurance Funds (Invesco Variable Insurance Funds), hereafter referred to as the "Fund") as of December 31, 2016, 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 as of December 31, 2016 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PRICEWATERHOUSECOOPERS LLP

Houston, Texas
February 14, 2017

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, 2016 through December 31, 2016.

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 (07/01/16)	Ending Account Value (12/31/16)[1]	Expenses Paid During Period[2]	Ending Account Value (12/31/16)	Expenses Paid During Period[2]	Annualized Expense Ratio
Series I	$1,000.00	$1,114.00	$5.79	$1,019.66	$5.53	1.09%
Series II	1,000.00	1,112.00	7.11	1,018.40	6.80	1.34

[1] The actual ending account value is based on the actual total return of the Fund for the period July 1, 2016 through December 31, 2016, after actual expenses and will differ from the hypothetical ending account value which is based on the Fund's expense ratio and a hypothetical annual return of 5% before expenses.

[2] Expenses are equal to the Fund's annualized expense ratio as indicated above multiplied by the average account value over the period, multiplied by 184/366 to reflect the most recent fiscal half year.

Tax Information

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

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

The Fund designates the following amounts or, if subsequently determined to be different, the maximum amount allowable for its fiscal year ended December 31, 2016:

Federal and State Income Tax	
Long-Term Capital Gain Distributions	$1,392,685
Corporate Dividends Received Deduction*	70.29%
U.S. Treasury Obligations*	2.25%

* 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, Invesco Holding Company (US) Inc. (formerly IVZ Inc.) (holding company), Invesco Group Services, Inc. (service provider) and Invesco North American Holdings, Inc. (holding company); Director, Chief Executive Officer and President, Invesco Holding Company Limited (parent of Invesco and a global investment management firm); Director, Invesco Ltd.; Chairman, Investment Company Institute and President, Co-Chief Executive Officer, Co-President, Chief Operating Officer and Chief Financial Officer, Franklin Resources, Inc. (global investment management organization)	144	None
Philip A. Taylor[2] – 1954 Trustee and Senior Vice President	2006	Head of the Americas 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 and Senior Vice President, The Invesco Funds; Director, Invesco Investment Advisers LLC (formerly known as Van Kampen Asset Management). Formerly: Director, Chief Executive Officer and President, Van Kampen Exchange Corp.; 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); 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 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.	144	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	1993	Chairman, Crockett Technologies Associates (technology consulting company) Formerly: Director, Captaris (unified messaging provider); Director, President and Chief Executive Officer, COMSAT Corporation; Chairman, Board of Governors of INTELSAT (international communications company); ACE Limited (insurance company); Independent Directors Council and Investment Company Institute	144	Chairman of the Audit Committee, ALPS (Attorneys Liability Protection Society) (insurance company) and Member of the Audit Committee, Ferroglobe PLC (metallurgical company) and Investment Company Institute; Member of the Executive Committee and Chair of the Governance Committee, Independent Directors Council
David C. Arch – 1945 Trustee	2010	Chairman of Blistex Inc., a consumer health care products manufacturer	144	Board member of the Illinois Manufacturers' Association
James T. Bunch – 1942 Trustee	2004	Managing Member, Grumman Hill Group LLC (family office/private equity investments) Formerly: Chairman of the Board, Denver Film Society, Chairman of the Board of Trustees, Evans Scholarship Foundation; Chairman, Board of Governors, Western Golf Association	144	Trustee, Evans Scholarship Foundation; Chairman of the Board, Denver Film Society
Jack M. Fields – 1952 Trustee	1997	Chief Executive Officer, Twenty First Century Group, Inc. (government affairs company); and Discovery Learning Alliance (non-profit) Formerly: Owner and Chief Executive Officer, Dos Angeles Ranch L.P. (cattle, hunting, corporate entertainment); Director, Insperity, Inc. (formerly known as Administaff); Chief Executive Officer, Texana Timber LP (sustainable forestry company); Director of Cross Timbers Quail Research Ranch (non-profit); and member of the U.S. House of Representatives	144	None
Eli Jones – 1961 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 and Director, Arvest Bank	144	Director of Insperity, Inc. (formerly known as Administaff)
Prema Mathai-Davis – 1950 Trustee	1998	Retired. Formerly: Chief Executive Officer, YWCA of the U.S.A.	144	None
Larry Soll – 1942 Trustee	2004	Retired. Formerly: Chairman, Chief Executive Officer and President, Synergen Corp. (a biotechnology company)	144	None
Raymond Stickel, Jr. – 1944 Trustee	2005	Retired. Formerly: Director, Mainstay VP Series Funds, Inc. (25 portfolios) and Partner, Deloitte & Touche	144	None
Robert C. Troccoli – 1949 Trustee	2016	Adjunct Professor, University of Denver – Daniels College of Business Formerly: Senior Partner, KPMG LLP	144	None
Other Officers				
Sheri Morris – 1964 President, Principal Executive Officer and Treasurer	1999	President, Principal Executive Officer and Treasurer, 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 and Principal Financial Officer, The Invesco Funds; 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
Russell C. Burk – 1958 Senior Vice President and Senior Officer	2005	Senior Vice President and Senior Officer, The Invesco Funds	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)				
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.; 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, Secretary, General Counsel and Senior Vice President, Van Kampen Exchange Corp.; 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
Karen Dunn Kelley — 1960 Senior Vice President	1993	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 and Director, 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.; Senior Vice President, The Invesco Funds Formerly: Director, 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); Director and President, INVESCO Asset Management (Bermuda) Ltd., Director, INVESCO Global Asset Management DAC (formerly known as 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); 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 Vice President, The Invesco Funds (AIM Treasurer's Series Trust (Invesco Treasurer's Series Trust), and Short-Term Investments Trust only)	N/A	N/A
Kelli Gallegos — 1970 Vice President, Principal Financial Officer and Assistant Treasurer	2008	Vice President, Principal Financial Officer and Assistant Treasurer, The Invesco Funds; Assistant Treasurer, Invesco PowerShares Capital Management LLC, 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: Assistant Vice President, The Invesco Funds	N/A	N/A
Tracy Sullivan — 1962 Vice President, Chief Tax Officer and Assistant Treasurer	2008	Vice President, Chief Tax Officer and Assistant Treasurer, The Invesco Funds; Assistant Treasurer, Invesco PowerShares Capital Management LLC, 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: Assistant Vice President, The Invesco Funds	N/A	N/A

Trustees and Officers—(continued)

Name, Year of Birth and Position(s) Held with the Trust	Trustee and/ or Officer Since	Principal Occupation(s) During Past 5 Years	Number of Funds in Fund Complex Overseen by Trustee	Other Directorship(s) Held by Trustee During Past 5 Years
Other Officers—(continued)				
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., 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. Formerly: Anti-Money Laundering Compliance Officer, Van Kampen Exchange Corp.	N/A	N/A
Robert R. Leveille – 1969 Chief Compliance Officer	2016	Chief Compliance Officer, Invesco Advisers, Inc. (registered investment adviser); and Chief Compliance Officer, The Invesco Funds Formerly: Chief Compliance Officer, Putnam Investments and the Putnam Funds	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 Statement of Additional Information for information on the Fund's sub-advisers.

Office of the Fund
11 Greenway Plaza, Suite 1000
Houston, TX 77046-1173

Investment Adviser
Invesco Advisers, Inc.
1555 Peachtree Street, N.E.
Atlanta, GA 30309

Distributor
Invesco Distributors, Inc.
11 Greenway Plaza, Suite 1000
Houston, TX 77046-1173

Auditors
PricewaterhouseCoopers LLP
1000 Louisiana Street, Suite 5800
Houston, TX 77002-5678

Counsel to the Fund
Stradley Ronon Stevens & Young, LLP
2005 Market Street, Suite 2600
Philadelphia, PA 19103-7018

Counsel to the Independent Trustees
Goodwin Procter LLP
901 New York Avenue, N.W.
Washington, D.C. 20001

Transfer Agent
Invesco Investment Services, Inc.
11 Greenway Plaza, Suite 1000
Houston, TX 77046-1173

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

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ANNUAL REPORT
December 31, 2016

Janus Aspen Forty Portfolio

Janus Aspen Series

HIGHLIGHTS

- Portfolio management perspective
- Investment strategy behind your portfolio
- Portfolio performance, characteristics and holdings

JANUS®

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Janus Aspen Forty Portfolio (unaudited)

PORTFOLIO SNAPSHOT

We believe that 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
co-portfolio manager

Nick Schommer
co-portfolio manager

PERFORMANCE OVERVIEW

For the 12-month period ended December 31, 2016, Janus Aspen Forty Portfolio's Institutional Shares and Service Shares returned 2.20% and 1.94%, respectively, versus a return of 7.08% for the Portfolio's primary benchmark, the Russell 1000 Growth Index. The Portfolio's secondary benchmark, the S&P 500 Index, returned 11.96% for the period.

INVESTMENT ENVIRONMENT

Stocks registered gains in 2016, but experienced brief bouts of volatility. Equities started the year lower due to concerns about the health of the Chinese economy and fear about how falling oil prices could affect the energy sector. As fears grew about the global economy, more defensive areas of the market such as consumer staples and utilities companies outperformed. Midway through the year, the UK's decision to leave the European Union (EU) in June's "Brexit" referendum jolted markets, but investors soon regained their composure and sent shares higher. Stocks climbed after the November U.S. presidential election, on the expectation that the new administration would champion pro-growth initiatives. As economic growth prospects improved, cyclical stocks outperformed the broader market.

PERFORMANCE DISCUSSION

The Portfolio underperformed 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.

Over the course of the past year, our underperformance came during two brief periods. We fell behind the benchmark at the beginning of the year, when markets sold off due to fears about the global economy and investors rotated into more defensive areas of the market. We also underperformed at the end of the year, when prospects for an improving global economic picture led to a broad market rotation away from companies tied to secular growth trends toward companies with more cyclical growth prospects. As we note in our Outlook, many of the companies we own are tied to secular growth themes. While that hurt performance during the period, we invest with a long-term perspective and maintain a high level of conviction in the competitive advantages of our companies and secular themes underpinning growth potential for the stocks in our portfolio.

We also held a few stocks during the period that produced disappointing results that affected performance. Norwegian Cruise Line was the leading detractor during the period. We exited our position in the cruise line company due to poor execution by management during a period of time in which geopolitical factors impacted demand for their business.

Regeneron Pharmaceuticals was another detractor. Slower-than-expected adoption of a new drug the company recently launched has been a headwind for the company. However, we remain encouraged about many of the drugs in Regeneron's pipeline, in addition to its existing drugs on the market.

Salesforce was another detractor. A rumor that the company was interested in acquiring Twitter was one reason that drove the stock lower. We didn't think the acquisition was a natural fit for the business, and were pleased to see the company decide not to pursue the acquisition. We continue to like Salesforce's position as a leader in cloud-based enterprise software, and believe it will benefit as marketing and sales departments move more functions from on-premises software to the cloud.

While some stocks negatively affected performance, we are pleased with the performance of a number of other positions. Construction aggregate company Vulcan Materials was a leading contributor to performance. The company benefited as residential and nonresidential aggregate markets recovered in the first half of the year. Improvements in highway infrastructure spending also aided the stock's performance. We believe the macroeconomic environment is favorable for continued performance by Vulcan, which we believe enjoys strong competitive advantages around its business model and quarries, though we have trimmed the position as it has approached our price target.

Amazon was another leading contributor. Increasing profitability in its core retail business and growth in Amazon Web Services have helped drive the stock during the year. 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 Web Services is revolutionizing the way companies utilize IT services, using its scale to offer a disruptive pricing model to businesses seeking IT functions in the cloud.

Charles Schwab Corp. was also a large contributor. The stock benefited from the prospect of rising interest rates, which should boost the earnings from cash held in customers' accounts. We believe the company's strong brand, which is trusted among retail investors and registered investment advisers that use its services, is a strong competitive advantage for the company. We also believe its size and digital focus gives it a cost structure advantage, allowing it to offer trading and other financial services at lower costs than most competitors. Going forward, we believe the trends of investment advisors seeking independence from large wirehouses and households seeking lower cost investing services are long-term secular growth trends that will benefit Schwab.

OUTLOOK

Some of the enthusiasm reflected in the market's rise since the presidential election is likely warranted. The new administration's policies could spark better near-term economic growth and real wage growth for the U.S. consumer. On the margin, we've made a few changes in light of the potentially improved economic landscape, increasing our exposure to a few cyclical growth companies. Some of those companies were among our top contributors to performance.

While we made a few marginal changes, the bulk of our portfolio is still invested with companies tied to secular growth themes that should push forward independent of the macroeconomic environment. We believe the long-term growth potential of these companies remains compelling.

Many of the companies we hold are tied to secular themes that are still in their early innings: the shift from offline to online spending, the shift of enterprise software from on-premises data centers to the cloud, a proliferation of connected devices in the home and business, and a growing global middle class, to name just a few. It's important to note that these companies aren't just exposed to such trends. We believe they have built competitive moats around their businesses that uniquely position them as the key beneficiaries or pivotal players driving these themes forward. We plan to keep a long-term perspective as we watch these trends unfold in the coming years.

Thank you for your investment in Janus Aspen Forty Portfolio.

Janus Aspen Forty Portfolio (unaudited)
Portfolio At A Glance
December 31, 2016

5 Top Performers - Holdings

	Contribution
Vulcan Materials Co	0.82%
Amazon.com Inc	0.75%
Charles Schwab Corp	0.67%
Zoetis Inc	0.61%
Boston Scientific Corp	0.46%

5 Bottom Performers - Holdings

	Contribution
Norwegian Cruise Line Holdings Ltd	-0.89%
Regeneron Pharmaceuticals Inc	-0.66%
salesforce.com Inc	-0.50%
E*TRADE Financial Corp	-0.29%
Chipotle Mexican Grill Inc	-0.27%

5 Top Performers - Sectors*

	Portfolio Contribution	Portfolio Weighting (Average % of Equity)	Russell 1000 Growth Index Weighting
Health Care	1.24%	18.54%	16.47%
Materials	0.45%	3.53%	3.56%
Financials	0.41%	11.79%	4.68%
Consumer Staples	0.02%	2.43%	10.77%
Real Estate	0.00%	0.75%	0.91%

5 Bottom Performers - Sectors*

	Portfolio Contribution	Portfolio Weighting (Average % of Equity)	Russell 1000 Growth Index Weighting
Information Technology	-2.87%	30.08%	29.48%
Consumer Discretionary	-1.85%	21.86%	20.97%
Industrials	-0.85%	8.16%	10.79%
Telecommunication Services	-0.40%	0.00%	1.75%
Other**	-0.34%	2.86%	0.00%

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, 2016

5 Largest Equity Holdings - (% of Net Assets)

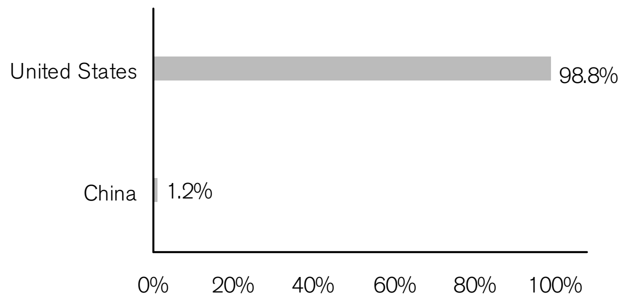
Microsoft Corp	
Software	6.3%
Alphabet Inc - Class C	
Internet Software & Services	5.5%
Zoetis Inc	
Pharmaceuticals	5.1%
Mastercard Inc	
Information Technology Services	4.3%
Amazon.com Inc	
Internet & Direct Marketing Retail	4.1%
	25.3%

Asset Allocation - (% of Net Assets)

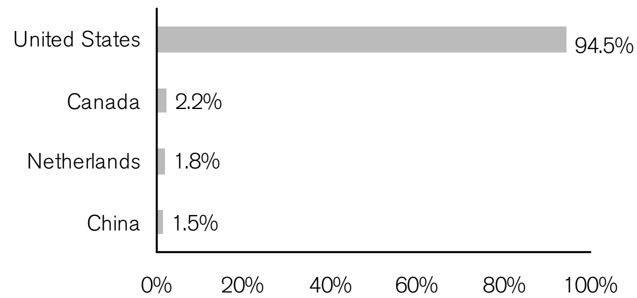
Common Stocks	99.8%
Investment Companies	1.3%
Other	(1.1)%
	100.0%

Top Country Allocations - Long Positions - (% of Investment Securities)

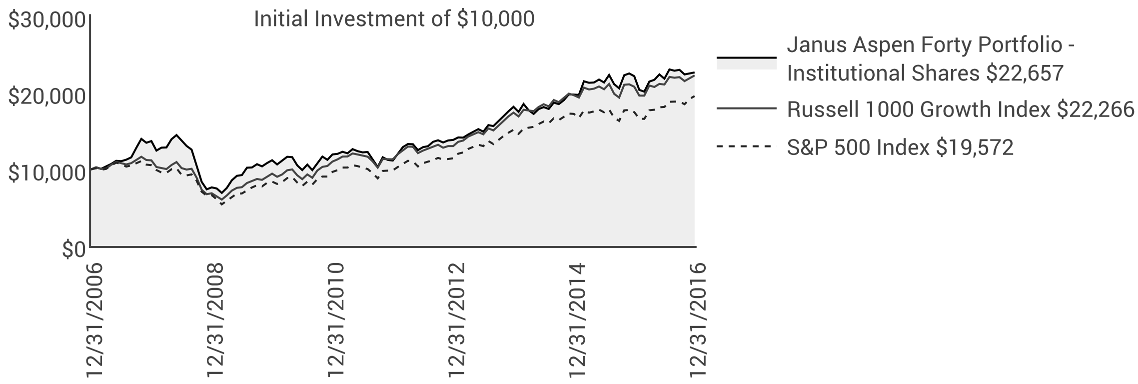
As of December 31, 2016



As of December 31, 2015



Janus Aspen Forty Portfolio (unaudited)
Performance



Average Annual Total Return - for the periods ended December 31, 2016	One Year	Five Year	Ten Year	Since Inception*	Expense Ratios - per the May 1, 2016 prospectuses: Total Annual Fund Operating Expenses
Institutional Shares	2.20%	15.23%	8.52%	10.56%	0.74%
Service Shares	1.94%	14.94%	8.25%	10.24%	0.99%
Russell 1000 Growth Index	7.08%	14.50%	8.33%	6.63%	
S&P 500 Index	11.96%	14.66%	6.95%	7.37%	
Morningstar Quartile - Institutional Shares	3rd	1st	1st	1st	
Morningstar Ranking - based on total returns for Large Growth Funds	864/1,497	131/1,371	120/1,170	21/667	

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.

Returns shown do not represent actual returns since they do not include insurance charges. 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.

See Financial Highlights for actual expense ratios during the reporting period.

Performance for Service Shares prior to December 31, 1999 reflects the performance of Institutional Shares, adjusted to reflect the 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 important disclosures on the next page.

Janus Aspen Forty Portfolio (unaudited)
Performance

See Notes to Schedule of Investments and Other Information for index definitions.

A Portfolio's holdings may differ significantly from the securities held in an index. An index is unmanaged and not available for direct investment; therefore, its performance does not reflect the expenses associated with the active management of an actual portfolio.

See "Useful Information About Your Portfolio Report."

Effective January 12, 2016, Douglas Rao and Nick Schommer are Co-Portfolio Managers of the Portfolio.

*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 (7/1/16)	Ending Account Value (12/31/16)	Expenses Paid During Period (7/1/16 - 12/31/16)†	Beginning Account Value (7/1/16)	Ending Account Value (12/31/16)	Expenses Paid During Period (7/1/16 - 12/31/16)†	Net Annualized Expense Ratio (7/1/16 - 12/31/16)
Institutional Shares	$1,000.00	$1,037.40	$3.79	$1,000.00	$1,021.42	$3.76	0.74%
Service Shares	$1,000.00	$1,036.40	$5.07	$1,000.00	$1,020.16	$5.03	0.99%

† Expenses Paid During Period are equal to the Net Annualized Expense Ratio multiplied by the average account value over the period, multiplied by 184/366 (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, 2016

	Shares	Value
Common Stocks – 99.8%		
Aerospace & Defense – 1.5%		
General Dynamics Corp	59,190	$10,219,745
Automobiles – 0.9%		
Tesla Motors Inc*	28,318	6,051,273
Biotechnology – 5.4%		
Celgene Corp*	227,095	26,286,246
Regeneron Pharmaceuticals Inc*	29,477	10,820,712
		37,106,958
Capital Markets – 11.6%		
Charles Schwab Corp	619,369	24,446,495
Goldman Sachs Group Inc	83,422	19,975,398
Intercontinental Exchange Inc	430,538	24,290,954
S&P Global Inc	103,297	11,108,559
		79,821,406
Construction Materials – 2.5%		
Vulcan Materials Co	139,108	17,409,366
Containers & Packaging – 2.1%		
Sealed Air Corp	320,324	14,523,490
Equity Real Estate Investment Trusts (REITs) – 1.6%		
Crown Castle International Corp	128,076	11,113,155
Food & Staples Retailing – 2.5%		
Costco Wholesale Corp	108,159	17,317,338
Health Care Equipment & Supplies – 4.2%		
Boston Scientific Corp*	1,131,597	24,476,443
DexCom Inc*	75,893	4,530,812
		29,007,255
Hotels, Restaurants & Leisure – 1.4%		
Starbucks Corp	173,123	9,611,789
Industrial Conglomerates – 4.0%		
General Electric Co	859,804	27,169,806
Information Technology Services – 5.9%		
Mastercard Inc	287,977	29,733,625
PayPal Holdings Inc*	271,988	10,735,366
		40,468,991
Internet & Direct Marketing Retail – 7.9%		
Amazon.com Inc*	37,700	28,270,099
Ctrip.com International Ltd (ADR)*	201,394	8,055,760
Netflix Inc*	47,726	5,908,479
Priceline Group Inc*	8,123	11,908,805
		54,143,143
Internet Software & Services – 10.3%		
Alphabet Inc - Class C*	49,016	37,831,529
CoStar Group Inc*	74,748	14,089,251
Facebook Inc	163,360	18,794,568
		70,715,348
Life Sciences Tools & Services – 2.3%		
Quintiles IMS Holdings Inc*	211,937	16,117,809
Pharmaceuticals – 10.0%		
Allergan plc	100,155	21,033,552
Bristol-Myers Squibb Co	220,950	12,912,318
Zoetis Inc	655,649	35,096,891
		69,042,761
Road & Rail – 2.5%		
CSX Corp	484,109	17,394,036
Semiconductor & Semiconductor Equipment – 1.3%		
Texas Instruments Inc	123,210	8,990,634
Software – 16.7%		
Activision Blizzard Inc	486,235	17,557,946
Adobe Systems Inc*	215,445	22,180,063
Microsoft Corp	694,073	43,129,697

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

Janus Aspen Forty Portfolio
Schedule of Investments
December 31, 2016

	Shares	Value
Common Stocks – (continued)		
Software – (continued)		
salesforce.com Inc*	341,712	$23,393,604
Workday Inc*	123,877	8,187,031
		114,448,341
Specialty Retail – 2.4%		
Lowe's Cos Inc	231,436	16,459,728
Textiles, Apparel & Luxury Goods – 2.8%		
NIKE Inc	377,275	19,176,888
Total Common Stocks (cost $542,902,785)		686,309,260
Investment Companies – 1.3%		
Money Markets – 1.3%		
Janus Cash Liquidity Fund LLC, 0.4708%[°°,£] (cost $8,949,000)	8,949,000	8,949,000
Total Investments (total cost $551,851,785) – 101.1%		695,258,260
Liabilities, net of Cash, Receivables and Other Assets – (1.1)%		(7,739,750)
Net Assets – 100%		$687,518,510

Summary of Investments by Country - (Long Positions) (unaudited)

Country	*Value*	*% of Investment Securities*
United States	$687,202,500	98.8 %
China	8,055,760	1.2
Total	$695,258,260	100.0 %

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

Janus Aspen Forty Portfolio
Notes to Schedule of Investments and Other Information

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

* Non-income producing security.

ºº Rate shown is the 7-day yield as of December 31, 2016.

£ 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. The following securities were considered affiliated companies for all or some portion of the year ended December 31, 2016. Unless otherwise indicated, all information in the table is for the year ended December 31, 2016.

	Share Balance at 12/31/15	*Purchases*	*Sales*	*Share Balance at 12/31/16*	*Realized Gain/(Loss)*	*Dividend Income*	*Value at 12/31/16*
Janus Cash Collateral Fund LLC	—	134,892,205	(134,892,205)	—	$—	$102,510(1)	$—
Janus Cash Liquidity Fund LLC	24,691,025	231,708,029	(247,450,054)	8,949,000	—	73,007	8,949,000
Total					$—	$175,517	$8,949,000

(1) Net of income paid to the securities lending agent and rebates paid to the borrowing counterparties.

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, 2016. See Notes to Financial Statements for more information.

Valuation Inputs Summary

	Level 1 - Quotes Prices	***Level 2 - Other Significant Observable Inputs***	***Level 3 - Significant Unobservable Inputs***
Assets			
Investments in Securities:			
Common Stocks	$ 686,309,260	$ -	$ -
Investment Companies	-	8,949,000	-
Total Assets	$ 686,309,260	$ 8,949,000	$ -

Janus Aspen Forty Portfolio
Statement of Assets and Liabilities
December 31, 2016

Assets:		
Investments, at cost	$	551,851,785
Unaffiliated investments, at value		686,309,260
Affiliated investments, at value		8,949,000
Cash		719
Non-interested Trustees' deferred compensation		12,898
Receivables:		
Dividends		291,267
Foreign tax reclaims		68,884
Portfolio shares sold		48,027
Dividends from affiliates		1,128
Other assets		9,238
Total Assets		695,690,421
Liabilities:		
Payables:		
Portfolio shares repurchased		7,517,146
Advisory fees		382,102
12b-1 Distribution and shareholder servicing fees		100,282
Transfer agent fees and expenses		33,722
Professional fees		22,387
Non-interested Trustees' deferred compensation fees		12,898
Portfolio administration fees		6,100
Non-interested Trustees' fees and expenses		6,015
Custodian fees		303
Accrued expenses and other payables		90,956
Total Liabilities		8,171,911
Net Assets	$	687,518,510
Net Assets Consist of:		
Capital (par value and paid-in surplus)	$	503,801,277
Undistributed net investment income/(loss)		121,926
Undistributed net realized gain/(loss) from investments and foreign currency transactions		40,192,137
Unrealized net appreciation/(depreciation) of investments, foreign currency translations and non-interested Trustees' deferred compensation		143,403,170
Total Net Assets	$	687,518,510
Net Assets - Institutional Shares	$	257,008,705
Shares Outstanding, $0.01 Par Value (unlimited shares authorized)		7,984,755
Net Asset Value Per Share	$	32.19
Net Assets - Service Shares	$	430,509,805
Shares Outstanding, $0.01 Par Value (unlimited shares authorized)		13,983,137
Net Asset Value Per Share	$	30.79

See Notes to Financial Statements.

Janus Aspen Forty Portfolio
Statement of Operations
For the year ended December 31, 2016

Investment Income:		
Dividends	$	6,306,962
Affiliated securities lending income, net		102,510
Dividends from affiliates		73,007
Foreign tax withheld		(9,724)
Total Investment Income		6,472,755
Expenses:		
Advisory fees		4,714,223
12b-1Distribution and shareholder servicing fees:		
Service Shares		1,157,938
Transfer agent administrative fees and expenses:		
Institutional Shares		92,686
Service Shares		157,676
Other transfer agent fees and expenses:		
Institutional Shares		4,952
Service Shares		4,688
Portfolio administration fees		65,641
Shareholder reports expense		59,344
Professional fees		48,465
Non-interested Trustees' fees and expenses		23,574
Registration fees		12,062
Custodian fees		11,222
Other expenses		139,681
Total Expenses		6,492,152
Net Investment Income/(Loss)		(19,397)
Net Realized Gain/(Loss) on Investments:		
Investments and foreign currency transactions		40,288,179
Total Net Realized Gain/(Loss) on Investments		40,288,179
Change in Unrealized Net Appreciation/Depreciation:		
Investments, foreign currency translations and non-interested Trustees' deferred compensation		(26,711,467)
Total Change in Unrealized Net Appreciation/Depreciation		(26,711,467)
Net Increase/(Decrease) in Net Assets Resulting from Operations	$	13,557,315

See Notes to Financial Statements.

Janus Aspen Forty Portfolio
Statements of Changes in Net Assets

		Year ended December 31, 2016		Year ended December 31, 2015
Operations:				
Net investment income/(loss)	$	(19,397)	$	(1,217,012)
Net realized gain/(loss) on investments		40,288,179		103,601,643
Change in unrealized net appreciation/depreciation		(26,711,467)		(11,093,868)
Net Increase/(Decrease) in Net Assets Resulting from Operations		13,557,315		91,290,763
Dividends and Distributions to Shareholders:				
Distributions from Net Realized Gain from Investment Transactions				
Institutional Shares		(37,062,653)		(57,445,111)
Service Shares		(65,123,788)		(102,554,820)
Net Decrease from Dividends and Distributions to Shareholders		(102,186,441)		(159,999,931)
Capital Share Transactions:				
Institutional Shares		(7,170,480)		18,828,189
Service Shares		(13,410,718)		54,810,568
Net Increase/(Decrease) from Capital Share Transactions		(20,581,198)		73,638,757
Net Increase/(Decrease) in Net Assets		(109,210,324)		4,929,589
Net Assets:				
Beginning of period		796,728,834		791,799,245
End of period	$	687,518,510	$	796,728,834
Undistributed Net Investment Income/(Loss)	$	121,926	$	(16,127)

See Notes to Financial Statements.

Janus Aspen Forty Portfolio
Financial Highlights

Institutional Shares

For a share outstanding during each year ended December 31	2016	2015	2014	2013	2012
Net Asset Value, Beginning of Period	$36.37	$40.27	$53.34	$40.95	$33.22
Income/(Loss) from Investment Operations:					
Net investment income/(loss)	0.05(1)	0.03(1)	0.03(1)	0.38	0.47
Net realized and unrealized gain/(loss)	0.58	4.77	3.08	12.34	7.54
Total from Investment Operations	0.63	4.80	3.11	12.72	8.01
Less Dividends and Distributions:					
Dividends (from net investment income)	—	—	(0.09)	(0.33)	(0.28)
Distributions (from capital gains)	(4.81)	(8.70)	(16.09)	—	—
Total Dividends and Distributions	(4.81)	(8.70)	(16.18)	(0.33)	(0.28)
Net Asset Value, End of Period	$32.19	$36.37	$40.27	$53.34	$40.95
Total Return*	2.20%	12.22%	8.73%	31.23%	24.16%
Net Assets, End of Period (in thousands)	$257,009	$295,725	$299,546	$355,429	$488,374
Average Net Assets for the Period (in thousands)	$273,374	$298,904	$307,359	$491,231	$512,799
Ratios to Average Net Assets**:					
Ratio of Gross Expenses	0.72%	0.69%	0.57%	0.55%	0.55%
Ratio of Net Expenses (After Waivers and Expense Offsets)	0.72%	0.69%	0.57%	0.55%	0.55%
Ratio of Net Investment Income/(Loss)	0.15%	0.08%	0.07%	0.31%	1.03%
Portfolio Turnover Rate	53%	55%	46%	61%	10%

Service Shares

For a share outstanding during each year ended December 31	2016	2015	2014	2013	2012
Net Asset Value, Beginning of Period	$35.08	$39.21	$52.40	$40.28	$32.72
Income/(Loss) from Investment Operations:					
Net investment income/(loss)	(0.03)(1)	(0.06)(1)	(0.07)(1)	—(2)	0.31
Net realized and unrealized gain/(loss)	0.55	4.63	2.99	12.38	7.47
Total from Investment Operations	0.52	4.57	2.92	12.38	7.78
Less Dividends and Distributions:					
Dividends (from net investment income)	—	—	(0.02)	(0.26)	(0.22)
Distributions (from capital gains)	(4.81)	(8.70)	(16.09)	—	—
Total Dividends and Distributions	(4.81)	(8.70)	(16.11)	(0.26)	(0.22)
Net Asset Value, End of Period	$30.79	$35.08	$39.21	$52.40	$40.28
Total Return*	1.94%	11.94%	8.47%	30.89%	23.82%
Net Assets, End of Period (in thousands)	$430,510	$501,003	$492,253	$526,971	$471,002
Average Net Assets for the Period (in thousands)	$464,943	$501,868	$493,575	$486,845	$468,967
Ratios to Average Net Assets**:					
Ratio of Gross Expenses	0.97%	0.94%	0.82%	0.81%	0.80%
Ratio of Net Expenses (After Waivers and Expense Offsets)	0.97%	0.94%	0.82%	0.81%	0.80%
Ratio of Net Investment Income/(Loss)	(0.09)%	(0.17)%	(0.17)%	0.04%	0.81%
Portfolio Turnover Rate	53%	55%	46%	61%	10%

* 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.

Janus Aspen Forty Portfolio
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 seeks long-term growth of capital. 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, 2016 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. 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. The risk of investing in securities in the European markets may also be heightened due to the referendum in which the United Kingdom voted to exit the EU (known as "Brexit"). One or more other countries may also 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.

Counterparties

Portfolio transactions involving a counterparty are subject to the risk that the counterparty or a third party will not fulfill its obligation to the Portfolio ("counterparty risk"). Counterparty risk may arise because of the counterparty's financial condition (i.e., financial difficulties, bankruptcy, or insolvency), market activities and developments, or other reasons, whether foreseen or not. A counterparty's inability to fulfill its obligation may result in significant financial loss to the Portfolio. The Portfolio may be unable to recover its investment from the counterparty or may obtain a limited recovery, and/or recovery may be delayed. The extent of the Portfolio's exposure to counterparty risk with respect to financial assets and liabilities approximates its carrying value.

The Portfolio may be exposed to counterparty risk through participation in various programs, including, but not limited to, lending its securities to third parties, cash sweep arrangements whereby the Portfolio's cash balance is invested in one or more types of cash management vehicles, as well as investments in, but not limited to, repurchase agreements, debt securities, and derivatives, including various types of swaps, futures and options. The Portfolio intends to enter into financial transactions with counterparties that Janus Capital believes to be creditworthy at the time of the transaction. There is always the risk that Janus Capital's analysis of a counterparty's creditworthiness is incorrect or may change due to market conditions. To the extent that the Portfolio focuses its transactions with a limited number of counterparties, it will have greater exposure to the risks associated with one or more counterparties.

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.

Securities Lending

Under procedures adopted by the Trustees, the Portfolio may seek to earn additional income by lending securities to qualified parties. Deutsche Bank AG acts as securities lending agent and a limited purpose custodian or subcustodian to receive and disburse cash balances and cash collateral, hold short-term investments, hold collateral, and perform other custodian functions. The Portfolio may lend portfolio securities in an amount equal to up to 1/3 of its total assets as determined at the time of the loan origination. There is the risk of delay in recovering a loaned security or the risk of loss in collateral rights if the borrower fails financially. In addition, Janus Capital makes efforts to balance the benefits and risks from granting such loans. All loans will be continuously secured by collateral which may consist of cash, U.S. Government securities, domestic and foreign short-term debt instruments, letters of credit, time deposits, repurchase agreements, money market mutual funds or other money market accounts, or such other collateral as permitted by the SEC. If the Portfolio is unable to recover a security on loan, the Portfolio may use the collateral to purchase replacement securities in the market. There is a risk that the value of the collateral could decrease below the cost of the replacement security by the time the replacement investment is made, resulting in a loss to the Portfolio.

Upon receipt of cash collateral, Janus Capital may invest it in affiliated or non-affiliated cash management vehicles, whether registered or unregistered entities, as permitted by the 1940 Act and rules promulgated thereunder. Janus Capital currently intends to invest the cash collateral in a cash management vehicle for which Janus Capital serves as investment adviser, Janus Cash Collateral Fund LLC. An investment in Janus Cash Collateral Fund LLC is generally subject to the same risks that shareholders experience when investing in similarly structured vehicles, such as the potential for significant fluctuations in assets as a result of the purchase and redemption activity of the securities lending program, a decline in the value of the collateral, and possible liquidity issues. Such risks may delay the return of the cash collateral and cause the Portfolio to violate its agreement to return the cash collateral to a borrower in a timely manner. As adviser to the Portfolio and Janus Cash Collateral Fund LLC, Janus Capital has an inherent conflict of interest as a result of its fiduciary duties to both the Portfolio and Janus Cash Collateral Fund LLC. Additionally, Janus Capital receives an investment advisory fee of 0.05% for managing Janus Cash Collateral Fund LLC, but it may not receive a fee for managing certain other affiliated cash management vehicles in which the Portfolio may invest, and therefore may have an incentive to allocate preferred investment opportunities to investment vehicles for which it is receiving a fee.

The value of the collateral must be at least 102% of the market value of the loaned securities that are denominated in U.S. dollars and 105% of the market value of the loaned securities that are not denominated in U.S. dollars. Loaned securities and related collateral are marked-to-market each business day based upon the market value of the loaned securities at the close of business, employing the most recent available pricing information. Collateral levels are then adjusted based on this mark-to-market evaluation.

The cash collateral invested by Janus Capital is disclosed in the Schedule of Investments (if applicable). Income earned from the investment of the cash collateral, net of rebates paid to, or fees paid by, borrowers and less the fees paid to the lending agent are included as “Affiliated securities lending income, net” on the Statement of Operations. There were no securities on loan as of December 31, 2016.

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, 2016, the performance adjusted investment advisory fee rate before any waivers and/or reimbursements of expenses is 0.64%.

Janus Services LLC ("Janus Services"), a wholly-owned subsidiary of Janus Capital, is the Portfolio's transfer agent. Effective May 1, 2016, Janus Services receives an administrative services fee at an annual rate of 0.05% of the average daily net assets of the Portfolio for arranging for the provision by participating insurance companies and qualified plan service providers of administrative services, including recordkeeping, subaccounting, order processing, or other shareholder services provided on behalf of contract holders or plan participants investing in the Portfolio. Other shareholder services may include the provision of order confirmations, periodic account statements, forwarding prospectuses, shareholder reports, and other materials to existing investors, and answering inquiries regarding accounts. Janus Services expects to use this entire fee to compensate insurance companies and qualified plan service providers for providing these services to their customers who invest in the Portfolio. Any unused portion will be reimbursed to the applicable share class at least annually.

In addition, Janus Services provides or arranges for the provision of certain other internal administrative, recordkeeping, and shareholder relations services for the Portfolio. Janus Services is not compensated for these internal 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). In addition, employees of Janus Capital and/or its affiliates may serve as officers of the Trust. The Portfolio also pays for some or all of the 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. Some expenses related to compensation payable to the Portfolio's Chief Compliance Officer and compliance staff are shared with the Portfolio. Total compensation of $56,245 was paid to the Chief Compliance Officer and certain compliance staff by the Trust during the year ended December 31, 2016. 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, 2016 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, 2016 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 $201,900 were paid by the Trust to a Trustee under the Deferred Plan during the year ended December 31, 2016.

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, 2016 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, 2016, the Portfolio engaged in cross trades amounting to $2,053,809 in purchases and $1,835,025 in sales, resulting in a net realized loss of $15,382. The net realized loss is included within the "Net Realized 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		*Other Book*	*Net Tax*
Undistributed Ordinary Income	*Undistributed Long-Term Gains*	*Accumulated Capital Losses*	*Late-Year Ordinary Loss*	*Post-October Capital Loss*	*to Tax Differences*	*Appreciation/ (Depreciation)*
$ -	$ 40,664,375	$ -	$ -	$ -	$ (16,204)	$143,069,062

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, 2016 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 are wash sale loss deferrals and investments in partnerships.

Federal Tax Cost	*Unrealized Appreciation*	*Unrealized (Depreciation)*	*Net Tax Appreciation/ (Depreciation)*
$ 552,189,198	$150,594,657	$ (7,525,595)	$ 143,069,062

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, 2016

Distributions			
From Ordinary Income	*From Long-Term Capital Gains*	*Tax Return of Capital*	*Net Investment Loss*
$ 6,435,775	$ 95,750,666	$ -	$ (166,998)

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	$ -	$ -

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*
$ (166,996)	$ 157,450	$ 9,546

5. Capital Share Transactions

	Year ended December 31, 2016 Shares	*Year ended December 31, 2016* Amount	*Year ended December 31, 2015* Shares	*Year ended December 31, 2015* Amount
Institutional Shares:				
Shares sold	699,774	$ 23,356,199	1,146,883	$ 44,193,370
Reinvested dividends and distributions	1,192,492	37,062,653	1,601,927	57,445,111
Shares repurchased	(2,038,134)	(67,589,332)	(2,057,242)	(82,810,292)
Net Increase/(Decrease)	(145,868)	$ (7,170,480)	691,568	$ 18,828,189
Service Shares:				
Shares sold	1,166,469	$ 37,891,921	1,444,396	$ 53,479,766
Reinvested dividends and distributions	2,187,564	65,123,788	2,961,444	102,554,820
Shares repurchased	(3,651,743)	(116,426,427)	(2,680,089)	(101,224,018)
Net Increase/(Decrease)	(297,710)	$(13,410,718)	1,725,751	$ 54,810,568

Janus Aspen Forty Portfolio
Notes to Financial Statements

6. Purchases and Sales of Investment Securities

For the year ended December 31, 2016, 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*
$384,179,640	$ 483,927,714	$ -	$ -

7. Merger Related Matters

On October 3, 2016, Janus Capital Group Inc. ("JCGI"), the direct parent of Janus Capital Management LLC, the investment adviser to the Portfolio ("Janus Capital"), and Henderson Group plc ("Henderson") announced that they had entered into an Agreement and Plan of Merger ("Merger Agreement") relating to the strategic combination of Henderson and JCGI (the "Transaction"). Pursuant to the Merger Agreement, a newly formed, direct wholly-owned subsidiary of Henderson will merge with and into JCGI, with JCGI as the surviving corporation and a direct wholly-owned subsidiary of Henderson. The Transaction is currently expected to close in the second quarter of 2017, subject to requisite shareholder and regulatory approvals.

The consummation of the Transaction may be deemed to be an "assignment" (as defined in the Investment Company Act of 1940, as amended) of the current advisory agreement between Janus Capital and the Portfolio. In addition, the consummation of the Transaction may be deemed to be an assignment of the current sub-advisory agreements between Janus Capital and each of INTECH Investment Management LLC ("INTECH") and Perkins Investment Management LLC ("Perkins"), the subadvisers to certain portfolios. As a result, the consummation of the Transaction may cause such investment advisory agreements and investment sub-advisory agreements to terminate automatically in accordance with their respective terms.

On December 8, 2016, the Board of Trustees of the Portfolio (the "Board of Trustees") approved, subject to approval of shareholders, a new investment advisory agreement between the Portfolio and Janus Capital in order to permit Janus Capital to continue to provide advisory services to the Portfolio following the closing of the Transaction. The new investment advisory agreement will have substantially similar terms as the corresponding current investment advisory agreement.

On December 8, 2016, the Board of Trustees also approved interim investment advisory agreements between the Portfolio and Janus Capital and interim sub-advisory agreements between Janus Capital and the Portfolio's subadviser, as applicable. In the event shareholders of the Portfolio do not approve the new investment advisory agreement (and, if applicable, the new investment sub-advisory agreement) prior to the closing of the Transaction, an interim investment advisory agreement (and, if applicable, an interim investment sub-advisory agreement) will take effect with respect to the Portfolio upon the closing of the Transaction. Such interim agreements will continue in effect for a term ending on the earlier of 150 days from the closing of the Transaction, or when shareholders of the Portfolio approve the new investment advisory agreement and new investment sub-advisory agreement, if applicable. Compensation earned by Janus Capital and the Portfolio's subadviser, if applicable, under their respective interim investment advisory agreement or interim investment sub-advisory agreement will be held in an interest-bearing escrow account and will be paid to Janus Capital or the subadviser, as applicable, if shareholders approve the corresponding new investment advisory agreement or new investment sub-advisory agreement prior to the end of the interim period. Except for the term and escrow provisions described above, the terms of each interim investment advisory agreement and interim investment subadvisory agreement are substantially similar to those of the corresponding current investment advisory agreement or current investment sub-advisory agreement.

In addition, the Portfolio's name will change to reflect "Janus Henderson" as part of the Portfolio's name.

Shareholders and contract owners of record of the Portfolio as of December 29, 2016, will receive a proxy statement, notice of special meeting of shareholders, and proxy card, containing detailed information regarding shareholder proposals with respect to these and certain other matters. The shareholder meeting is expected to be held on or about April 6, 2017.

8. Subsequent Event

Management has evaluated whether any events or transactions occurred subsequent to December 31, 2016 and through the date of issuance of the Portfolio's financial statements and determined that there were no material events or transactions that would require recognition or disclosure in the Portfolio's financial statements.

Janus Aspen Forty Portfolio
Report of Independent Registered Public Accounting Firm

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") as of December 31, 2016, 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 as of December 31, 2016 by correspondence with the custodian and transfer agent, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Denver, Colorado
February 10, 2017

Janus Aspen Forty Portfolio
Additional Information (unaudited)

Proxy Voting Policies and Voting Record

A description of the policies and procedures that the Portfolio uses to determine how to vote proxies relating to its portfolio securities is available without charge: (i) upon request, by calling 1-800-525-0020 (toll free); (ii) on the Portfolio's website at janus.com/proxyvoting; and (iii) on the SEC's website at http://www.sec.gov. Additionally, information regarding the Portfolio's proxy voting record for the most recent twelve-month period ended June 30 is also available, free of charge, through janus.com/proxyvoting and from the SEC's website at http://www.sec.gov.

Quarterly Portfolio Holdings

The Portfolio files its complete portfolio holdings (schedule of investments) with the SEC for the first and third quarters of each fiscal year on Form N-Q within 60 days of the end of such fiscal quarter. The Portfolio's Form N-Q: (i) is available on the SEC's website at http://www.sec.gov; (ii) may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. (information on the Public Reference Room may be obtained by calling 1-800-SEC-0330); and (iii) is available without charge, upon request, by calling Janus at 1-800-525-0020 (toll free).

APPROVAL OF ADVISORY AND SUB-ADVISORY AGREEMENTS WITH JANUS CAPITAL AND JANUS CAPITAL AFFILIATES DURING THE PERIOD

On September 15, 2016, Janus Capital Group Inc. ("Janus") advised the Trustees of Janus Investment Fund (the "Trust"), each of whom serves as an "independent" Trustee (the "Board" or the "Trustees") of its intent to seek a strategic combination of its advisory business with Henderson Group plc ("Henderson"). The Board met with the Chief Executive Officer of Janus, who outlined the proposed combination and the potential benefits to Janus Capital Management LLC ("Janus Capital") and each Fund of the Trust (each, a "Fund" and collectively, the "Funds"). Subsequent to the September 15, 2016 meeting, the Trustees identified a list of basic principles, which they believed should serve as the foundation for their review of the organizational, operational and strategic issues involved with any potential change in control of Janus Capital, the investment adviser to the Funds. These basic principles were communicated to Janus Capital on September 27, 2016, and were intended to be shared with Henderson. On October 3, 2016, Janus announced that it had entered into a definitive Agreement and Plan of Merger with Henderson pursuant to which Janus and Henderson agreed to effect an all-stock merger of equals strategic combination of their respective businesses, with Janus Capital surviving the merger as a direct wholly-owned subsidiary of Henderson (the "Transaction"). The Board was advised that, subject to certain conditions, the Transaction is currently expected to close during the second quarter of 2017.

As part of its due diligence, the Board developed an initial list of questions related to the proposed transaction, which was provided to Janus Capital on October 6, 2016. At a special Board meeting held on October 19, 2016, the Board considered Janus Capital's response to the initial information request and met with the management of Janus to discuss the impact of the Transaction on the nature, extent and quality of services Janus Capital is expected to provide to the Janus Funds following the Transaction, addressing, among other matters, the personnel expected to provide such services, and the resources available to do so. After its October 19, 2016 meeting, the Board developed a supplemental request for additional information, which was provided to Janus Capital on October 26, 2016. At another special Board meeting held on November 7-8, 2016, the Board considered Janus Capital's response to the supplemental information request and again met with the management of Janus and Henderson to discuss the impact of the Transaction on the nature, extent and quality of services Janus Capital is expected to provide to the Janus Funds following the Transaction, and also met with various officers of the Funds and of Janus Capital including various Fund portfolio managers. After its November 7-8, 2016 meeting, the Board developed a second supplemental request for additional information, which was provided to Janus Capital on November 21, 2016. On December 7-8, 2016, the Board met to consider Janus Capital's response to the second supplemental information request and to also consider the proposed new investment advisory agreements between the Trust, on behalf of each Fund, and Janus Capital (each, a "New Advisory Agreement" and collectively, the "New Advisory Agreements") and the new sub-advisory agreements between Janus Capital and each of the Funds that utilize INTECH Investment Management LLC ("INTECH") or Perkins Investment Management LLC ("Perkins") as sub-advisers (each, a "New Sub-Advisory Agreement" and collectively, the "New Sub-Advisory Agreements") to take effect immediately after the Transaction or shareholder approval, whichever is later. During each of these meetings, the Board sought additional and clarifying information as it deemed necessary or appropriate. Throughout the process, the Board had the assistance of its independent legal counsel, who advised them on, among other things, its duties and obligations.

In connection with the Board's review, Janus Capital provided, and the Board obtained, substantial information regarding the following matters: the management, financial position and business of Henderson; the history of Henderson's business and operations; the investment performance of the investment companies advised by Henderson; the proposed structure, operations and investment processes of the combined investment management organization after the Transaction and the strategy for operating and growing the business following the Transaction; the future plans of Janus and Henderson with respect to the Funds and any proposed changes to the operations or structure of the Funds; and the future plans of Janus and Henderson with respect to the provision of services to the Funds, and the entities providing such services, including those affiliated with Janus. The Board also received information regarding the terms of the Transaction, anticipated management of the combined organization, the resources that each of Janus and Henderson bring to the combined organization and the process being followed by Janus and Henderson to integrate their organizations. The Board also received information regarding the impact of the Transaction on each of INTECH and Perkins.

In connection with the Board's approval of New Advisory Agreements and New Sub-Advisory Agreements at its December 8, 2016 meeting, the Board also continued its on-going annual process to determine whether to continue the existing investment advisory agreements between Janus Capital and the Trust on behalf of each Fund (each, a "Current Advisory Agreement" and collectively, the "Current Advisory Agreements") and the existing sub-advisory agreements between Janus Capital and each of the Funds that utilize INTECH or Perkins as sub-advisers (each, a "Current Sub-Advisory Agreement" and collectively, the "Current Sub-Advisory Agreements"). In this regard, the Board received and reviewed information provided by Janus and the respective Sub-Advisers in response to requests of the Board and its independent legal counsel. The Board also received and reviewed information and analysis provided by, and in response to requests of, its independent fee consultant. The Board noted that as part of this annual process, the Board had considered and was in the process of considering, numerous factors, including the nature and quality of services provided by Janus Capital and each Sub-Adviser, as applicable; investment performance, on an absolute basis and relative to appropriate peer groups and one or a combination of market indices; investment management fees, expense ratios and asset sizes of the Funds and peer groups; investment management fees charged to comparable investment companies, separate accounts and non-fund clients; Janus Capital's profitability from managing the Funds; fall-out benefits to Janus Capital from its relationship to the Funds, including revenues derived from services provided to the Funds by affiliates of Janus Capital; and the potential benefits to Janus Capital, the Funds of receiving research services from broker/dealer firms in connection with the allocation of portfolio transactions to such firms.

In determining whether to approve the New Advisory Agreement for each Fund and the New Sub-Advisory Agreement for Funds managed by INTECH or Perkins in connection with the Transaction, and whether to recommend approval to Fund shareholders, the Board received information and made inquiries into all matters as it deemed appropriate. The Board reviewed and analyzed various factors it deemed relevant, including the following factors, among others, none of which by itself was considered dispositive:

- The terms of the New Advisory Agreements are substantially similar to the corresponding Current Advisory Agreements, and the contractual fee rate will not change. In this regard, see the discussion of the Board's considerations with respect to its most recent approval of the Current Advisory Agreements prior to December 8, 2016, as disclosed in each Fund's most recent prior annual or semi-annual shareholder report, as applicable.
- The terms of the New Sub-Advisory Agreements are substantially similar to the corresponding Current Sub-Advisory Agreements, and the contractual fee rate will not change. In this regard, see the discussion of the Board's considerations with respect to its most recent approval of the Current Sub-Advisory Agreements prior to December 8, 2016, as disclosed in each Fund's most recent prior annual or semi-annual shareholder report, as applicable.
- Janus Capital's plans for the operation of the Funds, including its plans for the continued provision of all services currently provided to the Funds by Janus Capital and its affiliates, including, among others, investment advisory services, portfolio trading services, and Fund administrative and accounting services, and the personnel and resources proposed to support the provision of such services.
- The estimated profitability to Janus Capital from managing the Funds after the Transaction, including potential economies of scale and fall-out benefits to Janus Capital from its relationship to the Funds, including revenues derived from services provided to the Funds by affiliates of Janus Capital, and the potential benefits to Janus Capital, and the Funds of receiving research services from broker/dealer firms in connection with the allocation of portfolio transactions to such firms.

In connection with its deliberations, the Board received assurances from Janus, on behalf of itself and its affiliates (collectively, "Janus") including the following:

- Janus has provided to the Board such information as it believes is reasonably necessary to evaluate the New Advisory Agreements and New Sub-Advisory Agreements.
- Janus is committed to the continuance, without interruption, of services to the Funds of at least the type and quality currently provided by Janus Capital and its affiliates, or superior thereto.
- The Transaction is not expected to affect negatively the nature, extent or quality of the investment advisory services provided by Janus Capital to the Funds following the Transaction, and the investment advisory services are expected to be at least comparable to the services being provided under the Current Advisory Agreements and Current Sub-Advisory Agreements. In this regard, the Board noted specific representations that Janus does not intend for the nature, extent or quality of investment advisory and other services to be provided to the Funds following the Transaction to change, and the extent of such services were expected to increase based on the combined resources of the combined investment management organization after the Transaction, and should the nature, extent or quality of such services decline, Janus would commit the resources needed to return such services to pre-Transaction levels.
- The Funds' current operations were expected to remain largely unchanged, except for certain fund reorganizations which will be separately considered by the Board, and such other changes as were or will be presented to the Board.
- The Transaction is not expected to result in any changes to the portfolio managers providing services to the Funds.
- After the Transaction, the distribution and marketing services provided to the Janus Funds were expected to be improved or enhanced based on the combined resources of Janus and Henderson. In this regard, Janus Capital advised the Board that after the Transaction, the extent of distribution and marketing services provided to the Janus Funds are expected to increase based on the combined resources of Janus and Henderson. This is due primarily to the anticipated increase of sales related resources and expanded global presence of the combined Janus Henderson organization, which is expected to enhance visibility and brand recognition of the Janus Henderson Funds.
- The intent of Janus Capital to take the necessary and appropriate steps to retain and attract key investment advisory personnel.
- The intent of Janus to take the necessary and appropriate steps to retain and attract key compliance, financial, fund accounting and administrative personnel supporting the management and oversight of the Funds.
- Janus is not aware of any express or implied term, condition, arrangement or understanding that would impose in its best judgement an "unfair burden" on any Fund as a result of the Transaction, as defined in Section 15(f) of the 1940 Act, and that Janus will take no action that would have the effect of imposing such an "unfair burden" on any Fund in connection with the Transaction.

Janus assured the Board that it intended to comply with Section 15(f) of the Investment Company Act of 1940, as amended. Section 15(f) provides a non-exclusive safe harbor for an investment adviser to an investment company or any of its affiliated persons to receive any amount or benefit in connection with a change in control of the investment adviser so long as two conditions are met. First, for a period of three years after the transaction, at least 75% of the board members of the investment company must not be interested persons of such investment adviser (as defined under the 1940 Act). The composition of the Board is in compliance with this provision of Section 15(f). In addition, after careful review and consideration, the Board determined that it would be in the best interests of the Funds to add to the Board an individual who currently acts as a non-interested board member of the Henderson Trust. The Board believes that this change in the Board composition will provide perspective and insight relating to experience working with the Henderson organization. The Board's Nominating and Governance Committee considered a number of candidates and recommended that the Board nominate one proposed new trustee from those candidates who currently act as non-interested board members of the Henderson Trust. The Board approved that trustee nominee to serve on the Board, subject to election by the shareholders of the Funds and contingent on the closing of the Transaction. If the new trustee is elected and serves on the Board, the Board composition would continue to satisfy the provisions of Section 15(f).

To meet the second condition of Section 15(f), an "unfair burden" must not be imposed upon the investment company as a result of such transaction or any express or implied terms, conditions or understandings applicable thereto. The term "unfair burden" is defined in Section 15(f) to include any arrangement during the two-year period after the transaction, whereby the investment adviser, or any interested person of such adviser, receives or is entitled to receive any compensation, directly or indirectly, from the investment company or its shareholders (other than fees for bona fide investment advisory or other services) or from any person in connection with the purchase or sale of securities or other property to, from or on behalf of the investment company (other than bona fide ordinary compensation as principal underwriter for such investment company).

Janus represented that it does not believe that an "unfair burden" will be placed on the Funds as a result of the Transaction. In furtherance thereof, Janus has undertaken to pay the costs of preparing and distributing proxy materials to, and of holding the meetings of, the Funds' shareholders (the "Meetings"), as well as other fees and expenses in connection with the Transaction, including the reasonable fees and expenses of legal counsel and consultants to the Funds and the Trustees. In addition, Janus has agreed, for a period of two years following the closing of the Transaction, (i) not to request any increases to advisory fees for the Funds, other than those proposed to and approved by the Board prior to the close of the Transaction, and (ii) to continue to use the current process by which expense caps are set annually for the Funds.

As a result of its review and consideration of the New Investment Advisory Agreements and New Sub-Advisory Agreements in connection with the Transaction, at a meeting on December 8, 2016, the Board voted unanimously to approve a New Investment Advisory Agreement for each Fund and a New Sub-Advisory Agreement for each Fund managed by INTECH or Perkins, and to recommend such agreements to the Funds' shareholders for their approval.

Approval of Interim Advisory and Sub-Advisory Agreements with Janus Capital and Janus Capital Affiliates during the Period

In the event shareholders of a Fund do not approve such Fund's New Advisory Agreement and/or New Sub-Advisory Agreement at the Meetings prior to the closing of the Transaction, Janus Capital proposed that an interim investment advisory agreement between Janus Capital and such Fund (each, an "Interim Advisory Agreement" and collectively, the "Interim Advisory Agreements") and an interim sub-advisory agreement between Janus Capital and the applicable Sub-Adviser (each, an "Interim Sub-Advisory Agreement" and collectively, the "Interim Sub-Advisory Agreements") take effect upon the closing of the Transaction. At the December 8, 2016 meeting, the Board, all of whom are Independent Trustees, unanimously approved an Interim Advisory Agreement for each Fund and an Interim Sub-Advisory Agreement for each applicable Fund in order to assure continuity of investment advisory services to the Funds and sub-advisory services to the sub-advised Funds after the Transaction. The terms of each Interim Advisory Agreement are substantially identical to those of the applicable Current Advisory Agreement and New Advisory Agreement, except for the term and escrow provisions described below. Similarly, the terms of each Interim Sub-Advisory Agreement are substantially identical to those of the Current Sub-Advisory Agreements and New Sub-Advisory Agreements, except for the term and escrow provisions described below. The Interim Advisory Agreement and Interim Sub-Advisory Agreement will continue in effect for a term ending on the earlier of 150 days from the closing of the Transaction (the "150-day period") or when shareholders of the Fund approve the New Advisory Agreement and/or New Sub-Advisory Agreement. Pursuant to Rule 15a-4 under the 1940 Act, compensation earned by Janus Capital under an Interim Advisory Agreement and compensation earned by a Sub-Adviser under an Interim Sub-Advisory Agreement will be held in an interest-bearing escrow account. If shareholders of a Fund approve the New Advisory Agreement prior to the end of the 150-day period, the amount held in the escrow account under the Interim Advisory Agreement will be paid to Janus Capital. If shareholders of a Fund approve the New Advisory Agreement and New Sub-Advisory Agreement prior to the end of the 150-day period, the amount held in the escrow account under the Interim Sub-Advisory Agreement will be paid to the Sub-Adviser. If shareholders of a Fund do not approve the New Advisory Agreement prior to the end of the 150-day period, the Board will take such action as it deems to be in the best interests of the Fund, and Janus Capital will be paid the lesser of its costs incurred in performing its services under the Interim Advisory Agreement or the total amount in the escrow account, plus interest earned. If shareholders of a Fund do not approve the New Advisory Agreement and/or New Sub-Advisory Agreement prior to the end of the 150-day period, the Board will take such action as it deems to be in the best interests of the Fund, and the Sub-Adviser will be paid the lesser of its costs incurred in performing its services under the Interim Sub-Advisory Agreement or the total amount in the escrow account, plus interest earned.

Approval of an Amended and Restated Investment Advisory Agreement for Janus Portfolio

Janus Capital met with the Trustees on December 7-8, 2016, to discuss the approval of an amended and restated investment advisory agreement (the "Amended Advisory Agreement") between Janus Capital and the Trust on behalf of

Janus Portfolio (for the purposes of this section, the "Fund" refers to Janus Portfolio) and other matters related to the proposed changes to the Fund's name, principal investment strategies, and portfolio management team (the "Realignment"). At the meeting, the Trustees also discussed the Amended Advisory Agreement and other matters related to the Realignment with their independent counsel in executive session. During the course of this meeting, the Trustees requested and considered such information as they deemed relevant to their deliberations. In addition, at prior meetings and during the course of this meeting the Board also considered the proposal to merge the Janus Fund, a series of Janus Investment Fund, into the Janus Research Fund, another series of Janus Investment Fund, and undertook a comprehensive process to evaluate the impact of the Transaction on the nature, quality and extent of services expected to be provided by Janus Capital to the Fund, including after the completion of the Transaction. For a fuller discussion of the Board's consideration of the approval of a new investment advisory agreement for the Fund in connection with the Transaction, see "Approval of Advisory and Sub-Advisory Agreements with Janus and Janus Affiliates during the Period" above.

At a meeting of the Board of Trustees held on December 8, 2016, the Trustees approved the Amended Advisory Agreement and other matters related to the Realignment. In determining whether to approve the Amended Advisory Agreement, and whether to recommend approval to Fund shareholders, the Board received information and made inquiries into all matters as it deemed appropriate. The Board reviewed and analyzed various factors it deemed relevant, including the following factors, among others, none of which by itself was considered dispositive:

- the terms of the Amended Advisory Agreement are substantially the same as the Current Advisory Agreement, except for the change to the advisory fee rate based on the amount of such outperformance or underperformance (the "Full Performance Rate") and cumulative investment record of the Fund's benchmark index (the "Performance Fee Benchmark");
- the estimated impact of the change to the Full Performance Rate and Performance Fee Benchmark on the amount of advisory fees to be paid by the Fund, including consideration of comparative pro forma data showing the advisory fees payable if the Amended Advisory Agreement had been in place in prior years;
- the Fund's investment team will be able to more efficiently manage the Fund's portfolio, assuming the merger of the Janus Fund into Janus Research Fund is implemented, which may also provide benefits from opportunities to aggregate trading across funds that have similar investment strategies;
- Janus Capital's belief that the Fund shareholders may benefit from the Realignment, as a result of the research-driven investment process to be implemented, which includes lower historical transaction costs and potential performance gains from securities lending as compared to the Fund's current investment approach;
- the Realignment was being proposed as part of Janus Capital's efforts to streamline its product line;
- Janus Capital's belief that the Fund would benefit from Janus Capital's operational efficiencies resulting from the merger of the Janus Fund into the Janus Research Fund and the Realignment, including a potentially more efficient and effective investment management approach providing the potential for a growing fund and improved performance after the Realignment;
- the costs of seeking approval of the Amended Advisory Agreement will be borne by Janus Capital;
- the costs incurred to reposition the Fund's portfolio in connection with the Realignment;
- the potential tax consequences of any repositioning of the Fund's portfolio as a result of the Merger; and any potential benefits of Janus Capital and its affiliates as a result of the Realignment.

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, 2016. 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, swaptions, 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. 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
Shareholder Meeting (unaudited)

A Special Meeting of Shareholders of the Portfolio was held on June 14, 2016. At the meeting, the following matter was voted on and approved by the Shareholders. Each whole or fractional vote reported represents one whole or fractional dollar of net asset value held on the record date for the meeting. The results of the Special Meeting of Shareholders are noted below.

Proposal
To elect eight Trustees, each of whom is considered "independent."

		Number of Votes ($)		
Trustees	*Record Date Votes ($)*	*Affirmative*	*Withheld*	*Total*
Alan A. Brown	7,477,409,597.098	6,576,576,690.332	262,206,698.204	6,838,783,388.536
William D. Cvengros	7,477,409,597.098	6,565,725,463.575	273,057,924.961	6,838,783,388.536
Raudline Etienne	7,477,409,597.098	6,560,661,215.330	278,122,173.206	6,838,783,388.536
William F. McCalpin	7,477,409,597.098	6,572,385,644.563	266,397,743.973	6,838,783,388.536
Gary A. Poliner	7,477,409,597.098	6,576,207,507.849	262,575,880.687	6,838,783,388.536
James T. Rothe	7,477,409,597.098	6,559,365,918.898	279,417,469.638	6,838,783,388.536
William D. Stewart	7,477,409,597.098	6,558,013,404.302	280,769,984.235	6,838,783,388.536
Linda S. Wolf	7,477,409,597.098	6,565,131,501.186	273,651,887.350	6,838,783,388.536

	Votes (%)			Percentage Voted (%)		
Trustees	*Affirmative*	*Withheld*	*Total*	*Affirmative*	*Withheld*	*Total*
Alan A. Brown	87.953	3.507	91.459	96.166	3.834	100.000
William D. Cvengros	87.807	3.652	91.459	96.007	3.993	100.000
Raudline Etienne	87.740	3.719	91.459	95.933	4.067	100.000
William F. McCalpin	87.897	3.563	91.459	96.105	3.895	100.000
Gary A. Poliner	87.948	3.512	91.459	96.160	3.840	100.000
James T. Rothe	87.722	3.737	91.459	95.914	4.086	100.000
William D. Stewart	87.704	3.755	91.459	95.894	4.106	100.000
Linda S. Wolf	87.800	3.660	91.459	95.999	4.001	100.000

Janus Aspen Forty Portfolio
Designation Requirements (unaudited)

For federal income tax purposes, the Portfolio designated the following for the year ended December 31, 2016:

Capital Gain Distributions	$95,750,666
Dividends Received Deduction Percentage	80%

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. Except as otherwise disclosed, Portfolio officers receive no compensation from the Portfolio, except for the Portfolio's Chief Compliance Officer, as authorized by the Trustees.

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
Independent Trustees					
William F. McCalpin 151 Detroit Street Denver, CO 80206 DOB: 1957	Chairman Trustee	1/08-Present 6/02-Present	Managing Partner, Impact Investments, Athena Capital Advisors LLC (independent registered investment advisor) (since 2016) and 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	Director of Mutual Fund Directors Forum (a non-profit organization serving independent directors of U.S. mutual funds), 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
Independent Trustees					
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 WTTW (PBS affiliate) (since 2003). Formerly, Director of MotiveQuest LLC (strategic social market research company) (2003-2016); Director of Nuveen Global Investors LLC (2007-2011); Director of Communities in Schools (2004-2010); and Director of Mutual Fund Education Alliance (until 2010).

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
Independent Trustees					
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
Independent Trustees					
Raudline Etienne 151 Detroit Street Denver, CO 80206 DOB: 1965	Trustee	6/16-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).	58	Director of Brightwood Capital Advisors, LLC (since 2014).
Gary A. Poliner 151 Detroit Street Denver, CO 80206 DOB: 1953	Trustee	6/16-Present	Retired. Formerly, President (2010-2013) and Executive Vice President and Chief Risk Officer (2009-2012) of Northwestern Mutual Life Insurance Company.	58	Director of MGIC Investment Corporation (private mortgage insurance) (since 2013) and West Bend Mutual Insurance Company (property/casualty insurance) (since 2013). Formerly, Trustee of Northwestern Mutual Life Insurance Company (2010-2013); Chairman and Director of Northwestern Mutual Series Fund, Inc. (2010-2012); and Director of Frank Russell Company (global asset management firm) (2008-2013).

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
Independent Trustees					
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	6/84-Present	Retired. Formerly, President and founder of HPS Products and Corporate Vice President of MKS Instruments, Boulder, CO (a provider of advanced process control systems for the semiconductor industry) (1976-2012).	58	None

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					
Linda S. Wolf 151 Detroit Street Denver, CO 80206 DOB: 1947	Trustee	11/05-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).

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).
Nick Schommer 151 Detroit Street Denver, CO 80206 DOB: 1978	Executive Vice President and Co-Portfolio Manager Janus Aspen Forty Portfolio	1/16-Present	Portfolio Manager for other Janus accounts and Analyst for Janus Capital.
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).

* 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.

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
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.
Kathryn L. Santoro 151 Detroit Street Denver, CO 80206 DOB: 1974	Vice President, Chief Legal Counsel, and Secretary	12/16-Present	Vice President of Janus Capital and Janus Services LLC (since 2016). Formerly, Vice President and Associate Counsel of Curian Capital, LLC and Curian Clearing LLC (2013-2016); and General Counsel and Secretary (2011-2012) and Vice President (2009-2012) of Old Mutual Capital, Inc.

* Officers are elected at least annually by the Trustees for a one-year term and may also be elected from time to time by the Trustees for an interim period.

Notes

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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Funds distributed by Janus Distributors LLC

Investment products offered are: NOT FDIC-INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

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PIMCO

Annual Report

December 31, 2016

PIMCO Variable Insurance Trust

PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

Share Classes

- Institutional
- Administrative
- Advisor

A company of Allianz

Table of Contents

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, 2016. 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.

In the first quarter of the reporting period, global growth concerns in the midst of uncertainty from China, falling commodity prices and questions about the efficacy of central bank policies sparked a sell-off in risk assets. Despite elevated volatility in financial markets, the fundamental backdrop remained mostly intact and supportive central banks helped reignite risk appetite in part with calming rhetoric and actions. The European Central Bank ("ECB") announced additional easing measures in Europe, with a focus on credit expansion. Also, concerns about global influences and financial conditions kept the Federal Reserve ("Fed") on hold after its December 2015 interest rate hike, suggesting a more dovish tilt with a tolerance for overshooting their inflation target.

In June 2016, the unexpected outcome of the U.K. "Brexit" referendum dominated headlines and market movements. Volatility rose as a result and sovereign yields rallied significantly, while risk assets generally underperformed. Steadier commodity prices and fiscal stimulus in China helped bolster market sentiment, even as central banks remained on hold ahead of the Brexit referendum. Softer-than-expected employment data in the U.S. pushed market expectations for the next Fed interest rate hike further out into the future, with the Fed continuing to hold rates steady through the end of November.

Leading up to the November 8th U.S. presidential election, investors generally shook off the surprising result of the Brexit referendum, along with a host of political developments including new leadership in the U.K. and Brazil, and a coup attempt in Turkey. In this environment, volatility generally remained low and risk assets rallied. Central banks featured prominently in the headlines as monetary policy concerns (in particular, the longevity of central bank support) lingered beneath the seemingly benign market environment. The Bank of Japan's "comprehensive review," inaction by the ECB, and the Fed's solidifying path towards a potential interest rate increase in December 2016 all contributed to sovereign yields generally rising during this period. Still, equities moved higher (U.S. stock indices set record highs), credit spreads tightened, and emerging market assets continued to gain.

In the wake of the not expected result of the U.S. election, volatility fell, equities rallied, credit spreads continued to tighten and the U.S. dollar strengthened. In contrast, interest rates rose dramatically as most markets focused on the pro-growth and inflationary potential of fiscal expansion, tax cuts, and deregulation. Part of the rise in interest rates was also due to a sharp increase in inflation expectations. Despite the generally positive risk sentiment towards the end of the reporting period, emerging markets weakened as protectionist rhetoric from the incoming administration weighed on the asset class.

Finally, the ECB at its December 8th meeting opted to leave its main policy rate unchanged and announced an expansion of its Quantitative Easing program to exceed $2.4 trillion by the end of 2017. And on December 14th, the Fed raised its key lending rate, the Federal Funds Rate, by 0.25% to a range of 0.50%-0.75%, representing their second rate increase in ten years.

Highlights of the financial markets during the twelve-month fiscal reporting period include:

- U.S. Treasuries, as represented by the Bloomberg Barclays U.S. Treasury Index, returned 1.04% for the reporting period. Yields rose across the U.S. Treasury yield curve in reaction to the Fed's interest rate increases, rising concern over inflation and strong investor risk appetite. The benchmark ten-year U.S. Treasury note yielded 2.45% at the end of the reporting period, up from 2.27% on December 31, 2015. The Bloomberg Barclays U.S. Aggregate Index, a widely used index of U.S. investment-grade bonds, returned 2.65% for the reporting period.
- U.S. Treasury Inflation-Protected Securities ("TIPS"), as represented by the Bloomberg Barclays U.S. TIPS Index, returned 4.68% over the reporting period. U.S. TIPS outpaced nominal U.S. Treasuries over the reporting period as inflation expectations moved higher alongside oil prices and in response to the surprise U.S. presidential election result.

- Diversified commodities, as represented by the Bloomberg Commodity Index Total Return, returned 11.77% over the reporting period. Prices on broad commodities rebounded, led higher primarily by energy and metal prices. Crude oil prices rose markedly after reaching multi-year lows in January 2016, driven higher by continued rebalancing of supply and demand as well as news of a potential OPEC production cut. Within precious metals, gold prices were the beneficiary of strong safe-haven demand over the first half of the reporting period before losing ground to end the period due to rising U.S. interest rates and a stronger U.S. dollar. Base metal prices posted strong gains, most notably toward the end of the period as the U.S. presidential election result fueled speculation of rising demand stemming from increased U.S. infrastructure spending.
- Agency mortgage-backed securities ("MBS"), as represented by the Bloomberg Barclays U.S. MBS Fixed Rate Index, returned 1.67% over the reporting period and underperformed like-duration U.S. Treasuries. Non-Agency MBS prices were higher and spreads tightened, as the sector benefited from favorable technicals and continued gradual improvement in U.S. housing fundamentals. Positive representation and warranty settlement developments also benefited the sector.
- U.S. investment grade credit, as represented by the Bloomberg Barclays U.S. Credit Index, returned 5.63% over the reporting period, as continued monetary policy support from global central banks and strong supply/demand technicals supported spread tightening. Developed market global high yield bonds, as measured by the BofA Merrill Lynch Developed Markets High Yield Constrained Index (USD Hedged), returned 13.65% over the reporting period. Performance was driven by the recovery in the commodity sectors, as well as triple-C outperformance alongside the broad risk rally. Meanwhile, high yield bond mutual funds saw strong inflows, as investors continued to seek higher yielding instruments.
- Emerging market ("EM") external debt, as represented by the JPMorgan Emerging Markets Bond Index (EMBI) Global, returned 10.19% over the reporting period. EM local bonds, as represented by the JPMorgan Government Bond Index-Emerging Markets Global Diversified Index (Unhedged), returned 9.94% over the reporting period. Improving domestic economic fundamentals and strong inflows into the asset class served as broad tailwinds for EM external and local currency debt performance. Elevated uncertainty in the wake of the U.S. election, particularly surrounding global trade and monetary policy, weighed on performance at the end of the reporting period.
- U.S. equities, as represented by the S&P 500 Index, returned 11.96% over the reporting period. EM equities, as represented by the MSCI Emerging Markets Index (Net Dividends in USD), returned 11.19% over the same period. Developed market equities outside the U.S., as represented by the MSCI EAFE Net Dividend Index (USD Unhedged), returned 1.00% over the reporting period.

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 and investment solution needs.

Sincerely,

Brent R. Harris

Brent R. Harris
Chairman of the Board
PIMCO Variable Insurance Trust

February 17, 2017

Past performance is no guarantee of future results. Unless otherwise noted, index returns reflect the reinvestment of income dividends and capital gains, if any, but do not reflect fees, brokerage commissions or other expenses of investing. It is not possible to invest directly in an unmanaged index.

Important Information About the PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

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 and other instruments held by the Portfolio are likely to decrease in value. A wide variety 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 unpredictable, and there is no guarantee that Fund management will anticipate such movement accurately. The Portfolio may lose money as a result of movements in interest rates.

As of the date of this report, interest rates in the U.S. and many parts of the world, including certain European countries, 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 in October 2014 and has begun, and may continue, to raise interest rates. To the extent the Fed continues to raise interest rates, there is a risk that rates across the financial system may rise. Further, while bond markets have steadily grown over the past three decades, dealer inventories of corporate bonds are near historic lows in relation to market size. 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. Changes in regulation relating to a mutual fund's use of derivatives and related instruments could potentially limit or impact the Portfolio's ability to invest in derivatives, limit the Portfolio's ability to employ certain strategies that use derivatives and/or adversely affect the value or performance of derivatives and the Portfolio. 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 markets for lower-rated bonds. 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-related and asset-backed securities represent interests in "pools" of mortgages or other assets such as consumer loans or receivables. As a general matter, mortgage-related 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-related 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 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)	02/16/99	04/10/00	—	02/16/99	04/30/14	Non-diversified

An investment in the Portfolio is not a bank deposit and is not guaranteed or insured by the Federal Deposit Insurance Corporation ("FDIC") or any other government agency. It is possible to lose money on investments in the Portfolio.

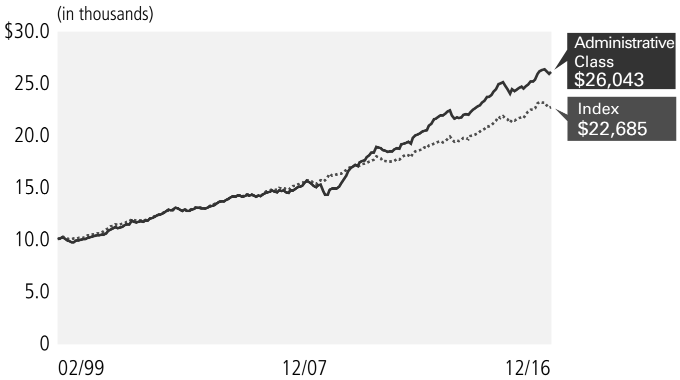
The Trustees are responsible generally for overseeing the management of the Trust. The Trustees authorize the Trust to enter into service agreements with the Adviser, the Distributor, the Administrator and other service providers in order to provide, and in some cases authorize service providers to procure 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, 2016



$10,000 invested at the end of the month when the Portfolio's Administrative Class commenced operations.

Geographic Breakdown as of 12/31/2016†§

United States‡	26.9%
Japan	21.9%
Denmark	16.3%
United Kingdom	7.8%
Italy	7.3%
Other	19.8%

† % of Investments, at value.

§ Geographic Breakdown and % of investments exclude securities sold short and financial derivative instruments, if any.

‡ Includes Central Funds Used for Cash Management Purposes.

Average Annual Total Return for the period ended December 31, 2016

		1 Year	5 Years	10 Years	Inception§
	PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) Institutional Class	6.63%	5.90%	6.15%	5.94%
—	PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) Administrative Class	6.48%	5.75%	6.00%	5.49%
	PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) Advisor Class	6.37%	—	—	5.15%
·····	Bloomberg Barclays Global Aggregate ex-USD (USD Hedged) Index±	4.90%	4.50%	4.41%	4.70%◆

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.

± Bloomberg Barclays Global Aggregate ex-USD (USD Hedged) Index provides a broad-based measure of the global investment-grade fixed income markets. The major components of this index are the Pan-European Aggregate and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds and Canadian Government securities.

It is not possible to invest directly in an unmanaged index.

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. Differences in the Portfolio's performance versus the index and related attribution information with respect to particular categories of securities or individual positions may be attributable, in part, to differences in the pricing methodologies used by the Portfolio and the index. For performance current to the most recent month-end, visit http://pvit.pimco-funds.com.

The Portfolio's total annual operating expense ratio as stated in the Portfolio's current prospectus, as supplemented, is 0.75% for Institutional Class shares, 0.90% for Administrative Class shares, and 1.00% for Advisor Class shares. Details regarding any Portfolio's operating expenses can be found in the Portfolio's prospectus.

Investment Objective and Strategy Overview

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 total assets. Portfolio strategies may change from time to time. Please refer to the Portfolio's current prospectus for more information regarding the Portfolio's strategy.

Portfolio Insights

The following impacted performance during the reporting period:

» Holdings of non-Agency mortgage-backed securities contributed to relative performance, as total returns were positive.

» Exposure to corporate financial spread duration contributed to relative performance, as spreads widened.

» Long U.S. dollar positions against the British pound for some of the reporting period contributed to relative performance, as the currency depreciated versus the U.S. dollar during that period.

» Overweight to intermediate-term U.S. yields detracted from relative performance, as intermediate rates in the U.S. rose.

» Long U.S. dollar positions against the Swiss franc for some of the reporting period detracted from relative performance, as the franc appreciated versus the U.S. dollar during that period.

» An underweight to Japanese duration detracted from relative performance, as rates fell.

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, 2016 to December 31, 2016 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 row 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 (07/01/16)	Ending Account Value (12/31/16)	Expenses Paid During Period*	Beginning Account Value (07/01/16)	Ending Account Value (12/31/16)	Expenses Paid During Period*	Net Annualized Expense Ratio**
Institutional Class	$ 1,000.00	$ 1,008.90	$ 4.08	$ 1,000.00	$ 1,021.34	$ 4.11	0.80%
Administrative Class	1,000.00	1,008.10	4.85	1,000.00	1,020.58	4.88	0.95
Advisor Class	1,000.00	1,007.60	5.36	1,000.00	1,020.07	5.39	1.05

* 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 186/366 (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	Investment Operations: Net Investment Income[(a)]	Investment Operations: Net Realized/ Unrealized Gain (Loss)	Investment Operations: Total	Less Distributions[(b)]: From Net Investment Income	Less Distributions[(b)]: From Net Realized Capital Gain	Total
Institutional Class							
12/31/2016	$ 10.54	$ 0.16	$ 0.54	$ 0.70	$ (0.18)	$ (0.04)	$ (0.22)
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)
Administrative Class							
12/31/2016	10.54	0.14	0.54	0.68	(0.16)	(0.04)	(0.20)
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)
Advisor Class							
12/31/2016	10.54	0.13	0.54	0.67	(0.15)	(0.04)	(0.19)
12/31/2015	10.90	0.10	(0.08)	0.02	(0.33)	(0.05)	(0.38)
4/30//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) The tax characterization of distributions is determined in accordance with federal income tax regulations. See Note 2 in the Notes to Financial Statements for more information.

Net Asset Value End of Year or Period	Total Return	Ratios/Supplemental Data: Net Assets End of Year or Period (000s)	Ratios to Average Net Assets: Expenses	Expenses Excluding Interest Expense	Net Investment Income	Portfolio Turnover Rate
$ 11.02	6.63%	$ 5,045	0.78%	0.75%	1.46%	330%
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
11.02	6.48	64,537	0.93	0.90	1.31	330
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
11.02	6.37	341,567	1.03	1.00	1.21	330
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, 2016
Assets:	
Investments, at value	
Investments in securities*	$ 460,981
Investments in Affiliates	3,588
Financial Derivative Instruments	
Exchange-traded or centrally cleared	967
Over the counter	21,506
Cash	1
Deposits with counterparty	7,675
Foreign currency, at value	2,874
Receivable for investments sold	221,523
Receivable for investments sold on a delayed-delivery basis	76
Receivable for TBA investments sold	74,170
Receivable for Portfolio shares sold	256
Interest and/or dividends receivable	2,533
Dividends receivable from Affiliates	3
Total Assets	796,153
Liabilities:	
Borrowings & Other Financing Transactions	
Payable for reverse repurchase agreements	$ 1,302
Payable for sale-buyback transactions	17,339
Financial Derivative Instruments	
Exchange-traded or centrally cleared	584
Over the counter	10,068
Payable for investments purchased	216,004
Payable for investments in Affiliates purchased	3
Payable for investments purchased on a delayed-delivery basis	2,051
Payable for TBA investments purchased	117,570
Deposits from counterparty	19,359
Payable for Portfolio shares redeemed	356
Accrued investment advisory fees	92
Accrued supervisory and administrative fees	183
Accrued distribution fees	76
Accrued servicing fees	9
Other liabilities	8
Total Liabilities	385,004
Net Assets	$ 411,149
Net Assets Consist of:	
Paid in capital	$ 399,922
Undistributed net investment income	9,975
Accumulated undistributed net realized (loss)	(5,892)
Net unrealized appreciation	7,144
Net Assets	$ 411,149
Net Assets:	
Institutional Class	$ 5,045
Administrative Class	64,537
Advisor Class	341,567
Shares Issued and Outstanding:	
Institutional Class	458
Administrative Class	5,858
Advisor Class	31,006
Net Asset Value Per Share Outstanding:	
Institutional Class	$ 11.02
Administrative Class	11.02
Advisor Class	11.02
Cost of investments in securities	$ 483,053
Cost of investments in Affiliates	$ 3,588
Cost of foreign currency held	$ 2,887
Cost or premiums of financial derivative instruments, net	$ (3,792)
* Includes repurchase agreements of:	$ 855

Statement of Operations PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

(Amounts in thousands)	Year Ended December 31, 2016
Investment Income:	
Interest, net of foreign taxes*	$ 7,868
Dividends	1
Dividends from Investments in Affiliates	177
Total Income	8,046
Expenses:	
Investment advisory fees	897
Supervisory and administrative fees	1,795
Servicing fees - Administrative Class	102
Distribution and/or servicing fees - Advisor Class	718
Trustee fees	9
Interest expense	112
Total Expenses	3,633
Net Investment Income	4,413
Net Realized Gain (Loss):	
Investments in securities	(343)
Investments in Affiliates	(198)
Exchange-traded or centrally cleared financial derivative instruments	(258)
Over the counter financial derivative instruments	3,344
Foreign currency	(1,028)
Net Realized Gain	1,517
Net Change in Unrealized Appreciation (Depreciation):	
Investments in securities	(14,145)
Investments in Affiliates	235
Exchange-traded or centrally cleared financial derivative instruments	9,185
Over the counter financial derivative instruments	14,617
Foreign currency assets and liabilities	4,818
Net Change in Unrealized Appreciation	14,710
Net Increase in Net Assets Resulting from Operations	$ 20,640
* Foreign tax withholdings	$ 1

Statements of Changes in Net Assets PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

(Amounts in thousands)	Year Ended December 31, 2016	Year Ended December 31, 2015
Increase in Net Assets from:		
Operations:		
Net investment income	$ 4,413	$ 2,103
Net realized gain	1,517	7,926
Net change in unrealized appreciation (depreciation)	14,710	(10,314)
Net Increase (Decrease) in Net Assets Resulting from Operations	20,640	(285)
Distributions to Shareholders:		
From net investment income		
Institutional Class	(69)	(87)
Administrative Class	(958)	(2,313)
Advisor Class	(4,181)	(6,116)
From net realized capital gains		
Institutional Class	(18)	(15)
Administrative Class	(242)	(367)
Advisor Class	(1,256)	(1,083)
Total Distrisbutions[(a)]	(6,724)	(9,981)
Portfolio Share Transactions:		
Net increase resulting from Portfolio share transactions**	99,575	147,986
Total Increase in Net Assets	113,491	137,720
Net Assets:		
Beginning of year	297,658	159,938
End of year*	$ 411,149	$ 297,658
* Including undistributed net investment income of:	$ 9,975	$ 4,027

**See Note 12 in the Notes to Financial Statements.

(a) The tax characterization of distributions is determined in accordance with federal income tax regulations. See Note 2 in the Notes to Financial Statements for more information.

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
INVESTMENTS IN SECURITIES 112.1%		
AUSTRALIA 0.0%		
SOVEREIGN ISSUES 0.0%		
New South Wales Treasury Corp.		
2.750% due 11/20/2025 (f)	AUD 125	$ 104
Total Australia (Cost $129)		**104**
BELGIUM 0.2%		
CORPORATE BONDS & NOTES 0.2%		
KBC Bank NV		
8.000% due 01/25/2023	$ 800	846
Total Belgium (Cost $844)		**846**
BRAZIL 0.6%		
CORPORATE BONDS & NOTES 0.6%		
Banco Santander Brasil S.A.		
4.625% due 02/13/2017	400	401
Petrobras Global Finance BV		
3.873% due 03/17/2020	500	490
8.375% due 05/23/2021	1,300	1,404
Total Brazil (Cost $2,141)		**2,295**
CANADA 4.3%		
ASSET-BACKED SECURITIES 0.2%		
Canadian Mortgage Pools		
0.978% due 06/01/2020	CAD 244	180
1.178% due 07/01/2020	666	495
1.178% due 08/01/2020	257	191
		866
CORPORATE BONDS & NOTES 0.9%		
Bank of Nova Scotia		
1.875% due 04/26/2021	$ 1,200	1,171
Royal Bank of Canada		
2.200% due 09/23/2019	400	402
2.300% due 03/22/2021	800	795
Toronto-Dominion Bank		
1.438% due 07/02/2019	500	500
2.250% due 03/15/2021	800	795
		3,663
SOVEREIGN ISSUES 3.2%		
Canada Government International Bond		
1.500% due 12/01/2044 (f)(i)	CAD 447	418
Province of Alberta		
1.250% due 06/01/2020 (i)	1,100	815
2.350% due 06/01/2025	1,100	814
Province of British Columbia		
2.300% due 06/18/2026	200	148
Province of Ontario		
2.400% due 06/02/2026 (i)	2,700	1,997
2.600% due 06/02/2025 (i)	9,900	7,493
3.500% due 06/02/2024	600	485
6.200% due 06/02/2031	100	103
Province of Quebec		
3.000% due 09/01/2023 (i)	1,100	866
		13,139
Total Canada (Cost $18,023)		**17,668**
CAYMAN ISLANDS 0.6%		
ASSET-BACKED SECURITIES 0.6%		
ARES CLO Ltd.		
2.100% due 01/17/2024	$ 2,000	2,003
Gallatin CLO Ltd.		
2.150% due 07/15/2023	$ 121	$ 121
Symphony CLO LP		
1.976% due 01/09/2023	458	457
Total Cayman Islands (Cost $2,578)		**2,581**
DENMARK 18.4%		
CORPORATE BONDS & NOTES 18.4%		
BRFkredit A/S		
2.000% due 10/01/2047	DKK 1,300	180
2.500% due 10/01/2047	4,500	646
3.000% due 10/01/2047	1,264	186
4.000% due 01/01/2018	7,100	1,049
Nordea Kredit Realkreditaktieselskab		
2.000% due 10/01/2047	7,300	1,009
2.500% due 10/01/2037	1,731	253
3.000% due 10/01/2047	2,149	317
Nykredit Realkredit A/S		
1.000% due 04/01/2017	5,600	797
1.000% due 07/01/2017	12,000	1,711
1.000% due 10/01/2017	62,500	8,951
2.000% due 04/01/2017	54,200	7,717
2.000% due 10/01/2037	4,702	677
2.000% due 10/01/2047	8,400	1,157
2.500% due 10/01/2037	8,777	1,291
2.500% due 10/01/2047	30,928	4,419
3.000% due 10/01/2047	17,336	2,553
Realkredit Danmark A/S		
1.000% due 01/01/2017	5,900	835
1.000% due 04/01/2017	30,200	4,291
1.000% due 01/01/2018	19,100	2,745
1.000% due 04/01/2018	84,600	12,176
2.000% due 01/01/2017	22,200	3,143
2.000% due 04/01/2017	68,900	9,815
2.000% due 04/01/2018	16,200	2,360
2.000% due 10/01/2037	4,962	713
2.000% due 10/01/2047	13,200	1,817
2.500% due 10/01/2037	10,689	1,576
2.500% due 10/01/2047	15,973	2,287
3.000% due 10/01/2047	6,476	952
Total Denmark (Cost $79,067)		**75,623**
FRANCE 1.7%		
CORPORATE BONDS & NOTES 0.6%		
Credit Agricole S.A.		
1.498% due 06/12/2017	$ 400	401
8.125% due 09/19/2033	200	216
Dexia Credit Local S.A.		
1.875% due 09/15/2021	2,000	1,929
		2,546
NON-AGENCY MORTGAGE-BACKED SECURITIES 0.1%		
Infinity SoPRANo		
0.018% due 11/05/2019	EUR 212	221
SOVEREIGN ISSUES 1.0%		
France Government International Bond		
3.250% due 05/25/2045 (i)	2,000	2,904
4.000% due 10/25/2038	200	315
4.500% due 04/25/2041	600	1,023
		4,242
Total France (Cost $7,244)		**7,009**
GERMANY 0.8%		
CORPORATE BONDS & NOTES 0.8%		
Deutsche Bank AG		
4.250% due 10/14/2021	$ 1,800	1,807
Deutsche Pfandbriefbank AG		
1.625% due 08/30/2019	600	592
Landwirtschaftliche Rentenbank		
4.750% due 03/12/2019	NZD 1,200	$ 865
Total Germany (Cost $3,411)		**3,264**
GREECE 0.3%		
CORPORATE BONDS & NOTES 0.1%		
Hellenic Railways Organization S.A.		
4.028% due 03/17/2017	EUR 200	209
5.014% due 12/27/2017	300	309
		518
SOVEREIGN ISSUES 0.2%		
Republic of Greece Government International Bond		
3.800% due 08/08/2017	JPY 80,000	671
4.500% due 07/03/2017	30,000	254
		925
Total Greece (Cost $1,405)		**1,443**
GUERNSEY, CHANNEL ISLANDS 0.2%		
CORPORATE BONDS & NOTES 0.2%		
Credit Suisse Group Funding Guernsey Ltd.		
3.800% due 06/09/2023	$ 800	799
Total Guernsey, Channel Islands (Cost $798)		**799**
IRELAND 0.7%		
ASSET-BACKED SECURITIES 0.1%		
CELF Loan Partners PLC		
0.821% due 05/03/2023	GBP 374	461
CORPORATE BONDS & NOTES 0.3%		
AerCap Ireland Capital Ltd.		
2.750% due 05/15/2017	$ 1,000	1,002
Iberdrola Finance Ireland Ltd.		
5.000% due 09/11/2019	400	427
		1,429
SOVEREIGN ISSUES 0.3%		
Ireland Government International Bond		
5.400% due 03/13/2025	EUR 700	1,023
Total Ireland (Cost $3,035)		**2,913**
ITALY 6.2%		
CORPORATE BONDS & NOTES 0.7%		
Banca Carige SpA		
3.875% due 10/24/2018	EUR 1,000	1,106
Banca Monte dei Paschi di Siena SpA		
5.000% due 02/09/2056	100	110
Intesa Sanpaolo SpA		
5.710% due 01/15/2026	$ 900	859
Telecom Italia SpA		
6.375% due 06/24/2019	GBP 600	810
		2,885
NON-AGENCY MORTGAGE-BACKED SECURITIES 0.2%		
Casa D'este Finance SRL		
0.034% due 09/15/2040	EUR 88	92
Claris Finance SRL		
0.137% due 10/31/2060	273	286
Creso SRL		
0.381% due 12/30/2060	428	450
Giovecca Mortgages SRL		
0.287% due 04/23/2048	43	45
		873

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
SOVEREIGN ISSUES 5.3%			
Italy Buoni Poliennali Del Tesoro			
0.450% due 06/01/2021	EUR	2,800	$ 2,946
2.700% due 03/01/2047		1,300	1,315
2.800% due 03/01/2067		1,000	940
3.250% due 09/01/2046		1,200	1,355
4.000% due 02/01/2017		3,400	3,592
4.000% due 02/01/2037		2,700	3,502
Italy Certificati di Credito del Tesoro			
0.000% due 02/27/2017 (d)		6,800	7,162
Italy Government International Bond			
6.000% due 08/04/2028	GBP	600	911
			21,723
Total Italy (Cost $27,786)			**25,481**
JAPAN 7.0%			
CORPORATE BONDS & NOTES 0.5%			
Bank of Tokyo-Mitsubishi UFJ Ltd.			
1.700% due 03/05/2018	$	200	199
Mitsubishi UFJ Financial Group, Inc.			
2.950% due 03/01/2021		400	403
Sumitomo Mitsui Financial Group, Inc.			
2.631% due 03/09/2021		1,500	1,544
			2,146
SOVEREIGN ISSUES 6.5%			
Development Bank of Japan, Inc.			
1.625% due 09/01/2021		1,200	1,155
Japan Bank for International Cooperation			
2.000% due 11/04/2021		800	780
Japan Finance Organization for Municipalities			
2.125% due 04/13/2021		1,300	1,271
Japan Government International Bond			
0.200% due 06/20/2017	JPY	1,770,000	15,180
0.300% due 06/20/2046		620,000	4,746
0.500% due 09/20/2046		350,000	2,837
Tokyo Metropolitan Government			
2.000% due 05/17/2021	$	700	680
			26,649
Total Japan (Cost $32,555)			**28,795**
LUXEMBOURG 0.8%			
CORPORATE BONDS & NOTES 0.8%			
Commerzbank Finance & Covered Bond S.A.			
4.250% due 06/04/2018	EUR	1,650	1,838
Wind Acquisition Finance S.A.			
7.000% due 04/23/2021		1,200	1,318
Total Luxembourg (Cost $3,175)			**3,156**
MULTINATIONAL 0.2%			
CORPORATE BONDS & NOTES 0.2%			
Preferred Term Securities Ltd.			
1.393% due 06/23/2035	$	1,152	887
Total Multinational (Cost $830)			**887**
NETHERLANDS 3.0%			
ASSET-BACKED SECURITIES 0.6%			
Babson Euro CLO BV			
0.000% due 04/15/2027 (b)(d)	EUR	700	737
Cadogan Square CLO BV			
0.040% due 01/17/2023		49	51
Chapel BV			
0.049% due 07/17/2066		166	172
Highlander Euro CDO BV			
0.000% due 05/01/2023		124	130

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Jubilee CDO BV			
0.099% due 09/20/2022	EUR	95	$ 101
Laurelin BV			
0.109% due 07/15/2023		900	945
Panther CDO BV			
0.082% due 10/15/2084		72	75
Wood Street CLO BV			
0.008% due 08/27/2022		147	155
			2,366
CORPORATE BONDS & NOTES 2.4%			
Bank Nederlandse Gemeenten NV			
4.550% due 02/15/2019	CAD	1,800	1,425
Cooperatieve Rabobank UA			
8.400% due 06/29/2017 (g)	$	300	309
Enel Finance International NV			
5.125% due 10/07/2019		1,000	1,069
Fiat Chrysler Automobiles NV			
4.500% due 04/15/2020		400	409
ING Bank NV			
2.625% due 12/05/2022		3,600	3,579
4.125% due 11/21/2023		2,000	2,028
Vonovia Finance BV			
3.200% due 10/02/2017		1,000	1,009
5.000% due 10/02/2023		100	104
			9,932
Total Netherlands (Cost $12,559)			**12,298**
NORWAY 0.3%			
CORPORATE BONDS & NOTES 0.1%			
DNB Bank ASA			
2.375% due 06/02/2021		400	396
SOVEREIGN ISSUES 0.2%			
Kommunalbanken A/S			
1.377% due 03/27/2017		400	400
Norway Government International Bond			
3.750% due 05/25/2021	NOK	1,800	232
			632
Total Norway (Cost $1,065)			**1,028**
PORTUGAL 0.1%			
CORPORATE BONDS & NOTES 0.1%			
Banco Espirito Santo S.A.			
4.000% due 01/21/2019 ^	EUR	300	90
4.750% due 01/15/2018 ^		200	60
Novo Banco S.A.			
5.000% due 05/14/2019		100	73
5.000% due 05/21/2019		200	145
Total Portugal (Cost $929)			**368**
QATAR 0.2%			
CORPORATE BONDS & NOTES 0.1%			
Ras Laffan Liquefied Natural Gas Co. Ltd.			
6.750% due 09/30/2019	$	400	445
SOVEREIGN ISSUES 0.1%			
Qatar Government International Bond			
4.625% due 06/02/2046		300	301
Total Qatar (Cost $737)			**746**
SAUDI ARABIA 1.0%			
SOVEREIGN ISSUES 1.0%			
Saudi Government International Bond			
2.375% due 10/26/2021		3,700	3,596

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
3.250% due 10/26/2026	$	400	$ 380
Total Saudi Arabia (Cost $4,059)			**3,976**
SLOVENIA 2.7%			
SOVEREIGN ISSUES 2.7%			
Slovenia Government International Bond			
4.125% due 02/18/2019		3,200	3,327
4.750% due 05/10/2018		400	415
5.250% due 02/18/2024		4,900	5,380
5.500% due 10/26/2022		800	886
5.850% due 05/10/2023		1,000	1,128
Total Slovenia (Cost $11,169)			**11,136**
SOUTH KOREA 0.3%			
CORPORATE BONDS & NOTES 0.1%			
Kookmin Bank			
2.125% due 10/21/2020		400	391
SOVEREIGN ISSUES 0.2%			
Korea Hydro & Nuclear Power Co. Ltd.			
1.696% due 05/22/2017		700	700
Total South Korea (Cost $1,090)			**1,091**
SPAIN 1.9%			
CORPORATE BONDS & NOTES 0.3%			
Banco Popular Espanol S.A.			
8.250% due 04/10/2020 (g)	EUR	400	374
Banco Santander S.A.			
6.250% due 09/11/2021 (g)		900	891
			1,265
SOVEREIGN ISSUES 1.6%			
Autonomous Community of Catalonia			
4.750% due 06/04/2018		300	331
4.900% due 09/15/2021		900	1,029
4.950% due 02/11/2020		670	756
Autonomous Community of Madrid			
4.125% due 05/21/2024		600	758
4.300% due 09/15/2026		400	520
Autonomous Community of Valencia			
4.900% due 03/17/2020		600	718
Spain Government International Bond			
2.150% due 10/31/2025		400	452
2.900% due 10/31/2046		1,580	1,770
5.150% due 10/31/2028		200	292
			6,626
Total Spain (Cost $8,007)			**7,891**
SUPRANATIONAL 0.1%			
CORPORATE BONDS & NOTES 0.1%			
European Investment Bank			
0.500% due 06/21/2023	AUD	500	298
0.500% due 08/10/2023		400	233
Total Supranational (Cost $620)			**531**
SWEDEN 1.3%			
CORPORATE BONDS & NOTES 1.3%			
Skandinaviska Enskilda Banken AB			
3.000% due 06/20/2018	SEK	1,500	173
Stadshypotek AB			
1.875% due 10/02/2019	$	2,700	2,686
2.500% due 09/18/2019	SEK	1,000	117
Svenska Handelsbanken AB			
2.450% due 03/30/2021	$	2,100	2,085

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Swedbank AB			
2.200% due 03/04/2020	$	300	$ 298
Swedbank Hypotek AB			
3.750% due 12/20/2017	SEK	1,100	126
Total Sweden (Cost $5,664)			**5,485**
SWITZERLAND 0.9%			
CORPORATE BONDS & NOTES 0.8%			
Credit Suisse AG			
6.500% due 08/08/2023	$	200	213
UBS AG			
4.750% due 05/22/2023		2,000	2,045
7.250% due 02/22/2022		1,100	1,109
			3,367
SOVEREIGN ISSUES 0.1%			
Switzerland Government Bond			
3.500% due 04/08/2033	CHF	300	455
Total Switzerland (Cost $3,810)			$ **3,822**
UNITED ARAB EMIRATES 0.1%			
CORPORATE BONDS & NOTES 0.1%			
National Bank of Abu Dhabi PJSC			
2.250% due 02/11/2020	$	500	495
Total United Arab Emirates (Cost $493)			**495**
UNITED KINGDOM 8.4%			
CORPORATE BONDS & NOTES 4.0%			
Barclays Bank PLC			
7.625% due 11/21/2022		2,100	2,309
7.750% due 04/10/2023		500	528
Barclays PLC			
2.992% due 08/10/2021		600	615
3.650% due 03/16/2025		600	582
6.500% due 09/15/2019 (g)	EUR	200	205
8.000% due 12/15/2020 (g)		1,100	1,225
Co-operative Group Holdings Ltd.			
6.875% due 07/08/2020	GBP	600	840
HBOS PLC			
6.750% due 05/21/2018	$	1,100	1,162
HSBC Holdings PLC			
6.000% due 09/29/2023 (g)	EUR	1,200	1,310
Lloyds Bank PLC			
5.125% due 03/07/2025	GBP	700	1,085
Lloyds Banking Group PLC			
7.625% due 06/27/2023 (g)		600	776
7.875% due 06/27/2029 (g)		500	653
Royal Bank of Scotland Group PLC			
7.500% due 08/10/2020 (g)	$	400	380
8.000% due 08/10/2025 (g)		400	384
8.625% due 08/15/2021 (g)		600	614
Santander UK Group Holdings PLC			
2.875% due 10/16/2020		1,700	1,688
2.875% due 08/05/2021		400	392
Tesco PLC			
5.125% due 04/10/2047	EUR	800	835
6.125% due 02/24/2022	GBP	300	421
Tesco Property Finance PLC			
5.411% due 07/13/2044		197	226
7.623% due 07/13/2039		92	130
			16,360
NON-AGENCY MORTGAGE-BACKED SECURITIES 1.4%			
Business Mortgage Finance PLC			
0.778% due 02/15/2039		551	667
2.398% due 02/15/2041		359	429

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Eurohome UK Mortgages PLC			
0.523% due 06/15/2044	GBP	124	$ 143
Eurosail PLC			
0.536% due 06/10/2044		32	38
0.677% due 06/13/2045		78	95
1.325% due 06/13/2045		744	862
Mansard Mortgages PLC			
1.023% due 12/15/2049		213	256
Money Partners Securities PLC			
0.753% due 03/15/2040		24	29
Newgate Funding PLC			
0.545% due 12/01/2050		300	334
1.373% due 12/15/2050		321	361
RMAC Securities PLC			
0.526% due 06/12/2044		558	636
Towd Point Mortgage Funding PLC			
1.538% due 02/20/2054		1,600	1,958
			5,808
SOVEREIGN ISSUES 3.0%			
United Kingdom Gilt			
3.250% due 01/22/2044 (i)		3,800	6,055
3.500% due 01/22/2045 (i)		600	1,001
4.250% due 12/07/2040		1,200	2,167
4.250% due 12/07/2046		1,600	3,056
			12,279
Total United Kingdom (Cost $36,991)			**34,447**
UNITED STATES 28.9%			
ASSET-BACKED SECURITIES 6.1%			
ACE Securities Corp. Home Equity Loan Trust			
0.896% due 07/25/2036	$	1,673	1,201
Amortizing Residential Collateral Trust			
1.336% due 07/25/2032		1	1
1.456% due 10/25/2031		1	1
Amresco Residential Securities Corp. Mortgage Loan Trust			
1.696% due 06/25/2029		1	1
Argent Securities, Inc. Asset-Backed Pass-Through Certificates			
1.136% due 02/25/2036		729	517
Citigroup Mortgage Loan Trust, Inc.			
0.916% due 12/25/2036		671	417
1.016% due 03/25/2036		800	679
1.016% due 06/25/2037		2,700	2,173
Countrywide Asset-Backed Certificates			
0.886% due 12/25/2036 ^		527	521
0.896% due 06/25/2035		498	384
0.896% due 01/25/2037		2,518	2,065
0.896% due 06/25/2037		647	534
0.896% due 06/25/2047 ^		511	370
0.896% due 06/25/2047		1,573	1,289
0.906% due 04/25/2047		584	541
1.046% due 07/25/2036		662	640
5.253% due 08/25/2035 ^		922	794
Countrywide Asset-Backed Certificates Trust			
1.934% due 04/25/2035		1,000	970
Credit Suisse First Boston Mortgage Securities Corp.			
1.376% due 01/25/2032		1	1
GSAMP Trust			
1.186% due 11/25/2035 ^		1,388	864
HSI Asset Securitization Corp. Trust			
1.016% due 04/25/2037		940	549
IndyMac Home Equity Mortgage Loan Asset-Backed Trust			
0.996% due 04/25/2037		715	451
Long Beach Mortgage Loan Trust			
1.316% due 10/25/2034		12	12
Morgan Stanley ABS Capital, Inc. Trust			
0.886% due 10/25/2036		194	155

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Morgan Stanley Home Equity Loan Trust			
0.856% due 12/25/2036	$	1,189	$ 672
0.986% due 04/25/2037		995	629
Morgan Stanley Mortgage Loan Trust			
5.919% due 09/25/2046 ^		192	96
Nomura Home Equity Loan, Inc. Home Equity Loan Trust			
1.046% due 03/25/2036		700	588
NovaStar Mortgage Funding Trust			
0.886% due 03/25/2037		917	601
Renaissance Home Equity Loan Trust			
3.306% due 12/25/2032		489	465
5.294% due 01/25/2037		655	351
5.675% due 06/25/2037 ^		1,067	502
5.731% due 11/25/2036		1,058	612
Residential Asset Mortgage Products Trust			
0.804% due 12/25/2035		556	433
0.814% due 12/25/2035		1,268	941
Residential Asset Securities Corp. Trust			
1.006% due 11/25/2036		2,111	1,322
1.256% due 07/25/2032 ^		2	2
Saxon Asset Securities Trust			
2.506% due 12/25/2037		480	401
2.556% due 05/25/2031		647	575
Soundview Home Loan Trust			
0.906% due 06/25/2037		105	71
Structured Asset Investment Loan Trust			
0.886% due 07/25/2036		615	444
1.066% due 01/25/2036		1,600	1,247
			25,082
BANK LOAN OBLIGATIONS 0.1%			
Charter Communications Operating LLC			
3.500% due 01/15/2024		596	599
CORPORATE BONDS & NOTES 5.4%			
Ally Financial, Inc.			
2.750% due 01/30/2017		900	900
3.600% due 05/21/2018		400	404
5.500% due 02/15/2017		300	301
American International Group, Inc.			
3.900% due 04/01/2026		1,100	1,120
Anheuser-Busch InBev Finance, Inc.			
3.300% due 02/01/2023		500	509
Anheuser-Busch InBev Worldwide, Inc.			
4.950% due 01/15/2042		800	873
Anthem, Inc.			
2.250% due 08/15/2019		800	799
BA Covered Bond Issuer			
4.250% due 08/03/2017	EUR	200	213
Bank of America Corp.			
6.875% due 04/25/2018	$	800	850
Charter Communications Operating LLC			
4.464% due 07/23/2022		600	627
6.384% due 10/23/2035		600	686
CIT Group, Inc.			
3.875% due 02/19/2019		300	307
4.250% due 08/15/2017		400	406
5.000% due 05/15/2018		100	102
Citigroup, Inc.			
1.878% due 06/07/2019		600	605
2.050% due 06/07/2019		200	199
2.650% due 10/26/2020		500	500
Citizens Bank N.A.			
2.550% due 05/13/2021		400	398
Ford Motor Credit Co. LLC			
1.897% due 08/12/2019		1,800	1,771
3.200% due 01/15/2021		300	300
Goldman Sachs Group, Inc.			
2.042% due 04/23/2020		400	404
JPMorgan Chase & Co.			
2.550% due 10/29/2020		100	100

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Kinder Morgan, Inc.		
5.000% due 02/15/2021	$ 400	$ 426
Lehman Brothers Holdings, Inc.		
6.875% due 05/02/2018 ^	200	12
Metropolitan Life Global Funding		
2.000% due 04/14/2020	300	297
MUFG Americas Holdings Corp.		
3.000% due 02/10/2025	700	672
Navient Corp.		
5.500% due 01/15/2019	1,100	1,144
Pricoa Global Funding		
2.200% due 06/03/2021	600	589
Santander Holdings USA, Inc.		
2.380% due 11/24/2017	1,700	1,715
SLM Student Loan Trust		
0.927% due 03/15/2038	GBP 700	781
Springleaf Finance Corp.		
5.250% due 12/15/2019	$ 300	303
6.000% due 06/01/2020	400	407
Sprint Communications, Inc.		
8.375% due 08/15/2017	400	416
Wells Fargo & Co.		
2.117% due 10/31/2023	2,000	2,026
Zimmer Biomet Holdings, Inc.		
3.150% due 04/01/2022	900	898
		22,060

MUNICIPAL BONDS & NOTES 0.0%

Pasadena Public Financing Authority, California Revenue Bonds, (BABs), Series 2010		
7.148% due 03/01/2043	100	135

NON-AGENCY MORTGAGE-BACKED SECURITIES 1.6%

American Home Mortgage Investment Trust		
2.778% due 09/25/2045	43	42
Banc of America Alternative Loan Trust		
6.500% due 04/25/2036 ^	635	526
Banc of America Mortgage Trust		
2.903% due 02/25/2036 ^	83	77
Bear Stearns Adjustable Rate Mortgage Trust		
2.920% due 03/25/2035	39	39
3.001% due 08/25/2033	2	2
3.128% due 03/25/2035	4	4
Bear Stearns ALT-A Trust		
0.916% due 02/25/2034	58	53
3.117% due 03/25/2036 ^	173	133
3.118% due 11/25/2035 ^	36	30
3.149% due 09/25/2035	40	34
3.184% due 08/25/2036 ^	54	39
Bear Stearns Structured Products, Inc. Trust		
3.107% due 12/26/2046	38	30
Citigroup Mortgage Loan Trust, Inc.		
2.690% due 09/25/2035	7	7
Citigroup Mortgage Loan Trust, Inc. Mortgage Pass-Through Certificates		
2.875% due 09/25/2035 ^	458	394
Countrywide Alternative Loan Trust		
0.949% due 03/20/2046	79	59
1.036% due 02/25/2037	64	53
1.567% due 12/25/2035	71	65
2.034% due 11/25/2035	15	12
5.250% due 06/25/2035 ^	12	11
Countrywide Home Loan Mortgage Pass-Through Trust		
1.216% due 05/25/2035	33	27
1.396% due 03/25/2035	63	49
1.416% due 02/25/2035	8	7
3.105% due 11/25/2034	10	9
3.172% due 08/25/2034 ^	23	19
5.500% due 01/25/2035	473	478

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
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 ^	207	92
DBUBS Mortgage Trust		
0.300% due 11/10/2046 (a)	400	5
0.748% due 11/10/2046 (a)	304	7
Deutsche ALT-A Securities, Inc.		
1.506% due 10/25/2047	1,201	985
GSR Mortgage Loan Trust		
1.086% due 12/25/2034	72	65
3.076% due 04/25/2035	349	332
3.289% due 01/25/2036 ^	75	71
HarborView Mortgage Loan Trust		
2.999% due 05/19/2033	4	4
IndyMac Mortgage Loan Trust		
0.966% due 05/25/2046	633	525
0.996% due 07/25/2035	30	26
JPMorgan Mortgage Trust		
2.572% due 07/27/2037	125	117
3.024% due 02/25/2036 ^	47	42
Mellon Residential Funding Corp. Mortgage Pass-Through Trust		
1.144% due 12/15/2030	7	7
Merrill Lynch Mortgage Investors Trust		
2.543% due 10/25/2035	11	11
Morgan Stanley Bank of America Merrill Lynch Trust		
1.044% due 12/15/2048 (a)	1,006	49
Morgan Stanley Mortgage Loan Trust		
2.862% due 06/25/2036	49	48
Residential Accredit Loans, Inc. Trust		
0.906% due 02/25/2047	39	22
0.936% due 06/25/2046	334	144
0.966% due 04/25/2046	568	260
Structured Adjustable Rate Mortgage Loan Trust		
3.112% due 04/25/2034	7	7
Structured Asset Mortgage Investments Trust		
0.966% due 05/25/2036	15	12
0.976% due 05/25/2036	111	86
0.976% due 09/25/2047	161	135
0.986% due 05/25/2045	26	23
1.316% due 07/19/2034	3	3
1.396% due 09/19/2032	3	2
1.436% due 03/19/2034	6	6
2.067% due 08/25/2047 ^	47	40
TBW Mortgage-Backed Trust		
5.970% due 09/25/2036	189	21
Thornburg Mortgage Securities Trust		
2.878% due 06/25/2047 ^	49	44
5.750% due 06/25/2047	11	10
Wachovia Mortgage Loan Trust LLC		
3.212% due 10/20/2035 ^	166	151
WaMu Mortgage Pass-Through Certificates Trust		
1.066% due 01/25/2045	135	130
1.547% due 06/25/2046	52	48
1.567% due 02/25/2046	120	110
1.848% due 02/27/2034	6	5
2.498% due 03/25/2033	14	14
2.750% due 12/25/2036 ^	270	232
2.792% due 04/25/2035	61	60
2.798% due 03/25/2035	77	78
Washington Mutual Mortgage Pass-Through Certificates Trust		
1.507% due 07/25/2046 ^	30	20
Wells Fargo Mortgage-Backed Securities Trust		
2.925% due 03/25/2035	95	95
3.080% due 04/25/2036	7	7
3.080% due 07/25/2036 ^	60	59
3.109% due 03/25/2036 ^	225	215
		6,625

	SHARES	MARKET VALUE (000S)
PREFERRED SECURITIES 0.0%		
Navient Corp.		
3.514% due 01/16/2018	900	$ 23

	PRINCIPAL AMOUNT (000S)	
U.S. GOVERNMENT AGENCIES 12.4%		
Fannie Mae		
0.876% due 03/25/2034	$ 6	6
0.906% due 08/25/2034	4	4
1.106% due 09/25/2042	20	20
1.156% due 06/25/2036	41	40
1.186% due 11/25/2040	58	58
1.206% due 11/25/2040 - 01/25/2044	360	359
1.336% due 06/25/2041	266	267
1.556% due 12/25/2039	303	306
1.741% due 10/01/2044	19	20
2.858% due 05/25/2035	15	16
2.872% due 11/01/2034	38	41
2.881% due 12/01/2034	6	7
3.500% due 11/01/2021	91	96
5.480% due 07/01/2018	200	203
6.000% due 07/25/2044	13	14
Fannie Mae, TBA		
3.000% due 02/01/2047	13,600	13,481
3.500% due 02/01/2047	28,000	28,640
Freddie Mac		
0.883% due 01/15/2038	694	689
1.204% due 12/15/2032	8	8
1.304% due 12/15/2037	24	24
1.741% due 10/25/2044	53	54
1.983% due 01/15/2038 (a)	694	41
2.500% due 03/01/2035	5	5
2.739% due 02/01/2029	3	3
2.850% due 04/01/2035	89	93
Ginnie Mae		
1.330% due 05/20/2066 - 06/20/2066	4,489	4,470
1.589% due 11/20/2066	701	701
2.125% due 04/20/2028 - 06/20/2030	4	4
NCUA Guaranteed Notes		
1.122% due 11/05/2020	1,003	1,005
1.212% due 12/08/2020	267	268
		50,943
U.S. TREASURY OBLIGATIONS 3.3%		
U.S. Treasury Bonds		
5.250% due 02/15/2029	100	128
U.S. Treasury Inflation Protected Securities (f)		
0.125% due 01/15/2022 (m)	427	428
0.125% due 07/15/2022 (k)	1,997	2,004
0.125% due 01/15/2023 (k)	2,409	2,392
0.125% due 07/15/2024 (k)	153	150
0.375% due 07/15/2025 (i)(k)	8,460	8,418
		13,520
Total United States (Cost $118,485)		**118,987**
SHORT-TERM INSTRUMENTS 20.9%		
CERTIFICATES OF DEPOSIT 1.2%		
Barclays Bank PLC		
1.745% due 11/06/2017	1,000	1,001
1.751% due 09/08/2017	1,000	1,001
Sumitomo Mitsui Banking Corp.		
1.663% due 09/15/2017	1,900	1,903
Sumitomo Mitsui Trust Bank Ltd.		
1.574% due 10/06/2017	1,000	1,002
		4,907

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
REPURCHASE AGREEMENTS (h) 0.2%			
			$ 855
ITALY TREASURY BILLS 2.1%			
(0.294)% due 02/28/2017 (d)(e)	EUR	8,100	8,530
JAPAN TREASURY BILLS 17.0%			
(0.275)% due 01/16/2017 - 03/06/2017 (c)(d)	JPY	8,180,000	$ 70,006
U.S. TREASURY BILLS 0.4%			
0.464% due 02/02/2017 - 02/23/2017 (c)(d)(i)	$	1,519	1,518
Total Short-Term Instruments (Cost $94,354)			**85,816**
Total Investments in Securities (Cost $483,053)			**460,981**

	SHARES	MARKET VALUE (000S)
INVESTMENTS IN AFFILIATES 0.9%		
SHORT-TERM INSTRUMENTS 0.9%		
CENTRAL FUNDS USED FOR CASH MANAGEMENT PURPOSES 0.9%		
PIMCO Short-Term Floating NAV Portfolio III	362,938	$ 3,588
Total Short-Term Instruments (Cost $3,588)		**3,588**
Total Investments in Affiliates (Cost $3,588)		**3,588**
Total Investments 113.0% (Cost $486,641)		$ **464,569**
Financial Derivative Instruments (j)(l) 2.9% (Cost or Premiums, net $(3,792))		**11,821**
Other Assets and Liabilities, net (15.9)%		**(65,241)**
Net Assets 100.0%		$ **411,149**

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)** **When-issued security.**
- **(c)** **Coupon represents a weighted average yield to maturity.**
- **(d)** **Zero coupon security.**
- **(e)** **Coupon represents a yield to maturity.**
- **(f)** **Principal amount of security is adjusted for inflation.**
- **(g)** **Perpetual maturity; date shown, if applicable, represents next contractual call date.**

BORROWINGS AND OTHER FINANCING TRANSACTIONS

(h) 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%	12/30/2016	01/03/2017	$ 855	U.S. Treasury Notes 1.000% due 05/15/2018[2]	$ (876)	$ 855	$ 855
Total Repurchase Agreements						**$ (876)**	**$ 855**	**$ 855**

[1] Includes accrued interest.

[2] Collateral is held in custody by the counterparty.

REVERSE REPURCHASE AGREEMENTS:

Counterparty	Borrowing Rate[3]	Borrowing Date	Maturity Date	Amount Borrowed[3]	Payable for Reverse Repurchase Agreements
BOS	0.850%	12/22/2016	01/04/2017	$ (1,302)	$ (1,302)
Total Reverse Repurchase Agreements					**$ (1,302)**

SALE-BUYBACK TRANSACTIONS:

Counterparty	Borrowing Rate(3)	Borrowing Date	Maturity Date	Amount Borrowed(3)	Payable for Sale-Buyback Transactions(4)
GSC	1.270%	12/16/2016	01/10/2017	$ (2,396)	$ (2,397)
MYI	(0.400)	10/12/2016	01/24/2017	EUR (913)	(1,018)
	0.500	11/09/2016	01/17/2017	GBP (652)	(809)
TDM	0.620	11/08/2016	01/12/2017	CAD (598)	(448)
	0.870	11/08/2016	01/12/2017	(15,562)	(11,646)
UBS	0.540	11/10/2016	01/17/2017	GBP (823)	(1,021)
Total Sale-Buyback Transactions					**$ (17,339)**

(3) The average amount of borrowings outstanding during the period ended December 31, 2016 was $(12,779) at a weighted average interest rate of 0.656%.

(4) Payable for sale-buyback transactions includes $(3) of deferred price drop.

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 pledged/(received) as of December 31, 2016:

(i) Securities with an aggregate market value of $18,347 have been pledged as collateral under the terms of the following master agreements as of December 31, 2016.

Counterparty	Repurchase Agreement Proceeds to be Received	Payable for Reverse Repurchase Agreements	Payable for Sale-Buyback Transactions	Total Borrowings and Other Financing Transactions	Collateral Pledged/(Received)	Net Exposure(5)
Global/Master Repurchase Agreement						
BOS	$ 0	$ (1,302)	$ 0	$ (1,302)	$ 1,318	$ 16
SSB	855	0	0	855	(876)	(21)
Master Securities Forward Transaction Agreement						
GSC	0	0	(2,397)	(2,397)	2,434	37
MYI	0	0	(1,827)	(1,827)	1,668	(159)
TDM	0	0	(12,094)	(12,094)	11,926	(168)
UBS	0	0	(1,021)	(1,021)	1,001	(20)
Total Borrowings and Other Financing Transactions	**$ 855**	**$ (1,302)**	**$ (17,339)**			

(5) 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.

CERTAIN TRANSFERS ACCOUNTED FOR AS SECURED BORROWINGS

Remaining Contractual Maturity of the Agreements

	Overnight and Continuous	Up to 30 days	31-90 days	Greater Than 90 days	Total
Reverse Repurchase Agreements					
U.S. Treasury Obligations	$ 0	$ (1,302)	$ 0	$ 0	$ (1,302)
Total	**$ 0**	**$ (1,302)**	**$ 0**	**$ 0**	**$ (1,302)**
Sale-Buyback Transactions					
Sovereign Issues	0	(14,942)	0	0	(14,942)
U.S. Treasury Obligations	0	(2,397)	0	0	(2,397)
Total	**$ 0**	**$ (17,339)**	**$ 0**	**$ 0**	**$ (17,339)**
Total Borrowings	**$ 0**	**$ (18,641)**	**$ 0**	**$ 0**	**$ (18,641)**
Gross amount of recognized liabilities for reverse repurchase agreements and sale-buyback financing transactions					**$ (18,641)**

(j) 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
Call - CBOT U.S. Treasury 2-Year Note April Futures	$ 110.500	03/24/2017	447	$ 4	$ 3
Total Purchased Options				**$ 4**	**$ 3**

FUTURES CONTRACTS:

Description	Type	Expiration Month	# of Contracts	Unrealized Appreciation/ (Depreciation)	Variation Margin Asset	Variation Margin Liability
Australia Government 3-Year Note March Futures	Long	03/2017	30	$ (4)	$ 6	$ 0
Australia Government 10-Year Bond March Futures	Long	03/2017	36	16	23	0
Canada Government 10-Year Bond March Futures	Long	03/2017	1	(1)	0	0
Euro-Bobl March Futures	Long	03/2017	180	186	2	(15)
Euro-Bono March Futures	Long	03/2017	24	57	10	(20)
Euro-BTP Italy Government Bond March Futures	Long	03/2017	32	87	15	(10)
Euro-Bund 10-Year Bond March Futures	Long	03/2017	45	94	26	(21)
Euro-Buxl 30-Year Bond March Futures	Short	03/2017	1	(2)	3	(2)
Euro-OAT France Government 10-Year Bond March Futures	Long	03/2017	81	132	40	(39)
Euro-Schatz March Futures	Long	03/2017	349	58	0	(18)
Japan Government 10-Year Bond March Futures	Long	03/2017	24	9	64	(2)
U.S. Treasury 2-Year Note March Futures	Short	03/2017	447	72	0	(28)
U.S. Treasury 5-Year Note March Futures	Long	03/2017	267	(117)	44	0
U.S. Treasury 10-Year Note March Futures	Long	03/2017	283	(152)	97	0
U.S. Treasury 30-Year Bond March Futures	Short	03/2017	3	0	17	0
U.S. Treasury Ultra Long-Term Bond March Futures	Long	03/2017	23	(34)	22	0
United Kingdom Long Gilt March Futures	Long	03/2017	89	203	85	(4)
Total Futures Contracts				**$ 604**	**$ 454**	**$ (159)**

SWAP AGREEMENTS

CREDIT DEFAULT SWAPS ON CORPORATE ISSUES - SELL PROTECTION(1)

Reference Entity	Fixed Receive Rate	Maturity Date	Implied Credit Spread at December 31, 2016(2)	Notional Amount(3)	Market Value(4)	Unrealized Appreciation/ (Depreciation)	Variation Margin Asset	Variation Margin Liability
Altria Group, Inc.	1.000%	12/20/2020	0.237%	$ 700	$ (21)	$ (2)	$ 0	$ (1)
BASF SE	1.000	12/20/2020	0.307	EUR 200	(6)	0	0	0
BAT International Finance PLC	1.000	12/20/2020	0.500	400	(9)	0	0	0
Bayer AG	1.000	12/20/2020	0.451	300	(7)	(1)	0	0
Berkshire Hathaway, Inc.	1.000	12/20/2021	0.836	$ 700	6	0	0	0
Koninklijke DSM NV	1.000	12/20/2020	0.279	EUR 600	(19)	0	0	0
Navient Corp.	5.000	03/20/2019	1.533	$ 1,100	(85)	(23)	1	0
Pfizer, Inc.	1.000	12/20/2020	0.317	700	(19)	1	0	0
Reynolds American, Inc.	1.000	12/20/2020	0.230	700	(21)	(1)	0	0
Shell International Finance BV	1.000	12/20/2026	1.212	EUR 500	(10)	4	0	0
Telia Co. AB	1.000	12/20/2020	0.417	200	(5)	0	0	0
Tesco PLC	1.000	12/20/2020	1.568	1,400	(32)	10	1	0
Tesco PLC	1.000	06/20/2021	1.792	900	(32)	6	0	(1)
United Utilities PLC	1.000	12/20/2020	0.603	200	(3)	0	0	0
UnitedHealth Group, Inc.	1.000	12/20/2020	0.295	$ 300	(8)	0	0	0
Veolia Environnement S.A.	1.000	12/20/2020	0.456	EUR 200	(5)	1	0	0
					$ (276)	$ (5)	$ 2	$ (2)

CREDIT DEFAULT SWAPS ON CREDIT INDICES - SELL PROTECTION(1)

Index/Tranches	Fixed Receive Rate	Maturity Date	Notional Amount(3)	Market Value(4)	Unrealized Appreciation/ (Depreciation)	Variation Margin Asset	Variation Margin Liability
CDX.IG-27 5-Year Index	1.000%	12/20/2021	$ 31,900	$ (494)	$ (2)	$ 0	$ (9)
iTraxx Europe Main 26 5-Year Index	1.000	12/20/2021	EUR 54,200	(802)	42	0	(4)
				$ (1,296)	$ 40	$ 0	$ (13)

(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, securities or other deliverable obligations 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 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

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 CAD-Bank Bill	1.500%	12/16/2026	CAD 4,600	$ (132)	$ (168)	$ 10	$ 0
Receive	3-Month CAD-Bank Bill	1.750	12/16/2046	700	68	92	0	(6)
Pay	3-Month CHF-LIBOR	0.050	03/16/2026	CHF 1,400	(2)	(20)	4	0
Pay	3-Month SEK-STIBOR	1.013	01/23/2025	SEK 600	2	2	0	0
Pay	3-Month SEK-STIBOR	1.023	01/23/2025	500	1	1	0	0
Pay	3-Month SEK-STIBOR	1.033	01/23/2025	500	2	1	0	0
Pay	3-Month SEK-STIBOR	1.036	01/23/2025	600	2	2	0	0
Pay*	3-Month USD-LIBOR	1.000	05/15/2018	$ 59,900	(236)	(151)	0	(3)
Receive*	3-Month USD-LIBOR	1.250	05/15/2019	59,900	385	285	0	(11)
Receive	3-Month USD-LIBOR	1.500	12/21/2021	19,700	438	561	0	(22)
Receive	3-Month USD-LIBOR	2.000	08/31/2022	3,800	(11)	79	0	(6)
Receive	3-Month USD-LIBOR	2.038	08/31/2022	200	(1)	4	0	0
Receive	3-Month USD-LIBOR	2.300	01/13/2023	3,300	(68)	(56)	0	(6)
Receive	3-Month USD-LIBOR	2.000	06/15/2023	8,300	53	335	0	(14)
Receive	3-Month USD-LIBOR	1.750	12/21/2023	44,700	1,182	1,118	0	(92)
Receive	3-Month USD-LIBOR	1.750	12/21/2026	35,900	1,105	2,040	25	(95)
Receive*	3-Month USD-LIBOR	2.098	07/01/2041	4,000	79	79	0	(4)
Receive	3-Month USD-LIBOR	1.768	12/15/2046	300	54	47	0	(3)
Receive	3-Month USD-LIBOR	2.250	12/21/2046	3,600	297	626	0	(30)
Pay*	3-Month ZAR-JIBAR	8.500	03/15/2027	ZAR 15,000	10	11	4	0
Pay*	6-Month EUR-EURIBOR	0.000	03/15/2022	EUR 24,900	(139)	(215)	35	0
Pay	6-Month EUR-EURIBOR	1.000	11/30/2025	1,100	49	33	4	0
Pay*	6-Month EUR-EURIBOR	0.500	03/15/2027	23,200	(467)	(358)	100	0
Receive*	6-Month EUR-EURIBOR	1.250	03/15/2047	4,600	(15)	507	0	(27)
Receive*	6-Month GBP-LIBOR	0.500	03/15/2019	GBP 3,200	(10)	(17)	4	0
Pay*	6-Month GBP-LIBOR	0.500	03/15/2022	5,200	(126)	(57)	21	0
Receive	6-Month GBP-LIBOR	1.700	03/10/2026	100	(6)	(5)	0	(1)
Receive*	6-Month GBP-LIBOR	0.750	03/15/2027	1,800	108	67	0	(13)
Receive*	6-Month GBP-LIBOR	1.750	03/15/2047	200	(20)	(7)	0	(4)
Pay	6-Month JPY-LIBOR	0.150	03/22/2018	JPY 3,280,000	56	49	3	0
Receive	6-Month JPY-LIBOR	0.500	09/17/2021	150,000	(28)	(12)	0	(1)
Pay	6-Month JPY-LIBOR	1.000	12/18/2025	670,000	425	175	15	0
Pay	6-Month JPY-LIBOR	0.300	03/18/2026	2,920,000	279	(411)	64	0
Pay	6-Month JPY-LIBOR	0.000	09/20/2026	1,650,000	(285)	(104)	36	0
Receive	6-Month JPY-LIBOR	1.500	06/19/2033	2,340,000	3,253	2,987	168	0
Pay	6-Month JPY-LIBOR	1.250	06/17/2035	150,000	153	129	11	0
Receive	6-Month JPY-LIBOR	1.500	12/21/2045	560,000	(907)	981	0	(72)
Pay	28-Day MXN-TIIE	4.340	09/28/2017	MXN 34,300	(32)	(27)	0	0
Pay	28-Day MXN-TIIE	4.260	10/31/2017	57,800	(62)	(52)	0	0
Pay	28-Day MXN-TIIE	5.610	07/07/2021	16,200	(61)	(60)	2	0
Pay	28-Day MXN-TIIE	5.570	01/31/2023	9,600	(50)	(43)	2	0
Receive	UKRPI	3.585	10/15/2046	GBP 300	12	(2)	0	0
					$ 5,355	$ 8,446	$ 508	$ (410)
Total Swap Agreements					**$ 3,783**	**$ 8,481**	**$ 510**	**$ (425)**

* This instrument has a forward starting effective date. See Note 2(a) in the Notes to Financial Statements 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, 2016:

(k) Securities with an aggregate market value of $3,490 and cash of $7,675 have been pledged as collateral for exchange-traded and centrally cleared financial derivative instruments as of December 31, 2016. 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	**$ 3**	**$ 454**	**$ 510**	**$ 967**	**$ 0**	**$ (159)**	**$ (425)**	**$ (584)**

(l) 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	Liability
BOA	01/2017	BRL	2,697	$	828	$ 0	$ (1)
	01/2017	CNY	257		37	0	0
	01/2017	DKK	37,600		5,683	360	0
	01/2017	INR	36,851		544	2	0
	01/2017	$	803	BRL	2,697	26	0
	01/2017		533	CNY	3,534	0	(27)
	01/2017		53,469	EUR	51,413	658	0
	02/2017	EUR	51,413	$	53,544	0	(656)
	02/2017	$	979	RUB	60,600	0	(3)
	04/2017	DKK	124,956	$	18,947	1,165	0
	07/2017		45,325		6,850	367	0
BPS	01/2017	BRL	4,040		1,240	0	(2)
	01/2017	DKK	3,425		512	27	0
	01/2017	EUR	41,306		43,810	324	0
	01/2017	GBP	21,185		26,490	380	0
	01/2017	JPY	131,200		1,135	13	0
	01/2017	$	1,194	BRL	4,040	47	0
	01/2017		449	JPY	53,000	4	0
	06/2017	JPY	1,770,000	$	17,649	2,375	0
CBK	01/2017	CHF	557		551	4	0
	01/2017	DKK	4,735		695	25	0
	01/2017	EUR	12,553		13,937	737	(17)
	01/2017	GBP	1,668		2,105	49	0
	01/2017	NZD	2,313		1,637	30	0
	01/2017	SGD	4,359		3,119	109	0
	01/2017	$	1,529	EUR	1,448	5	(9)
	01/2017		553	RUB	40,037	97	0
	02/2017	JPY	2,560,000	$	24,734	2,787	0
	02/2017	$	611	MXN	11,676	0	(50)
	03/2017	JPY	250,000	$	2,243	98	0
DUB	01/2017	INR	41,709		617	4	0
	02/2017	$	260	MXN	4,998	0	(21)
	07/2017		120	BRL	433	7	0
FBF	02/2017		1,638	MXN	33,329	0	(39)
GLM	01/2017	DKK	80,864	$	12,037	594	(6)
	01/2017	JPY	1,110,000		10,766	1,260	0
	01/2017	$	327	CAD	430	0	(7)
	01/2017		1,171	DKK	7,880	0	(55)
	01/2017		1,491	INR	100,911	0	(8)
	01/2017		1,276	JPY	145,600	0	(30)
	01/2017		8,352	SGD	12,098	1	0
	03/2017	SGD	12,098	$	8,349	0	(1)
	03/2017	TWD	59,746		1,899	54	0
	03/2017	$	890	RUB	55,945	6	0
	07/2017		159	BRL	574	9	0
HUS	01/2017	CNH	1,039	$	157	9	0
	01/2017	DKK	33,300		4,664	0	(51)
	01/2017	INR	32,907		486	2	0
	01/2017	SGD	9,564		6,830	226	0
	01/2017	$	536	CNY	3,549	0	(28)
	01/2017		1,645	INR	111,153	0	(11)
	02/2017	JPY	1,000,000	$	9,901	1,329	0
	02/2017	$	552	RUB	40,064	96	0
	07/2017	DKK	33,630	$	5,089	279	0
	10/2017		63,125		9,667	590	0
IND	01/2017	$	27,299	GBP	22,298	183	0
	02/2017	GBP	22,298	$	27,317	0	(184)
JPM	01/2017	AUD	4,078		3,009	66	0
	01/2017	CAD	5,221		3,892	4	0
	01/2017	DKK	25,040		3,667	128	(6)
	01/2017	EUR	1,170		1,243	12	0
	01/2017	JPY	1,190,000		11,521	1,324	0
	01/2017	NOK	2,010		238	5	0

Counterparty	Settlement Month	Currency to be Delivered		Currency to be Received		Unrealized Appreciation/ (Depreciation) Asset	Unrealized Appreciation/ (Depreciation) Liability
	01/2017	$	933	EUR	876	$ 0	$ (10)
	01/2017		703	GBP	555	0	(19)
	01/2017		10,249	JPY	1,204,719	60	0
	01/2017		243	KRW	285,331	0	(7)
	01/2017		731	NZD	1,018	0	(24)
	01/2017		2,023	SGD	2,864	0	(45)
	02/2017	DKK	200,767	$	28,512	38	0
	02/2017	JPY	1,204,719		10,261	0	(63)
	02/2017	RUB	76,533		1,155	0	(78)
	03/2017	JPY	330,000		2,944	112	0
	03/2017	$	116	RUB	7,285	1	0
	04/2017	DKK	23,096	$	3,505	218	0
MSB	01/2017	BRL	891		274	0	0
	01/2017	$	267	BRL	891	7	0
	02/2017	CNH	64,785	$	9,511	344	0
RBC	01/2017	DKK	33,015		4,973	299	0
	01/2017	JPY	1,180,000		11,403	1,297	0
SCX	01/2017	BRL	7,629		2,331	0	(13)
	01/2017	JPY	1,272,119		11,384	499	0
	01/2017	KRW	1,075,315		945	54	0
	01/2017	SGD	1,038		733	17	0
	01/2017	$	2,341	BRL	7,629	3	0
	01/2017		151	CNH	1,039	0	(2)
	01/2017		227	EUR	217	2	0
	02/2017	CNH	3,820	$	562	21	0
	02/2017	$	2,310	BRL	7,629	15	0
SOG	01/2017	CNY	6,826	$	985	7	0
TOR	02/2017	JPY	560,000		5,155	351	0
UAG	01/2017	DKK	5,965		907	63	0
	01/2017	INR	137,562		2,024	1	0
	01/2017	KRW	234,613		206	12	0
	01/2017	SEK	3,955		430	0	(5)
	01/2017	$	1,142	EUR	1,075	0	(10)
	01/2017		546	INR	36,964	0	(3)
	01/2017		928	KRW	1,051,462	0	(57)
	04/2017	DKK	13,668	$	2,077	132	0
	04/2017	$	2,002	INR	137,562	0	(3)
Total Forward Foreign Currency Contracts						**$ 19,430**	**$ (1,551)**

PURCHASED OPTIONS:

INTEREST RATE SWAPTIONS

Counterparty	Description	Floating Rate Index	Pay/Receive Floating Rate	Exercise Rate	Expiration Date	Notional Amount	Cost	Market Value
DUB	Put - OTC 30-Year Interest Rate Swap	3-Month USD-LIBOR	Receive	2.500%	11/07/2019	$ 1,400	$ 119	$ 193
	Put - OTC 30-Year Interest Rate Swap	3-Month USD-LIBOR	Receive	2.750	11/07/2019	1,500	135	166
JPM	Put - OTC 10-Year Interest Rate Swap	3-Month JPY-LIBOR	Receive	0.400	03/03/2017	JPY 80,000	5	1
MYC	Put - OTC 1-Year Interest Rate Swap	3-Month USD-LIBOR	Receive	1.640	06/19/2017	$ 125,000	88	71
	Put - OTC 1-Year Interest Rate Swap	3-Month USD-LIBOR	Receive	2.030	12/18/2017	74,800	76	91
	Put - OTC 30-Year Interest Rate Swap	3-Month USD-LIBOR	Receive	2.725	11/07/2019	2,200	213	249
	Put - OTC 30-Year Interest Rate Swap	3-Month USD-LIBOR	Receive	2.750	11/07/2019	2,200	200	244
							$ 836	$ 1,015

INTEREST RATE-CAPPED OPTIONS

Counterparty	Description	Exercise Rate	Floating Rate Index	Expiration Date	Notional Amount	Cost	Market Value
SOG	Call - OTC 1-Year Interest Rate Floor	0.400%	3-Month USD-LIBOR	10/26/2017	$ 45,800	$ 4	$ 1
Total Purchased Options						**$ 840**	**$ 1,016**

WRITTEN OPTIONS:

FOREIGN CURRENCY OPTIONS

Counterparty	Description		Strike Price	Expiration Date		Notional Amount	Premiums (Received)	Market Value
BOA	Call - OTC GBP versus USD	$	1.297	01/27/2017	GBP	6,400	$ (51)	$ (5)
CBK	Put - OTC EUR versus AUD	AUD	1.424	01/10/2017	EUR	745	(6)	0
	Call - OTC EUR versus AUD		1.530	01/10/2017		745	(6)	0
	Call - OTC GBP versus USD	$	1.302	01/30/2017	GBP	1,148	(11)	(1)
DUB	Call - OTC USD versus BRL	BRL	3.890	06/28/2018	$	1,000	(96)	(61)
	Put - OTC USD versus BRL		3.890	06/28/2018		1,000	(95)	(121)
FBF	Call - OTC USD versus BRL		6.300	01/11/2018		600	(32)	(2)
GLM	Put - OTC EUR versus MXN	MXN	18.900	03/21/2017	EUR	1,300	(51)	(1)
	Call - OTC EUR versus MXN		22.650	03/21/2017		1,300	(44)	(26)
	Call - OTC USD versus BRL	BRL	3.892	07/02/2018	$	1,400	(135)	(86)
	Put - OTC USD versus BRL		3.892	07/02/2018		1,400	(135)	(170)
JPM	Put - OTC USD versus CNH	CNH	6.600	09/11/2017		2,300	(21)	(3)
NGF	Put - OTC USD versus KRW	KRW	1,145.000	01/24/2017		700	(18)	0
SOG	Put - OTC USD versus KRW		1,145.000	01/17/2017		500	(11)	0
UAG	Put - OTC USD versus KRW		1,145.000	01/17/2017		600	(13)	0
							$ (725)	$ (476)

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	2.250%	11/07/2019	$	7,100	$ (122)	$ (254)
	Put - OTC 5-Year Interest Rate Swap	3-Month USD-LIBOR	Pay	2.500	11/07/2019		7,300	(131)	(216)
JPM	Put - OTC 2-Year Interest Rate Swap	3-Month JPY-LIBOR	Pay	0.000	03/03/2017	JPY	520,000	(6)	(4)
MYC	Put - OTC 5-Year Interest Rate Swap	3-Month USD-LIBOR	Pay	2.500	11/07/2019	$	22,200	(417)	(658)
								$ (676)	$ (1,132)

INTEREST RATE-CAPPED OPTIONS

Counterparty	Description	Exercise Rate	Floating Rate Index	Expiration Date		Notional Amount	Premiums (Received)	Market Value
SOG	Call - OTC 1-Year Interest Rate Floor	0.000%	3-Month USD-LIBOR	10/26/2017	$	45,800	$ 0	$ 0

STRADDLE OPTIONS

Counterparty	Description	Exercise Level(1)	Expiration Date		Notional Amount	Premiums (Received)(1)	Market Value
JPM	Call & Put - OTC 1-Year USD/KRW versus 1-Year USD/KRW Forward Currency Volatility Agreement	0.000%	02/20/2017	$	100	$ 0	$ 3
Total Written Options						**$ (1,401)**	**$ (1,605)**

(1) Exercise level and final premium determined on a future date, based upon implied volatility parameters.

TRANSACTIONS IN WRITTEN CALL AND PUT OPTIONS FOR THE PERIOD ENDED DECEMBER 31, 2016:

	Balance at Beginning of Period	Sales	Closing Buys	Expirations	Exercised	Balance at End of Period
# of Contracts	0	93	0	(42)	(51)	0
Notional Amount in $	$ 24,460	$ 175,449	$ (51,569)	$ (34,840)	$ (21,500)	$ 92,000
Notional Amount in AUD	AUD 0	AUD 14,800	AUD (5,700)	AUD (9,100)	AUD 0	AUD 0
Notional Amount in CHF	CHF 0	CHF 6,722	CHF (3,300)	CHF 0	CHF (3,422)	CHF 0
Notional Amount in EUR	EUR 6,000	EUR 66,367	EUR (20,700)	EUR (45,777)	EUR (1,800)	EUR 4,090
Notional Amount in GBP	GBP 14,800	GBP 18,120	GBP (4,700)	GBP (13,372)	GBP (7,300)	GBP 7,548
Notional Amount in JPY	JPY 0	JPY 520,000	JPY 0	JPY 0	JPY 0	JPY 520,000
Premiums	$ (363)	$ (2,940)	$ 780	$ 779	$ 343	$ (1,401)

SWAP AGREEMENTS:

CREDIT DEFAULT SWAPS ON CORPORATE ISSUES - BUY PROTECTION(2)

Counterparty	Reference Entity	Fixed (Pay) Rate	Maturity Date	Implied Credit Spread at December 31, 2016(4)	Notional Amount(5)	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value Asset	Swap Agreements, at Value Liability
BOA	ING Bank NV	(1.000)%	12/20/2021	1.497%	EUR 300	$ 8	$ 0	$ 8	$ 0
	Wind Acquisition Finance S.A.	(5.000)	06/20/2021	2.817	300	(30)	0	0	(30)
BPS	HSBC Bank PLC	(1.000)	06/20/2021	1.319	1,000	12	2	14	0
	ING Bank NV	(1.000)	06/20/2021	1.417	700	17	(4)	13	0
	ING Bank NV	(1.000)	12/20/2021	1.497	300	11	(3)	8	0
	UBS AG	(1.000)	12/20/2021	0.609	600	(10)	(2)	0	(12)
BRC	Springleaf Finance Corp.	(5.000)	06/20/2020	3.344	$ 400	(29)	7	0	(22)
	UBS AG	(1.000)	09/20/2022	1.569	250	6	1	7	0
CBK	Barclays Bank PLC	(1.000)	06/20/2021	1.685	EUR 700	36	(14)	22	0
	HSBC Bank PLC	(1.000)	12/20/2021	1.425	300	8	(2)	6	0
	UBS AG	(1.000)	12/20/2021	1.473	300	11	(4)	7	0
	UBS AG	(1.000)	09/20/2022	1.569	$ 800	34	(10)	24	0
GST	SABMiller PLC	(1.000)	01/20/2022	0.334	100	(2)	(1)	0	(3)
SOG	Intesa Sanpaolo SpA	(1.000)	03/20/2026	3.201	900	123	21	144	0
						$ 195	$ (9)	$ 253	$ (67)

CREDIT DEFAULT SWAPS ON CORPORATE AND SOVEREIGN ISSUES - SELL PROTECTION(3)

Counterparty	Reference Entity	Fixed Receive Rate	Maturity Date	Implied Credit Spread at December 31, 2016(4)	Notional Amount(5)	Premiums (Received)	Unrealized Appreciation	Swap Agreements, at Value Asset	Swap Agreements, at Value Liability
BOA	Brazil Government International Bond	1.000%	03/20/2019	1.299%	$ 300	$ (7)	$ 5	$ 0	$ (2)
	Brazil Government International Bond	1.000	09/20/2019	1.492	100	(3)	2	0	(1)
BPS	Barclays Bank PLC	1.000	06/20/2017	0.570	EUR 400	(2)	3	1	0
	Royal Bank of Scotland PLC	1.000	12/20/2021	1.132	300	(4)	2	0	(2)
CBK	Brazil Government International Bond	1.000	03/20/2019	1.299	$ 100	(4)	3	0	(1)
DUB	Brazil Government International Bond	1.000	03/20/2019	1.299	300	(8)	6	0	(2)
HUS	Brazil Government International Bond	1.000	06/20/2019	1.406	100	(2)	1	0	(1)
	Brazil Government International Bond	1.000	09/20/2019	1.492	100	(3)	2	0	(1)
JPM	Brazil Government International Bond	1.000	03/20/2019	1.299	200	(8)	7	0	(1)
	Royal Bank of Scotland PLC	1.000	12/20/2021	1.132	EUR 300	(4)	2	0	(2)
MYC	Brazil Government International Bond	1.000	03/20/2019	1.299	$ 100	(4)	3	0	(1)
	Brazil Government International Bond	1.000	09/20/2019	1.492	100	(3)	2	0	(1)
						$ (52)	$ 38	$ 1	$ (15)

CREDIT DEFAULT SWAPS ON CREDIT INDICES - BUY PROTECTION(2)

Counterparty	Index/Tranches	Fixed (Pay) Rate	Maturity Date	Notional Amount(5)	Premiums Paid	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value(6) Asset	Swap Agreements, at Value(6) Liability
BOA	iTraxx Europe Subordinated 26 5-Year Index	(1.000)%	12/20/2021	EUR 300	$ 19	$ (1)	$ 18	$ 0
BPS	iTraxx Europe Subordinated 26 5-Year Index	(1.000)	12/20/2021	200	12	0	12	0
MYC	iTraxx Europe Subordinated 26 5-Year Index	(1.000)	12/20/2021	900	55	(1)	54	0
					$ 86	$ (2)	$ 84	$ 0

(2) 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, securities or other deliverable obligations equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index.

(3) 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, securities or other deliverable obligations equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index.

(4) 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.

(5) 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.

(6) 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[7]	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
BOA	Floating rate equal to 3-Month CAD-LIBOR less 0.126% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	11/24/2018	CAD 5,700	$ 4,351	$ (17)	$ (86)	$ 0	$ (103)
	Floating rate equal to 3-Month EUR-EURIBOR less 0.505% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	03/15/2027	EUR 2,700	3,014	23	(223)	0	(200)
	Floating rate equal to 3-Month GBP-LIBOR less 0.150% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	03/15/2019	GBP 6,600	9,392	(6)	(1,250)	0	(1,256)
BPS	Floating rate equal to 3-Month EUR-EURIBOR less 0.506% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	03/15/2027	EUR 2,490	2,780	(43)	(142)	0	(185)
CBK	Floating rate equal to 3-Month EUR-EURIBOR less 0.425% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	06/21/2027	5,090	5,408	19	(79)	0	(60)
	Floating rate equal to 3-Month GBP-LIBOR less 0.140% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	03/15/2019	GBP 4,500	6,345	20	(816)	0	(796)
CIB	Floating rate equal to 3-Month CAD-LIBOR less 0.126% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	11/24/2018	CAD 8,200	6,182	(81)	10	0	(71)
DUB	Floating rate equal to 3-Month EUR-EURIBOR less 0.503% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	03/15/2027	EUR 1,600	1,786	8	(126)	0	(118)
	Floating rate equal to 3-Month GBP-LIBOR less 0.055% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	10/13/2026	GBP 3,200	3,904	(3)	31	28	0
	Floating rate equal to 3-Month USD-LIBOR less 0.770% based on the notional amount of currency received	Floating rate equal to 3-Month JPY-LIBOR based on the notional amount of currency delivered	01/23/2019	$ 393	JPY 40,000	3	48	51	0
GLM	Floating rate equal to 3-Month CAD-LIBOR less 0.126% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	11/24/2018	CAD 22,300	$ 16,811	(23)	(170)	0	(193)
	Floating rate equal to 3-Month GBP-LIBOR less 0.150% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	03/15/2019	GBP 7,000	9,933	(1,024)	(280)	0	(1,304)
	Floating rate equal to 3-Month USD-LIBOR less 0.767% based on the notional amount of currency received	Floating rate equal to 3-Month JPY-LIBOR based on the notional amount of currency delivered	01/23/2019	$ 4,030	JPY 410,000	(4)	522	518	0

Counterparty	Receive	Pay	Maturity Date[7]	Notional Amount of Currency Received	Notional Amount of Currency Delivered	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value	
								Asset	Liability
RBC	Floating rate equal to 3-Month CAD-LIBOR less 0.126% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	11/24/2018	CAD 5,600	$ 4,222	$ (23)	$ (26)	$ 0	$ (49)
RYL	Floating rate equal to 3-Month GBP-LIBOR less 0.054% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	10/13/2026	GBP 1,000	1,220	(1)	9	8	0
	Floating rate equal to 3-Month GBP-LIBOR less 0.150% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	03/15/2019	10,700	15,183	(1,868)	(125)	0	(1,993)
SOG	Floating rate equal to 3-Month GBP-LIBOR less 0.150% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	03/15/2019	2,600	3,690	(444)	(40)	0	(484)
						$ (3,464)	$ (2,743)	$ 605	$ (6,812)

[7] 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	Swap Agreements, at Value	
								Asset	Liability
BOA	Pay	3-Month KRW-KORIBOR	1.860%	12/01/2020	KRW 1,607,700	$ 0	$ 13	$ 13	$ 0
CBK	Pay	3-Month KRW-KORIBOR	1.863	12/01/2020	996,500	0	8	8	0
DUB	Pay	3-Month KRW-KORIBOR	1.860	12/01/2020	4,823,100	0	39	39	0
NGF	Pay	3-Month KRW-KORIBOR	1.863	12/01/2020	1,607,700	0	13	13	0
						$ 0	$ 73	$ 73	$ 0

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	Liability
DUB	Pay	EUR versus CHF 1-Year ATM Realized Volatility	7.250%	01/03/2017	$ 4	$ 0	$ 14	$ 14	$ 0
	Pay	EUR versus CHF 1-Year ATM Realized Volatility	8.500	03/22/2017	4	0	15	15	0
	Pay	EUR versus CHF 1-Year ATM Realized Volatility	8.150	03/30/2017	3	0	9	9	0
	Receive	USD versus CHF 1-Year ATM Realized Volatility	9.250	01/03/2017	4	0	(5)	0	(5)
	Receive	USD versus CHF 1-Year ATM Realized Volatility	10.300	03/22/2017	4	0	(7)	0	(7)
	Receive	USD versus CHF 1-Year ATM Realized Volatility	10.050	03/30/2017	3	0	(5)	0	(5)
UAG	Pay	EUR versus CHF 1-Year ATM Realized Volatility	6.850	01/05/2017	2	0	6	6	0
	Receive	USD versus CHF 1-Year ATM Realized Volatility	8.750	01/05/2017	2	0	(1)	0	(1)
						$ 0	$ 26	$ 44	$ (18)
Total Swap Agreements						**$ (3,235)**	**$ (2,617)**	**$ 1,060**	**$ (6,912)**

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 pledged/(received) as of December 31, 2016:

(m) Securities with an aggregate market value of $290 have been pledged as collateral for financial derivative instruments as governed by International Swaps and Derivatives Association, Inc. master agreements as of December 31, 2016.

	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 Pledged/ (Received)	Net Exposure [8]
BOA	$ 2,578	$ 0	$ 39	$ 2,617	$ (687)	$ (5)	$ (1,591)	$ (2,283)	$ 334	$(2,090)	$(1,756)
BPS	3,170	0	48	3,218	(2)	0	(200)	(202)	3,016	(3,620)	(604)
BRC	0	0	7	7	0	0	(22)	(22)	(15)	0	(15)
CBK	3,941	0	67	4,008	(76)	(1)	(857)	(934)	3,074	(4,090)	(1,016)
CIB	0	0	0	0	0	0	(71)	(71)	(71)	0	(71)
DUB	11	359	156	526	(21)	(652)	(137)	(810)	(284)	198	(86)
FBF	0	0	0	0	(39)	(2)	0	(41)	(41)	0	(41)
GLM	1,924	0	518	2,442	(107)	(283)	(1,497)	(1,887)	555	(1,670)	(1,115)
GST	0	0	0	0	0	0	(3)	(3)	(3)	0	(3)
HUS	2,531	0	0	2,531	(90)	0	(2)	(92)	2,439	(2,660)	(221)
IND	183	0	0	183	(184)	0	0	(184)	(1)	0	(1)
JPM	1,968	1	0	1,969	(252)	(4)	(3)	(259)	1,710	(1,590)	120
MSB	351	0	0	351	0	0	0	0	351	(260)	91
MYC	0	655	54	709	0	(658)	(2)	(660)	49	(270)	(221)
NGF	0	0	13	13	0	0	0	0	13	0	13
RBC	1,596	0	0	1,596	0	0	(49)	(49)	1,547	(1,740)	(193)
RYL	0	0	8	8	0	0	(1,993)	(1,993)	(1,985)	0	(1,985)
SCX	611	0	0	611	(15)	0	0	(15)	596	(700)	(104)
SOG	7	1	144	152	0	0	(484)	(484)	(332)	0	(332)
TOR	351	0	0	351	0	0	0	0	351	(320)	31
UAG	208	0	6	214	(78)	0	(1)	(79)	135	0	135
Total Over the Counter	**$19,430**	**$1,016**	**$1,060**	**$21,506**	**$(1,551)**	**$(1,605)**	**$(6,912)**	**$(10,068)**			

[8] 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, 2016:

	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	$ 3	$ 3
Futures	0	0	0	0	454	454
Swap Agreements	0	2	0	0	508	510
	$ 0	$ 2	$ 0	$ 0	$ 965	$ 967
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 19,430	$ 0	$ 19,430
Purchased Options	0	0	0	0	1,016	1,016
Swap Agreements	0	338	0	649	73	1,060
	$ 0	$ 338	$ 0	$ 20,079	$ 1,089	$ 21,506
	$ 0	$ 340	$ 0	$ 20,079	$ 2,054	$ 22,473

	Derivatives not accounted for as hedging instruments					
	Commodity Contracts	Credit Contracts	Equity Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Total
Financial Derivative Instruments - Liabilities						
Exchange-traded or centrally cleared						
Futures	$ 0	$ 0	$ 0	$ 0	$ 159	$ 159
Swap Agreements	0	15	0	0	410	425
	$ 0	$ 15	$ 0	$ 0	$ 569	$ 584
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 1,551	$ 0	$ 1,551
Written Options	0	0	0	473	1,132	1,605
Swap Agreements	0	82	0	6,830	0	6,912
	$ 0	$ 82	$ 0	$ 8,854	$ 1,132	$ 10,068
	$ 0	$ 97	$ 0	$ 8,854	$ 1,701	$ 10,652

The effect of Financial Derivative Instruments on the Statement of Operations for the period ended December 31, 2016:

	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						
Purchased Options	$ 0	$ 0	$ 0	$ 0	$ (8)	$ (8)
Written Options	0	0	0	0	16	16
Futures	0	0	0	0	848	848
Swap Agreements	0	32	0	0	(1,146)	(1,114)
	$ 0	$ 32	$ 0	$ 0	$ (290)	$ (258)
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 2,889	$ 0	$ 2,889
Purchased Options	0	0	0	(570)	64	(506)
Written Options	0	69	0	963	252	1,284
Swap Agreements	0	128	0	(608)	157	(323)
	$ 0	$ 197	$ 0	$ 2,674	$ 473	$ 3,344
	$ 0	$ 229	$ 0	$ 2,674	$ 183	$ 3,086
Net Change in Unrealized Appreciation (Depreciation) on Financial Derivative Instruments						
Exchange-traded or centrally cleared						
Purchased Options	$ 0	$ 0	$ 0	$ 0	$ (1)	$ (1)
Futures	0	0	0	0	556	556
Swap Agreements	0	206	0	0	8,424	8,630
	$ 0	$ 206	$ 0	$ 0	$ 8,979	$ 9,185
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 17,945	$ 0	$ 17,945
Purchased Options	0	0	0	(37)	175	138
Written Options	0	(8)	0	245	(534)	(297)
Swap Agreements	0	(55)	0	(3,132)	18	(3,169)
	$ 0	$ (63)	$ 0	$ 15,021	$ (341)	$ 14,617
	$ 0	$ 143	$ 0	$ 15,021	$ 8,638	$ 23,802

 See Accompanying Notes

FAIR VALUE MEASUREMENTS

The following is a summary of the fair valuations according to the inputs used as of December 31, 2016 in valuing the Portfolio's assets and liabilities:

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 12/31/2016
Investments in Securities, at Value				
Australia				
Sovereign Issues	$ 0	$ 104	$ 0	$ 104
Belgium				
Corporate Bonds & Notes	0	846	0	846
Brazil				
Corporate Bonds & Notes	0	2,295	0	2,295
Canada				
Asset-Backed Securities	0	866	0	866
Corporate Bonds & Notes	0	3,663	0	3,663
Sovereign Issues	0	13,139	0	13,139
Cayman Islands				
Asset-Backed Securities	0	2,581	0	2,581
Denmark				
Corporate Bonds & Notes	0	75,623	0	75,623
France				
Corporate Bonds & Notes	0	2,546	0	2,546
Non-Agency Mortgage-Backed Securities	0	221	0	221
Sovereign Issues	0	4,242	0	4,242
Germany				
Corporate Bonds & Notes	0	3,264	0	3,264
Greece				
Corporate Bonds & Notes	0	518	0	518
Sovereign Issues	0	925	0	925
Guernsey, Channel Islands				
Corporate Bonds & Notes	0	799	0	799
Ireland				
Asset-Backed Securities	0	461	0	461
Corporate Bonds & Notes	0	1,429	0	1,429
Sovereign Issues	0	1,023	0	1,023
Italy				
Corporate Bonds & Notes	0	2,885	0	2,885
Non-Agency Mortgage-Backed Securities	0	873	0	873
Sovereign Issues	0	21,723	0	21,723
Japan				
Corporate Bonds & Notes	0	2,146	0	2,146
Sovereign Issues	0	26,649	0	26,649
Luxembourg				
Corporate Bonds & Notes	0	3,156	0	3,156
Multinational				
Corporate Bonds & Notes	0	887	0	887
Netherlands				
Asset-Backed Securities	0	1,421	945	2,366
Corporate Bonds & Notes	0	9,932	0	9,932
Norway				
Corporate Bonds & Notes	0	396	0	396
Sovereign Issues	0	632	0	632
Portugal				
Corporate Bonds & Notes	0	368	0	368
Qatar				
Corporate Bonds & Notes	0	445	0	445
Sovereign Issues	0	301	0	301
Saudi Arabia				
Sovereign Issues	0	3,976	0	3,976
Slovenia				
Sovereign Issues	0	11,136	0	11,136
South Korea				
Corporate Bonds & Notes	0	391	0	391
Sovereign Issues	0	700	0	700
Spain				
Corporate Bonds & Notes	$ 0	$ 1,265	$ 0	$ 1,265
Sovereign Issues	0	6,626	0	6,626
Supranational				
Corporate Bonds & Notes	0	531	0	531
Sweden				
Corporate Bonds & Notes	0	5,485	0	5,485
Switzerland				
Corporate Bonds & Notes	0	3,367	0	3,367
Sovereign Issues	0	455	0	455
United Arab Emirates				
Corporate Bonds & Notes	0	495	0	495
United Kingdom				
Corporate Bonds & Notes	0	16,360	0	16,360
Non-Agency Mortgage-Backed Securities	0	5,808	0	5,808
Sovereign Issues	0	12,279	0	12,279
United States				
Asset-Backed Securities	0	25,082	0	25,082
Bank Loan Obligations	0	599	0	599
Corporate Bonds & Notes	0	22,060	0	22,060
Municipal Bonds & Notes	0	135	0	135
Non-Agency Mortgage-Backed Securities	0	6,595	30	6,625
Preferred Securities	23	0	0	23
U.S. Government Agencies	0	50,943	0	50,943
U.S. Treasury Obligations	0	13,520	0	13,520
Short-Term Instruments				
Certificates of Deposit	0	4,907	0	4,907
Repurchase Agreements	0	855	0	855
Italy Treasury Bills	0	8,530	0	8,530
Japan Treasury Bills	0	70,006	0	70,006
U.S. Treasury Bills	0	1,518	0	1,518
	$ 23	$ 459,983	$ 975	$ 460,981
Investments in Affiliates, at Value				
Short-Term Instruments				
Central Funds Used for Cash Management Purposes	$ 3,588	$ 0	$ 0	$ 3,588
Total Investments	$ 3,611	$ 459,983	$ 975	$ 464,569
Financial Derivative Instruments - Assets				
Exchange-traded or centrally cleared	454	513	0	967
Over the counter	0	21,506	0	21,506
	$ 454	$ 22,019	$ 0	$ 22,473
Financial Derivative Instruments - Liabilities				
Exchange-traded or centrally cleared	(159)	(425)	0	(584)
Over the counter	0	(10,068)	0	(10,068)
	$ (159)	$ (10,493)	$ 0	$ (10,652)
Total Financial Derivative Instruments	$ 295	$ 11,526	$ 0	$ 11,821
Totals	$ 3,906	$ 471,509	$ 975	$ 476,390

There were no significant transfers between Levels 1, 2, or 3 during the period ended December 31, 2016.

1. ORGANIZATION

PIMCO Variable Insurance Trust (the "Trust") was established as a Delaware business trust on October 3, 1997. The Trust is registered under the Investment Company Act of 1940, as amended (the "Act"), as an open-end management investment company. 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. Information presented in these financial statements pertains to the Institutional Class, Administrative Class and Advisor Class shares of the PIMCO Foreign Bond (U.S. Dollar-Hedged) (the "Portfolio") offered by the Trust. 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 beyond a standard settlement period for the security after the trade date. Realized gains (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 (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 denominated in foreign currencies 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. Realized foreign exchange gains (losses) arising from sales of spot foreign currencies, currency gains (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 (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 Trust 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 (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) Distributions to Shareholders Distributions 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 distributions and capital gain distributions are determined in accordance with income tax regulations which may differ from U.S. GAAP. Differences between tax regulations and U.S. GAAP may cause timing differences between income and capital gain recognition. Further, the character of investment income and capital gains may be different for certain transactions under the two methods of accounting. As a result, income distributions 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.

If a Portfolio estimates that a portion of one of its dividend distributions may be comprised of amounts from sources other than net investment income, the Portfolio will notify shareholders of record of the estimated composition of such distribution through a Section 19 Notice. To determine the sources of a Portfolio's distributions during the reporting period, the Portfolio references its internal accounting records at the time the distribution is paid and generally bases its projections of the final tax character of those distributions on the tax characteristics of the distribution reflected in its internal accounting records at the time of such payment. If, based on such records, a particular distribution does not include capital gains or paid-in surplus or other capital sources, a Section 19 Notice generally would not be issued. It is important to note that differences exist between a Portfolio's daily internal accounting records, the Portfolio's financial statements presented in accordance with U.S. GAAP, and recordkeeping practices under income tax regulations. Examples of such differences may include, among others, the treatment of paydowns on mortgage-backed securities purchased at a discount and periodic payments under interest rate swap contracts. Notwithstanding a Portfolio's estimates and projections, it is possible that a Portfolio may not issue a Section 19 Notice in situations where the Portfolio's financial statements prepared later and in accordance with U.S. GAAP or the final tax character of those distributions might later report that the sources of those distributions included capital gains and/or a return of capital.

Additionally, given differences in tax and U.S. GAAP treatment of certain distributions, a Portfolio may not issue a Section 19 Notice in situations where the Portfolio's financial statements prepared later and in accordance with U.S. GAAP might report that the sources of these distributions included capital gains and/or a return of capital. Final determination of a distribution's tax character will be provided to shareholders when such information is available.

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 gain (loss) and/or paid in capital to more appropriately conform U.S. GAAP to tax characterizations of distributions.

(e) New Accounting Pronouncements In August 2014, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU"), 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. The Portfolio has adopted the ASU. The implementation of the ASU did not have an impact on the Portfolio's 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. The ASU did not have an impact on the Portfolio's financial statements.

In August 2016, the FASB issued ASU 2016-15 which amends ASC 230 to clarify guidance on the classification of certain cash receipts and cash payments in the statement of cash flows. The ASU is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. At this time, management is evaluating the implications of these changes on the financial statements.

In October 2016, the U.S. Securities and Exchange Commission ("SEC") adopted new rules and forms, and amendments to certain current rules and forms, to modernize reporting and disclosure of information by registered investment companies. The amendments to Regulation S-X will require standardized, enhanced disclosure about derivatives in investment company financial statements, and will also change the rules governing the form and content of such financial statements. The amendments to Regulation S-X take effect on August 1, 2017. At this time, management is assessing the anticipated impact of these regulatory developments.

In November 2016, the FASB issued ASU 2016-18 which amends ASC 230 to provide guidance on the classification and presentation of changes in restricted cash and restricted cash equivalents on the statement of cash flows. The ASU is effective for annual periods beginning after December 15, 2017, 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, less any liabilities attributable to the Portfolio or class, 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. The Portfolio's investments in open-end management investment companies, other than exchange-traded funds ("ETFs"), are valued at 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 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 the 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 — 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 into 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 into and out of the Level 3 category during the period. The end of period value 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.

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.

Equity exchange-traded options and over the counter financial derivative instruments, such as forward foreign currency contracts, and options contracts, derive their value from underlying asset prices, indices, reference rates, and other inputs or a combination of these factors. 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 and over the counter swaps derive their value from underlying asset prices, indices, reference rates, and other inputs or a combination of these factors. They are valued using a broker-dealer bid quotation or on market-based prices provided by Pricing

Services or other pricing sources (normally determined as of the NYSE close). Centrally cleared swaps and over the counter swaps can be valued by Pricing Services using a series of techniques, including simulation pricing models. The pricing models may use inputs that are observed from actively quoted markets such as the overnight index swap rate ("OIS"), London Interbank Offered Rate ("LIBOR") forward rate, interest rates, yield curves and credit spreads. 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 its investment activities, but does 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 an affiliated Fund for the period ended December 31, 2016 (amounts in thousands†):

Investment in PIMCO Short-Term Floating NAV Portfolio III

Market Value 12/31/2015	Purchases at Cost	Proceeds from Sales	Net Realized Gain (Loss)	Change in Unrealized Appreciation (Depreciation)	Market Value 12/31/2016	Dividend Income(1)	Realized Net Capital Gain Distributions(1)
$ 59,473	$ 157,777	$ (213,699)	$ (198)	$ 235	$ 3,588	$ 177	$ 0

† A zero balance may reflect actual amounts rounding to less than one thousand.

(1) The tax characterization of distributions is determined in accordance with Federal income tax regulations. The actual tax characterization of distributions paid are determined at the end of the fiscal year. See Note 2 in the Notes to Financial Statements for more information.

(b) Investments in Securities

Delayed-Delivery Transactions The Portfolio may purchase or sell securities on a delayed-delivery basis. These transactions involve a commitment by the Portfolio to purchase or sell securities for a predetermined price or yield, with payment and delivery taking place beyond the customary settlement period. When delayed-delivery transactions are outstanding, the Portfolio will designate or receive as collateral liquid assets in an amount sufficient to meet the purchase price or respective obligations. When purchasing a security on a delayed-delivery basis, the Portfolio assumes the rights and risks of ownership of the security, including the risk of price and yield fluctuations, and takes such fluctuations into account when determining its NAV. The Portfolio may dispose of or renegotiate a delayed-delivery transaction after it is entered into, which may result in a realized gain (loss). When the Portfolio has sold a security on a delayed-delivery basis, the Portfolio does not participate in future gains (losses) with respect to the security.

Inflation-Indexed Bonds The Portfolio may invest in inflation-indexed bonds. Inflation-indexed bonds are fixed income securities whose principal value is periodically adjusted by 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. Repayment of the original bond principal upon maturity (as adjusted for inflation) is guaranteed in the case of U.S. TIPS. For bonds that do not provide a similar guarantee, the adjusted principal value of the bond repaid at maturity may be less than the original principal.

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 the Portfolio. A loan is often administered by a bank or other financial institution (the "agent") 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 agents 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 agent selling the loan agreement and only upon receipt of payments by the agent 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, 2016, 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 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.

Collateralized Mortgage Obligations ("CMOs") are debt obligations of a legal entity that are collateralized by whole mortgage loans or private mortgage bonds and divided into classes. CMOs are structured into multiple classes, often referred to as "tranches", with each class bearing a different stated maturity and entitled to a different schedule for payments of principal and interest, including prepayments. CMOs may be less liquid and may exhibit greater price volatility than other types of mortgage-related or asset-backed securities.

Stripped Mortgage-Backed Securities ("SMBS") are derivative multi-class mortgage securities. SMBS are usually structured with two classes that receive different proportions of the interest and principal distributions on a pool of mortgage assets. 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.

When-Issued Transactions The Portfolio may purchase or sell securities on a when-issued basis. These transactions are made conditionally because a security, although authorized, has not yet been issued in the market. Transactions to purchase or sell securities on a when-issued basis involve a commitment by the Portfolio to purchase or sell these securities for a predetermined price or yield, with payment and delivery taking place beyond the customary settlement period. The Portfolio may sell when-issued securities before they are delivered, which may result in a realized gain (loss).

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 in the Portfolio's financial statements 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 purchases 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 by the Portfolio's custodian or designated subcustodians under tri-party repurchase agreements and in certain instances will remain in custody with the counterparty. The market value of the collateral must be equal to or exceed the total amount of the repurchase obligations, including interest. Repurchase agreements, if any, 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.

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 (loss). Realized gains (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 (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 (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 (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 (loss) when the underlying transaction is executed.

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.

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 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.

Interest Rate-Capped Options The Portfolio may write or purchase interest rate-capped options to enhance returns or for hedging opportunities. The purpose of purchasing interest rate-capped options is to protect the Portfolio from floating rate risk above a certain rate on a given notional exposure. A floor can be used to give downside protection to investments in interest rate linked products.

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.

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.

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.

Straddle Options The Portfolio may enter into differing forms of straddle options ("Straddle"). A Straddle is an investment strategy that uses combinations of options that allow the Portfolio to profit based on the future price movements of the underlying security, regardless of the direction of those movements. A written Straddle involves simultaneously writing a call option and a put option on the same security with the same strike price and expiration date. The written Straddle increases in value when the underlying security price has little volatility before the expiration date. A purchased Straddle involves simultaneously purchasing a call option and a put option on the same security with the same strike price and expiration date. The purchased

Straddle increases in value when the underlying security price has high volatility, regardless of direction, before the expiration date.

(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 disclosed 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 (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 (loss) on the Statement of Operations. Net periodic payments received or paid by the Portfolio are included as part of realized gain (loss) 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, 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 swap 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 may be 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 The 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 the Portfolio owns or has exposure to the referenced obligation) or to take an active long or short position with respect to the likelihood of a particular issuer's default. Credit default swap agreements 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. The value of the fixed rate bonds that the Portfolio holds 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 (non-U.S.) currency, equity and commodity risks.

Interest rate risk is the risk that fixed income securities and other instruments held by the Portfolio 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 used to determine the sensitivity of a security's price to changes in interest rates 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, etc.). At present, the U.S. and many parts of the world, including certain European countries, are at or near 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. To the extent that the Fed continues to raise interest rates, there is a risk that rates across the financial system may rise. Further, while bond markets have steadily grown over the past three decades, dealer "market making" ability has not kept pace and in some cases has decreased. 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 shareholder redemptions, which could force the Portfolio to liquidate investments at disadvantageous times or prices, thereby adversely affecting the Portfolio. Also, the Portfolio may be adversely affected when a large shareholder purchases or redeems large amounts of shares, which can occur at any time and may impact the Portfolio in the same manner as a high volume of redemption requests. Large shareholder transactions may impact the Portfolio's liquidity and net asset value. Such transactions may also increase the Portfolio's transaction costs or otherwise cause the Portfolio to perform differently than intended. Moreover, the Portfolio is subject to the risk that other shareholders may make investment decisions based on the choices of a large shareholder.

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, a smaller market capitalization and a smaller number of traded securities. 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. Over the counter ("OTC") derivative transactions are subject to the risk that a counterparty to the transaction will not fulfill its contractual obligations to the other party, as many of the protections afforded to centrally cleared derivative transactions might not be available for OTC derivative transactions. For derivatives traded on an exchange or through a central counterparty, credit risk resides with the Portfolio's clearing broker, or the clearinghouse itself, rather than with a counterparty in an OTC derivative transaction. 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. PIMCO's attempts to minimize counterparty risk may, however, be unsuccessful.

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 TBA 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, transaction 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 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 may be reduced as creditors of an FCM cannot have a claim to Portfolio assets in the segregated account. Portability of exposure 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 unless the parties have agreed to a separate arrangement in respect of portfolio margining. 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 posting 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, as applicable, is charged at the annual rate as noted in the following table (calculated as a percentage of the Portfolio's average daily net assets attributable to each class):

	Supervisory and Administrative Fee
Institutional Class	0.50%
Administrative Class	0.50%
Advisor Class	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.

	Distribution Fee	Servicing Fee
Administrative Class	—	0.15%
Advisor Class	0.25%	—

(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 Portfolio, 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, so that each co-lead individually receives an additional retainer of $1,625) and the governance committee chair receives an additional annual retainer of $1,500. The Lead Independent Trustee receives an annual retainer of $3,500.

These expenses are allocated on a pro rata basis to each Portfolio of the Trust according to its respective net assets. 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, Fees and Expenses, 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, or an affiliate of 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, 2016, the Portfolio engaged in purchases and sales of securities pursuant to Rule 17a-7 under the Act (amounts in thousands):

Purchases	Sales
$ 27,421	$ 7,004

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, 2016, were as follows (amounts in thousands):

U.S. Government/ Agency		All Other	
Purchases	Sales	Purchases	Sales
$ 789,013	$ 757,690	$ 233,919	$ 161,113

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 12/31/2016		Year Ended 12/31/2015	
	Shares	**Amount**	**Shares**	**Amount**
Receipts for shares sold				
Institutional Class	196	$ 2,150	215	$ 2,352
Administrative Class	2,022	22,276	4,371	48,158
Advisor Class	9,885	108,149	13,971	152,491
Issued as reinvestment of distributions				
Institutional Class	8	87	10	102
Administrative Class	109	1,200	251	2,680
Advisor Class	495	5,436	677	7,198
Cost of shares redeemed				
Institutional Class	(31)	(336)	(21)	(230)
Administrative Class	(3,226)	(35,243)	(5,865)	(64,356)
Advisor Class	(379)	(4,144)	(38)	(409)
Net increase (decrease) resulting from Portfolio share transactions	9,079	$ 99,575	13,571	$ 147,986

As of December 31, 2016, one shareholder owned 10% or more of the Portfolio's total outstanding shares comprising 83% 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, the investment manager of the PIMCO Total Return Active Exchange-Traded Fund ("BOND"), has entered into a settlement agreement with the SEC that relates to BOND.

The settlement relates to disclosures regarding BOND's performance attribution during the first four months of its existence in 2012 and the valuation of 43 smaller-sized positions of non-agency mortgage-backed securities using third-party vendor prices, as well as PIMCO's policies and procedures related to these matters.

The settlement resolves the SEC's investigation of BOND.

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, 2016, 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 2013-2015, 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, 2016, the components of distributable taxable earnings are as follows (amounts in thousands†):

	Undistributed Ordinary Income(1)	Undistributed Long-Term Capital Gains	Net Tax Basis Unrealized Appreciation/ (Depreciation)(2)	Other Book-to-Tax Accounting Differences(3)	Accumulated Capital Losses(4)	Qualified Late-Year Loss Deferral - Capital(5)	Qualified Late-Year Loss Deferral - Ordinary(6)
PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)	$ 23,626	$ 0	$ (7,210)	$ (298)	$ (4,891)	$ 0	$ 0

† A zero balance may reflect actual amounts rounding to less than one thousand.
(1) Includes undistributed short-term capital gains, if any.
(2) 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.
(3) 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.
(4) Capital losses available to offset future net capital gains expire in varying amounts in the years shown below.
(5) Capital losses realized during the period November 1, 2016 through December 31, 2016 which the Fund elected to defer to the following taxable year pursuant to income tax regulations.
(6) Specified losses realized during the period November 1, 2016 through December 31, 2016, which the Fund elected to defer to the following taxable year pursuant to income tax regulations.

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, 2016, the Portfolio had the following post-effective capital losses with no expiration:

	Short-Term	Long-Term
PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)	$ 4,891	$ 0

† A zero balance may reflect actual amounts rounding to less than one thousand.

As of December 31, 2016, 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)(7)
PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)	$ 487,125	$ 2,850	$ (25,406)	$ (22,556)

† A zero balance may reflect actual amounts rounding to less than one thousand.
(7) Primary differences, if any, between book and tax net unrealized appreciation/(depreciation) on investments are attributable to open wash sale loss deferrals.

For the fiscal years ended December 31, 2016 and December 31, 2015, respectively, the Portfolio made the following tax basis distributions (amounts in thousands):

	December 31, 2016			December 31, 2015		
	Ordinary Income Distributions(8)	Long-Term Capital Gain Distributions	Return of Capital(9)	Ordinary Income Distributions(8)	Long-Term Capital Gain Distributions	Return of Capital(9)
PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)	$ 6,724	$ 0	$ 0	$ 9,807	$ 174	$ 0

† A zero balance may reflect actual amounts rounding to less than one thousand.
(8) Includes short-term capital gains, if any, distributed.
(9) A portion of the distributions made represents a tax return of capital. Return of capital distributions have been reclassified from undistributed net investment income to paid-in capital to more appropriately conform to financial accounting to tax accounting.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of PIMCO Variable Insurance Trust and Shareholders of the 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 the PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) (one of the portfolios constituting PIMCO Variable Insurance Trust, hereafter referred to as the "Portfolio") as of December 31, 2016, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the periods indicated, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the 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 as of December 31, 2016 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Kansas City, Missouri

February 17, 2017

Counterparty Abbreviations:

BOA	Bank of America N.A.	**GSC**	Goldman Sachs & Co.	**RBC**	Royal Bank of Canada
BOS	Banc of America Securities LLC	**GST**	Goldman Sachs International	**RYL**	Royal Bank of Scotland Group PLC
BPS	BNP Paribas S.A.	**HUS**	HSBC Bank USA N.A.	**SCX**	Standard Chartered Bank
BRC	Barclays Bank PLC	**IND**	Crédit Agricole Corporate and Investment Bank S.A.	**SOG**	Societe Generale
CBK	Citibank N.A.	**JPM**	JPMorgan Chase Bank N.A.	**SSB**	State Street Bank and Trust Co.
CIB	Canadian Imperial Bank of Commerce	**MSB**	Morgan Stanley Bank, N.A	**TDM**	TD Securities (USA) LLC
DUB	Deutsche Bank AG	**MYC**	Morgan Stanley Capital Services, Inc.	**TOR**	Toronto Dominion Bank
FBF	Credit Suisse International	**MYI**	Morgan Stanley & Co. International PLC	**UAG**	UBS AG Stamford
GLM	Goldman Sachs Bank USA	**NGF**	Nomura Global Financial Products, Inc.	**UBS**	UBS Securities LLC

Currency Abbreviations:

AUD	Australian Dollar	**EUR**	Euro	**NZD**	New Zealand Dollar
BRL	Brazilian Real	**GBP**	British Pound	**RUB**	Russian Ruble
CAD	Canadian Dollar	**INR**	Indian Rupee	**SEK**	Swedish Krona
CHF	Swiss Franc	**JPY**	Japanese Yen	**SGD**	Singapore Dollar
CNH	Chinese Renminbi (Offshore)	**KRW**	South Korean Won	**TWD**	Taiwanese Dollar
CNY	Chinese Renminbi (Mainland)	**MXN**	Mexican Peso	**USD (or $)**	United States Dollar
DKK	Danish Krone	**NOK**	Norwegian Krone	**ZAR**	South African Rand

Exchange Abbreviations:

OTC	Over the Counter

Index/Spread Abbreviations:

CDX.IG	Credit Derivatives Index—Investment Grade	**UKRPI**	United Kingdom Retail Price Index

Other Abbreviations:

ABS	Asset-Backed Security	**CDO**	Collateralized Debt Obligation	**LIBOR**	London Interbank Offered Rate
ALT	Alternate Loan Trust	**CLO**	Collateralized Loan Obligation	**NCUA**	National Credit Union Administration
ATM	At-the-money	**EURIBOR**	Euro Interbank Offered Rate	**STIBOR**	Stockholm Interbank Offered Rate
BABs	Build America Bonds	**JIBAR**	Johannesburg Interbank Agreed Rate	**TIIE**	Tasa de Interés Interbancaria de Equilibrio "Equilibrium Interbank Interest Rate"
BTP	Buoni del Tesoro Poliennali	**KORIBOR**	Korea Interbank Offered Rate		

Federal Income Tax Information

(Unaudited)

As required by the Internal Revenue Code ("Code") and Treasury Regulations, if applicable, shareholders must be notified within 60 days of the Portfolio's fiscal year end regarding the status of qualified dividend income and the dividend received deduction.

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 fiscal 2016 ordinary income dividend that qualifies for the corporate dividend received deduction is set forth below.

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 2016.

Qualified Interest Income and Qualified Short-Term Capital Gain (for non-U.S. resident shareholders only). Under the American Jobs Creation Act of 2004, the following amounts of ordinary dividends paid during the fiscal year ended December 31, 2016 are considered to be derived from "qualified interest income," as defined in Section 871(k)(1)(E) of the Code, and therefore are designated as interest-related dividends, as defined in Section 871(k)(1)(C) of the Code. Further, the following amounts of ordinary dividends paid during the fiscal year ended December 31, 2016 are considered to be derived from "qualified short-term capital gain," as defined in Section 871(k)(2)(D) of the Code, and therefore are designated as qualified short-term gain dividends, as defined by Section 871(k)(2)(C) of the Code.

	Dividend Received Deduction %	Qualified Dividend Income %	Qualified Interest Income (000s†)	Qualified Short-Term Capital Gain (000s†)
PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)	0.01%	0.23%	$ 5,208	$ 1,516

† A zero balance may reflect actual amounts rounding to less than one thousand.

Shareholders are advised to consult their own tax advisor with respect to the tax consequences of their investment in the Trust. In January 2017, you will be advised on IRS Form 1099-DIV as to the federal tax status of the dividends and distributions received by you in calendar year 2016.

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.	144	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, PIMCO; Chief Executive Officer, PIMCO (2/14 - 10/16); Chief Operating Officer, PIMCO (7/09 - 2/14); Member Global Executive Committee, Allianz Asset Management. Formerly, member of Executive Committee and Head of PIMCO's Asia Pacific region.	126	Trustee, PIMCO Funds and 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.	126	Trustee, PIMCO Funds and PIMCO ETF Trust.
E. Philip Cannon* (1940)** *Trustee*	05/2000 to present	Private Investor. Formerly, President, Houston Zoo.	144	Trustee, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and 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).	144	Trustee, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT; Director, PS Business Parks; Director, Big 5 Sporting Goods Corporation.
Kym M. Hubbard* (1957)** *Trustee*	02/2017 to present	Formerly, Global Head of Investments, Chief Investment Officer and Treasurer, Ernst & Young.	126	Trustee, PIMCO Funds and PIMCO ETF Trust.
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).	126	Trustee, PIMCO Funds and 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.	144	Trustee, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT.
Ronald C. Parker (1951) *Lead Independent Trustee*	07/2009 to present Lead Independent Trustee - 02/2017 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).	144	Lead Independent Trustee, PIMCO Funds and PIMCO ETF Trust; Trustee, PIMCO Equity Series and 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.

*** The information for the individuals listed is as of December 31, 2016. Effective February 14, 2017, Ms. Hubbard became a Trustee of the Trust and Mr. Cannon retired from service as a Trustee of the Trust.

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, PIMCO-Sponsored Interval Funds and PIMCO-Sponsored 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, PIMCO. Senior Vice President, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. Formerly, member of Executive Committee, PIMCO.
Douglas M. Hodge (1957) *Senior Vice President*	05/2010 to present	Managing Director, PIMCO; Chief Executive Officer, PIMCO (2/14 - 10/16); Chief Operating Officer, PIMCO (7/09 - 2/14); Member Global Executive Committee, Allianz Asset Management. Senior Vice President, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. Formerly, member of Executive Committee and Head of PIMCO's Asia Pacific region.
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, PIMCO-Sponsored Interval Funds and PIMCO-Sponsored 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, PIMCO-Sponsored Interval Funds and PIMCO-Sponsored 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	Executive Vice President, PIMCO. Vice President, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series, PIMCO Equity Series VIT, PIMCO Managed Accounts Trust, PIMCO-Sponsored Interval Funds and PIMCO-Sponsored 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, PIMCO-Sponsored Interval Funds and PIMCO-Sponsored Closed-End Funds.
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, PIMCO-Sponsored Interval Funds and PIMCO-Sponsored 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, PIMCO-Sponsored Interval Funds and PIMCO-Sponsored 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, PIMCO-Sponsored Interval Funds and PIMCO-Sponsored Closed-End Funds.
Christopher M. Morin (1980) *Assistant Treasurer*	08/2016 to present	Vice President, PIMCO. Assistant Treasurer, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series, PIMCO Equity Series VIT, PIMCO Managed Accounts Trust, PIMCO-Sponsored Interval Funds and PIMCO-Sponsored Closed-End Funds. Formerly, Vice President of Operations, Standard Life Investments USA; Assistant Vice President, Brown Brothers Harriman.
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, PIMCO-Sponsored Interval Funds and PIMCO-Sponsored Closed-End Funds. Formerly, Head of Mutual Fund Reporting, GMO and Assistant Treasurer, GMO Trust and GMO Series Trust Funds.

* The term "PIMCO-Sponsored 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 and Mortgage 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 term "PIMCO-Sponsored Interval Funds" as used herein includes: PIMCO Flexible Credit Income Fund.

** 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] Amended as of December 14, 2016.
[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 15-16, 2016, the Board of Trustees (the "Board") of PIMCO Variable Insurance Trust (the "Trust"), including 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 renewal of 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, 2017. The Board also considered and unanimously approved the renewal of the Supervision and Administration Agreement (together with the Investment Advisory Contract, the "Agreements") between the Trust, on behalf of the Portfolios, and PIMCO for an additional one-year term through August 31, 2017. 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, 2017.

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 and each of the Portfolios, as applicable. In considering whether to approve the renewal of the Agreements and the Asset Allocation Agreement, the Board reviewed additional 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 renewal of the Agreements and the Asset Allocation Agreement.

(b) Review Process: In connection with considering 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 encompassing a wide variety of topics. The Board requested and received assistance and advice regarding, among other things, 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 information and fee and expense data. The Board received 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 15-16, 2016 meeting. The Independent Trustees also conducted a telephonic meeting with counsel to the Trust and the Independent Trustees in advance of the August 15-16, 2016 meeting to discuss the materials presented and other matters deemed relevant to their consideration of the renewal of the Agreements and the Asset Allocation Agreement. In addition, the Independent Trustees requested and received additional information from PIMCO 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 and evaluation 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. The discussion below is intended to summarize the broad factors and information that figured prominently in the Board's consideration 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 the Portfolios' asset levels. 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 and infrastructure supporting investment management and compliance, as well as PIMCO's continuing efforts to attract, retain and promote qualified personnel and to maintain and enhance its resources and systems. The Board considered PIMCO's policies, procedures and systems reasonably designed to assure compliance with applicable laws and regulations and its commitment to further developing and strengthening 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 services to the Portfolios and has allowed PIMCO to introduce innovative new portfolios over time. In addition, the Board considered the nature and quality of services provided by PIMCO to the wholly-owned subsidiaries of certain applicable Portfolios.

The Trustees considered information they had received about the steps that PIMCO has taken 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 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 2015, including, but not limited to: continuing enhancement of analytics and technology systems; enhancing data processing and security and development tools and applications; continuing investment in its enterprise risk management function, including PIMCO's cybersecurity program; building specialized talent in the PIMCO Global Advisory Board and continuing to hire new portfolio managers; continuing to expand the Funds Business Group global operating model; developing a website monitoring application to ensure accurate data content; engaging a third-party to perform an independent assessment of the application utilized for income servicing and enhancing the application to provide portfolio managers with more timely and high quality quarterly reporting; establishing a Fund Treasurer's Office to provide, among other things, guidance with respect to industry and regulatory initiatives; advancing technology developers in global tax management application; conducting an end-to-end review of State Street IMS, custodian and pricing vendor connectivity in connection with the pricing function; continuing development of Pricing Portal to improve identification and feedback to vendors regarding valuations; continuing extensive pricing vendor due diligence; and partnering with Boston Financial Data Services, Inc. to establish secondary call center and other call center enhancements. The Trustees also considered the Portfolios' outflows over recent periods, including 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 resource 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 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 provided by PIMCO under the Agreements and by Research Affiliates under the Asset Allocation Agreement are likely to continue to benefit the Portfolios and their respective shareholders, as applicable.

(b) Other Services: The Board also considered the nature, extent and quality of supervisory and administrative services provided by PIMCO to the Portfolios under the Supervision and 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, sub-accounting and printing costs. The Board noted that the scope and complexity, as well as the costs, 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 supervisory and administrative 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 reviewed information from PIMCO concerning the Portfolios' performance, as available, over short- and long-term periods ended May 31, 2016 and other performance data, as available, over short- and long-term periods ended June 30, 2016 (the "PIMCO Report") and from Lipper concerning the Portfolios' performance, as available, over short- and long-term periods ended May 31, 2016 (the "Lipper Report").

The Board considered information regarding both the short 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 15-16, 2016 meeting. The Trustees noted that a majority of the Portfolios outperformed their respective Lipper medians over the ten-year period ended May 31, 2016. The Board also noted that, as of May 31, 2016, the Administrative Class of 25%, 38% and 75% 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: categorize funds to limit heterogeneity and broad-based peer groups; account for the applicable Portfolios' hedging strategies; or 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). 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 but found the comparative information supported its overall evaluation.

The Board noted that a majority of the Portfolios outperformed their respective benchmark indexes over the ten-year period ended May 31, 2016. The Board noted that, as of May 31, 2016, 1%, 23%, and 75% of the Trust's assets (based on Administrative Class performance) outperformed their respective benchmarks on a net-of-fees basis over the three-year, five-year and ten-year periods, respectively. 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 $18.1 billion as of December 31, 2015.

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 and corporate events; workouts; derivatives; net new issuance in the bond market and extensive research for new issuances; 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 PIMCO's ability to generate "alpha" (*i.e.,* non-market correlated excess performance) for its clients over time, including the Trust.

The Board ultimately concluded, within the context of all of its considerations in connection with the Agreements, 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 renewal 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, but not limited to, 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 considered that portfolio pricing generally is not driven by comparison to passively-managed products. The Board also considered that PIMCO reviews the Portfolios' fee levels and carefully considers reductions where appropriate, and noted in particular, the proposed reduction in advisory fees for the PIMCO Global Multi-Asset Managed Volatility Portfolio and PIMCO Global Advantage Strategy Bond Portfolio effective October 21, 2016.

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 advisory fee and supervisory and administrative fee 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 and negotiated fee rate PIMCO charges to separate accounts and sub-advised clients with similar investment strategies. 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, but not limited to, 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 or arrangements across PIMCO strategies 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 PIMCO 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 and the number of Portfolios has grown over time, 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. In return for this unified fee, 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, sub-accounting and printing costs. The Board further considered that many other funds pay for comparable 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 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 considered historical advisory fee reductions implemented for different Portfolios. 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 negative in 2015 as the allocation of compensation and benefits and other administrative expenses to the Trust increased as the Trust's assets now comprise a larger percentage of PIMCO's total sponsored fund assets compared to the previous year. 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. The Board noted that 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 a Portfolio's shareholders of the fees associated with the Portfolio, and that the Portfolio bears certain expenses that are not covered by the advisory fee or the unified fee. The Board further considered the challenges that arise when managing large funds, which can result in certain "diseconomies" of scale.

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 may be 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 realized 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 comprehensive consideration and evaluation of each of the broad factors and information 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 supported 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.

General Information

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This report is submitted for the general information of the shareholders of the PIMCO Variable Insurance Trust.

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PIMCO

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PIMCO

Annual Report

December 31, 2016

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, 2016. 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.

In the first quarter of the reporting period, global growth concerns in the midst of uncertainty from China, falling commodity prices and questions about the efficacy of central bank policies sparked a sell-off in risk assets. Despite elevated volatility in financial markets, the fundamental backdrop remained mostly intact and supportive central banks helped reignite risk appetite in part with calming rhetoric and actions. The European Central Bank ("ECB") announced additional easing measures in Europe, with a focus on credit expansion. Also, concerns about global influences and financial conditions kept the Federal Reserve ("Fed") on hold after its December 2015 interest rate hike, suggesting a more dovish tilt with a tolerance for overshooting their inflation target.

In June 2016, the unexpected outcome of the U.K. "Brexit" referendum dominated headlines and market movements. Volatility rose as a result and sovereign yields rallied significantly, while risk assets generally underperformed. Steadier commodity prices and fiscal stimulus in China helped bolster market sentiment, even as central banks remained on hold ahead of the Brexit referendum. Softer-than-expected employment data in the U.S. pushed market expectations for the next Fed interest rate hike further out into the future, with the Fed continuing to hold rates steady through the end of November.

Leading up to the November 8th U.S. presidential election, investors generally shook off the surprising result of the Brexit referendum, along with a host of political developments including new leadership in the U.K. and Brazil, and a coup attempt in Turkey. In this environment, volatility generally remained low and risk assets rallied. Central banks featured prominently in the headlines as monetary policy concerns (in particular, the longevity of central bank support) lingered beneath the seemingly benign market environment. The Bank of Japan's "comprehensive review," inaction by the ECB, and the Fed's solidifying path towards a potential interest rate increase in December 2016 all contributed to sovereign yields generally rising during this period. Still, equities moved higher (U.S. stock indices set record highs), credit spreads tightened, and emerging market assets continued to gain.

In the wake of the not expected result of the U.S. election, volatility fell, equities rallied, credit spreads continued to tighten and the U.S. dollar strengthened. In contrast, interest rates rose dramatically as most markets focused on the pro-growth and inflationary potential of fiscal expansion, tax cuts, and deregulation. Part of the rise in interest rates was also due to a sharp increase in inflation expectations. Despite the generally positive risk sentiment towards the end of the reporting period, emerging markets weakened as protectionist rhetoric from the incoming administration weighed on the asset class.

Finally, the ECB at its December 8th meeting opted to leave its main policy rate unchanged and announced an expansion of its Quantitative Easing program to exceed $2.4 trillion by the end of 2017. And on December 14th, the Fed raised its key lending rate, the Federal Funds Rate, by 0.25% to a range of 0.50%-0.75%, representing their second rate increase in ten years.

Highlights of the financial markets during the twelve-month fiscal reporting period include:

- U.S. Treasuries, as represented by the Bloomberg Barclays U.S. Treasury Index, returned 1.04% for the reporting period. Yields rose across the U.S. Treasury yield curve in reaction to the Fed's interest rate increases, rising concern over inflation and strong investor risk appetite. The benchmark ten-year U.S. Treasury note yielded 2.45% at the end of the reporting period, up from 2.27% on December 31, 2015. The Bloomberg Barclays U.S. Aggregate Index, a widely used index of U.S. investment-grade bonds, returned 2.65% for the reporting period.

- U.S. Treasury Inflation-Protected Securities ("TIPS"), as represented by the Bloomberg Barclays U.S. TIPS Index, returned 4.68% over the reporting period. U.S. TIPS outpaced nominal U.S. Treasuries over the reporting period as inflation expectations moved higher alongside oil prices and in response to the surprise U.S. presidential election result.

- Diversified commodities, as represented by the Bloomberg Commodity Index Total Return, returned 11.77% over the reporting period. Prices on broad commodities rebounded, led higher primarily by energy and metal prices. Crude oil prices rose markedly after reaching multi-year lows in January 2016, driven higher by continued rebalancing of supply and demand as well as news of a potential OPEC production cut. Within precious metals, gold prices were the beneficiary of strong safe-haven demand over the first half of the reporting period before losing ground to end the period due to rising U.S. interest rates and a stronger U.S. dollar. Base metal prices posted strong gains, most notably toward the end of the period as the U.S. presidential election result fueled speculation of rising demand stemming from increased U.S. infrastructure spending.
- Agency mortgage-backed securities ("MBS"), as represented by the Bloomberg Barclays U.S. MBS Fixed Rate Index, returned 1.67% over the reporting period and underperformed like-duration U.S. Treasuries. Non-Agency MBS prices were higher and spreads tightened, as the sector benefited from favorable technicals and continued gradual improvement in U.S. housing fundamentals. Positive representation and warranty settlement developments also benefited the sector.
- U.S. investment grade credit, as represented by the Bloomberg Barclays U.S. Credit Index, returned 5.63% over the reporting period, as continued monetary policy support from global central banks and strong supply/demand technicals supported spread tightening. Developed market global high yield bonds, as measured by the BofA Merrill Lynch Developed Markets High Yield Constrained Index (USD Hedged), returned 13.65% over the reporting period. Performance was driven by the recovery in the commodity sectors, as well as triple-C outperformance alongside the broad risk rally. Meanwhile, high yield bond mutual funds saw strong inflows, as investors continued to seek higher yielding instruments.
- Emerging market ("EM") external debt, as represented by the JPMorgan Emerging Markets Bond Index (EMBI) Global, returned 10.19% over the reporting period. EM local bonds, as represented by the JPMorgan Government Bond Index-Emerging Markets Global Diversified Index (Unhedged), returned 9.94% over the reporting period. Improving domestic economic fundamentals and strong inflows into the asset class served as broad tailwinds for EM external and local currency debt performance. Elevated uncertainty in the wake of the U.S. election, particularly surrounding global trade and monetary policy, weighed on performance at the end of the reporting period.
- U.S. equities, as represented by the S&P 500 Index, returned 11.96% over the reporting period. EM equities, as represented by the MSCI Emerging Markets Index (Net Dividends in USD), returned 11.19% over the same period. Developed market equities outside the U.S., as represented by the MSCI EAFE Net Dividend Index (USD Unhedged), returned 1.00% over the reporting period.

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 and investment solution needs.

Sincerely,

Brent R. Harris
Chairman of the Board,
PIMCO Variable Insurance Trust

February 17, 2017

Past performance is no guarantee of future results. Unless otherwise noted, index returns reflect the reinvestment of income dividends and capital gains, if any, but do not reflect fees, brokerage commissions or other expenses of investing. It is not possible to invest directly in an unmanaged index.

Important Information About the PIMCO Low Duration 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 and other instruments held by the Portfolio are likely to decrease in value. A wide variety 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 unpredictable, and there is no guarantee that Fund management will anticipate such movement accurately. The Portfolio may lose money as a result of movements in interest rates.

As of the date of this report, interest rates in the U.S. and many parts of the world, including certain European countries, 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 in October 2014 and has begun, and may continue, to raise interest rates. To the extent the Fed continues to raise interest rates, there is a risk that rates across the financial system may rise. Further, while bond markets have steadily grown over the past three decades, dealer inventories of corporate bonds are near historic lows in relation to market size. 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. Changes in regulation relating to a mutual fund's use of derivatives and related instruments could potentially limit or impact the Portfolio's ability to invest in derivatives, limit the Portfolio's ability to employ certain strategies that use derivatives and/or adversely affect the value or performance of derivatives and the Portfolio. 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 markets for lower-rated bonds. 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-related and asset-backed securities represent interests in "pools" of mortgages or other assets such as consumer loans or receivables. As a general matter, mortgage-related 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-related 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 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 bank deposit and is not guaranteed or insured by the Federal Deposit Insurance Corporation ("FDIC") or any other government agency. It is possible to lose money on investments in the Portfolio.

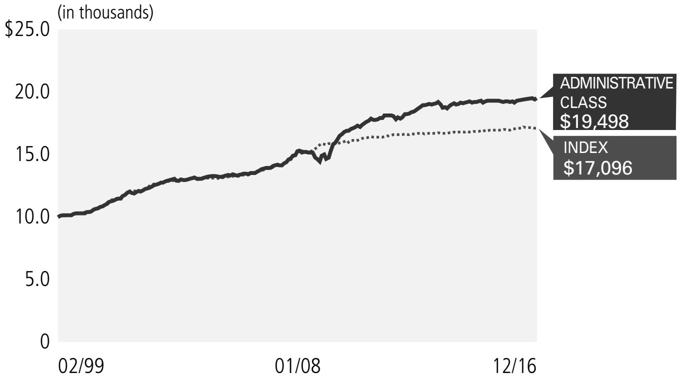
The Trustees are responsible generally for overseeing the management of the Trust. The Trustees authorize the Trust to enter into service agreements with the Adviser, the Distributor, the Administrator and other service providers in order to provide, and in some cases authorize service providers to procure 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, 2016



$10,000 invested at the end of the month when the Portfolio's Administrative Class commenced operations.

Allocation Breakdown as of 12/31/2016†§

Corporate Bonds & Notes	32.3%
U.S. Government Agencies	24.6%
Short-Term Instruments‡	17.6%
U.S. Treasury Obligations	9.5%
Asset-Backed Securities	7.4%
Other	8.6%

† % of Investments, at value.

§ Allocation Breakdown and % of investments exclude securities sold short and financial derivative instruments, if any.

‡ Includes Central Funds Used for Cash Management Purposes.

Average Annual Total Return for the period ended December 31, 2016

		1 Year	5 Years	10 Years	Inception§
	PIMCO Low Duration Portfolio Institutional Class	1.56%	1.79%	3.57%	3.97%
—	PIMCO Low Duration Portfolio Administrative Class	1.41%	1.63%	3.41%	3.79%
	PIMCO Low Duration Portfolio Advisor Class	1.30%	1.53%	3.32%	3.43%
·····	BofA Merrill Lynch 1-3 Year U.S. Treasury Index±	0.88%	0.57%	2.12%	3.03%◆

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.

± The BofA Merrill Lynch 1-3 Year U.S. Treasury Index is an unmanaged index comprised of U.S. Treasury securities, other than inflation-protection securities and STRIPS, with at least $1 billion in outstanding face value and a remaining term to final maturity of at least one year and less than three years.

It is not possible to invest directly in an unmanaged index.

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. Differences in the Portfolio's performance versus the index and related attribution information with respect to particular categories of securities or individual positions may be attributable, in part, to differences in the pricing methodologies used by the Portfolio and the index. For performance current to the most recent month-end, visit http://pvit.pimco-funds.com.

The Portfolio's total annual operating expense ratio as stated in the Portfolio's current prospectus, as supplemented, is 0.51% for Institutional Class shares, 0.66% for Administrative Class shares, and 0.76% for Advisor Class shares. Details regarding any Portfolio's operating expenses can be found in the Portfolio's prospectus.

Investment Objective and Strategy Overview

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 strategies may change from time to time. Please refer to the Portfolio's current prospectus for more information regarding the Portfolio's strategy.

Portfolio Insights

The following impacted performance during the reporting period:

» Exposure to investment grade credit contributed to performance.

» Holdings of U.S. Treasury Inflation-Protected Securities ("TIPS") benefited performance.

» Holdings of securitized credit, such as non-Agency mortgage-backed securities and CMBS, contributed to performance.

» Exposure to high yield credit benefited performance.

» Long U.S. dollar positions versus a basket of emerging market currencies, primarily the Korean won, benefited performance.

» An underweight to U.S. interest rates during the earlier portions of the reporting period detracted from performance.

» An underweight to U.K. interest rates detracted from performance.

» Long U.S. dollar position versus the Japanese yen detracted from performance, primarily in the first half of the year.

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, 2016 to December 31, 2016 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 row 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 (07/01/16)	Ending Account Value (12/31/16)	Expenses Paid During Period*	Beginning Account Value (07/01/16)	Ending Account Value (12/31/16)	Expenses Paid During Period*	Net Annualized Expense Ratio**
Institutional Class	$ 1,000.00	$ 1,005.20	$ 2.55	$ 1,000.00	$ 1,022.87	$ 2.57	0.50%
Administrative Class	1,000.00	1,004.40	3.31	1,000.00	1,022.11	3.34	0.65
Advisor Class	1,000.00	1,003.90	3.82	1,000.00	1,021.60	3.85	0.75

* 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 186/366(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 Low Duration Portfolio

		Investment Operations			Less Distributions[b]		
Selected Per Share Data for the Year Ended:	Net Asset Value Beginning of Year	Net Investment Income[a]	Net Realized/ Unrealized Gain (Loss)	Total	Dividends From Net Investment Income	Tax Basis Return of Capital	Total
Institutional Class							
12/31/2016	$ 10.25	$ 0.16	$ 0.00	$ 0.16	$ (0.09)	$ (0.08)	$ (0.17)
12/31/2015	10.58	0.15	(0.10)	0.05	(0.38)	0.00	(0.38)
12/31/2014	10.61	0.10	0.01	0.11	(0.14)	0.00	(0.14)
12/31/2013	10.78	0.10	(0.10)	0.00	(0.17)	0.00	(0.17)
12/31/2012	10.38	0.15	0.47	0.62	(0.22)	0.00	(0.22)
Administrative Class							
12/31/2016	10.25	0.14	0.00	0.14	(0.07)	(0.08)	(0.15)
12/31/2015	10.58	0.14	(0.11)	0.03	(0.36)	0.00	(0.36)
12/31/2014	10.61	0.10	(0.01)	0.09	(0.12)	0.00	(0.12)
12/31/2013	10.78	0.08	(0.09)	(0.01)	(0.16)	0.00	(0.16)
12/31/2012	10.38	0.14	0.46	0.60	(0.20)	0.00	(0.20)
Advisor Class							
12/31/2016	10.25	0.13	0.00	0.13	(0.06)	(0.08)	(0.14)
12/31/2015	10.58	0.13	(0.11)	0.02	(0.35)	0.00	(0.35)
12/31/2014	10.61	0.09	(0.01)	0.08	(0.11)	0.00	(0.11)
12/31/2013	10.78	0.07	(0.10)	(0.03)	(0.14)	0.00	(0.14)
12/31/2012	10.38	0.13	0.46	0.59	(0.19)	0.00	(0.19)

[a] Per share amounts based on average number of shares outstanding during the year.

[b] The tax characterization of distributions is determined in accordance with federal income tax regulations. See Note 2 in the Notes to Financial Statements for more information.

Net Asset Value End of Year	Total Return	Net Assets End of Year (000s)	Ratios/Supplemental Data: Ratios to Average Net Assets: Expenses	Excluding Interest Expense and Waivers	Net Investment Income	Portfolio Turnover Rate
$ 10.24	1.56%	$ 8,710	0.50%	0.50%	1.59%	391%
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
10.24	1.41	1,248,263	0.65	0.65	1.40	391
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
10.24	1.30	717,542	0.75	0.75	1.31	391
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

Statement of Assets and Liabilities PIMCO Low Duration Portfolio

(Amounts in thousands, except per share amounts)	December 31, 2016
Assets:	
Investments, at value	
Investments in securities*	$ 2,224,169
Investments in Affiliates	322,117
Financial Derivative Instruments	
Exchange-traded or centrally cleared	366
Over the counter	18,447
Deposits with counterparty	4,906
Foreign currency, at value	40,468
Receivable for investments sold	11
Receivable for TBA investments sold	491,854
Receivable for Portfolio shares sold	2,892
Interest and/or dividends receivable	6,220
Dividends receivable from Affiliates	259
Total Assets	3,111,709
Liabilities:	
Borrowings & Other Financing Transactions	
Payable for short sales	$ 4,051
Financial Derivative Instruments	
Exchange-traded or centrally cleared	391
Over the counter	7,804
Payable for investments purchased	3,008
Payable for investments in Affiliates purchased	259
Payable for investments purchased on a delayed-delivery basis	39,859
Payable for TBA investments purchased	1,066,220
Deposits from counterparty	14,049
Payable for Portfolio shares redeemed	285
Accrued investment advisory fees	445
Accrued supervisory and administrative fees	445
Accrued distribution fees	163
Accrued servicing fees	168
Other liabilities	47
Total Liabilities	1,137,194
Net Assets	$ 1,974,515
Net Assets Consist of:	
Paid in capital	$ 2,028,139
(Overdistributed) net investment income	(3,490)
Accumulated undistributed net realized (loss)	(52,569)
Net unrealized appreciation	2,435
Net Assets	$ 1,974,515
Net Assets:	
Institutional Class	$ 8,710
Administrative Class	1,248,263
Advisor Class	717,542
Shares Issued and Outstanding:	
Institutional Class	850
Administrative Class	121,890
Advisor Class	70,067
Net Asset Value Per Share Outstanding:	
Institutional Class	$ 10.24
Administrative Class	10.24
Advisor Class	10.24
Cost of investments in securities	$ 2,237,695
Cost of investments in Affiliates	$ 322,133
Cost of foreign currency held	$ 40,531
Proceeds received on short sales	$ 4,054
Cost or premiums of financial derivative instruments, net	$ (1,083)
* Includes repurchase agreements of:	$ 656

See Accompanying Notes

Statement of Operations PIMCO Low Duration Portfolio

(Amounts in thousands)	Year Ended December 31, 2016
Investment Income:	
Interest, net of foreign taxes*	$ 39,970
Dividends from Investments in Affiliates	703
Total Income	40,673
Expenses:	
Investment advisory fees	4,930
Supervisory and administrative fees	4,930
Servicing fees - Administrative Class	1,908
Distribution and/or servicing fees - Advisor Class	1,729
Trustee fees	54
Interest expense	75
Total Expenses	13,626
Net Investment Income	27,047
Net Realized Gain (Loss):	
Investments in securities	(22,441)
Investments in Affiliates	(402)
Exchange-traded or centrally cleared financial derivative instruments	(21,566)
Over the counter financial derivative instruments	25,721
Foreign currency	(2,142)
Net Realized (Loss)	(20,830)
Net Change in Unrealized Appreciation (Depreciation):	
Investments in securities	25,223
Investments in Affiliates	448
Exchange-traded or centrally cleared financial derivative instruments	10,352
Over the counter financial derivative instruments	(16,485)
Foreign currency assets and liabilities	214
Net Change in Unrealized Appreciation	19,752
Net Increase in Net Assets Resulting from Operations	$ 25,969
* Foreign tax withholdings	$ 17

Statements of Changes in Net Assets PIMCO Low Duration Portfolio

(Amounts in thousands)	Year Ended December 31, 2016	Year Ended December 31, 2015
(Decrease) in Net Assets from:		
Operations:		
Net investment income	$ 27,047	$ 26,354
Net realized (loss)	(20,830)	(20,963)
Net change in unrealized appreciation	19,752	2,116
Net Increase in Net Assets Resulting from Operations	25,969	7,507
Distributions to Shareholders:		
From net investment income		
Institutional Class	(75)	(308)
Administrative Class	(9,587)	(45,888)
Advisor Class	(4,536)	(22,510)
Tax basis return of capital		
Institutional Class	(62)	0
Administrative Class	(9,447)	0
Advisor Class	(5,132)	0
Total Distributions [(a)]	(28,839)	(68,706)
Portfolio Share Transactions:		
Net (decrease) resulting from Portfolio share transactions**	(31,643)	(72,436)
Total (Decrease) in Net Assets	(34,513)	(133,635)
Net Assets:		
Beginning of year	2,009,028	2,142,663
End of year*	$ 1,974,515	$ 2,009,028
* Including (overdistributed) net investment income of:	$ (3,490)	$ (17,299)

**See Note 12 in the Notes to Financial Statements.

[(a)] The tax characterization of distributions is determined in accordance with federal income tax regulations. See Note 2 in the Notes to Financial Statements for more information.

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
INVESTMENTS IN SECURITIES 112.7%		
BANK LOAN OBLIGATIONS 0.1%		
FCA U.S. LLC		
3.500% due 05/24/2017	$ 1,730	$ 1,737
Total Bank Loan Obligations (Cost $1,731)		1,737
CORPORATE BONDS & NOTES 41.7%		
BANKING & FINANCE 29.6%		
ABN AMRO Bank NV		
1.800% due 06/04/2018	4,300	4,296
AerCap Ireland Capital Ltd.		
2.750% due 05/15/2017	3,800	3,808
Ally Financial, Inc.		
2.750% due 01/30/2017	6,360	6,362
6.250% due 12/01/2017	2,000	2,077
American Tower Corp.		
2.800% due 06/01/2020	9,900	9,908
AvalonBay Communities, Inc.		
3.625% due 10/01/2020	3,000	3,115
Banco Espirito Santo S.A.		
2.625% due 05/08/2017 ^	EUR 3,500	1,050
Bank of America Corp.		
1.723% due 09/15/2026	$ 900	808
5.650% due 05/01/2018	8,000	8,384
6.875% due 11/15/2018	2,700	2,937
Bank of America N.A.		
1.263% due 06/15/2017	23,900	23,889
Bank of Nova Scotia		
1.875% due 04/26/2021	6,800	6,638
Barclays PLC		
2.992% due 08/10/2021	4,900	5,024
BB&T Corp.		
1.595% due 01/15/2020	5,100	5,120
Bear Stearns Cos. LLC		
6.400% due 10/02/2017	1,500	1,554
BPCE S.A.		
1.182% due 03/06/2017	GBP 2,300	2,837
1.608% due 06/23/2017	$ 400	400
1.625% due 02/10/2017	2,100	2,101
CIT Group, Inc.		
3.875% due 02/19/2019	600	614
4.250% due 08/15/2017	7,200	7,299
5.000% due 05/15/2018	9,700	9,845
Citigroup, Inc.		
1.576% due 04/27/2018	18,200	18,279
1.767% due 07/30/2018	12,000	12,077
1.800% due 02/05/2018	2,500	2,500
2.378% due 03/30/2021	4,300	4,371
Citizens Bank N.A.		
2.300% due 12/03/2018	2,300	2,312
2.500% due 03/14/2019	2,500	2,520
Commonwealth Bank of Australia		
1.750% due 11/02/2018	1,800	1,796
Credit Agricole S.A.		
1.923% due 06/10/2020	11,400	11,453
Credit Suisse Group Funding Guernsey Ltd.		
3.172% due 04/16/2021	5,800	6,017
Deutsche Bank AG		
2.792% due 05/10/2019	6,400	6,496
4.250% due 10/14/2021	2,000	2,008
Eksportfinans ASA		
1.570% due 02/14/2018	JPY 500,000	4,266
5.500% due 06/26/2017	$ 4,500	4,569
Ford Motor Credit Co. LLC		
1.806% due 11/04/2019	6,000	6,021
1.863% due 06/15/2018	6,000	6,016
2.375% due 01/16/2018	5,224	5,248
2.456% due 01/08/2019	5,600	5,697
3.000% due 06/12/2017	2,700	2,716
5.750% due 02/01/2021	600	658

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
General Motors Financial Co., Inc.		
2.236% due 04/10/2018	$ 4,600	$ 4,628
2.440% due 01/15/2020	3,900	3,943
2.940% due 01/15/2019	5,500	5,599
3.000% due 09/25/2017	5,000	5,049
3.200% due 07/13/2020	7,000	7,022
4.750% due 08/15/2017	2,000	2,038
Goldman Sachs Group, Inc.		
2.042% due 04/23/2020	15,200	15,352
2.087% due 04/30/2018	8,200	8,273
2.163% due 09/15/2020	4,500	4,544
2.242% due 04/23/2021	1,300	1,318
6.000% due 06/15/2020	2,000	2,218
7.500% due 02/15/2019	700	776
HSBC Bank PLC		
1.546% due 05/15/2018	500	500
HSBC USA, Inc.		
1.512% due 11/13/2019	12,900	12,863
Hutchison Whampoa International Ltd.		
1.625% due 10/31/2017	7,000	6,988
Industrial Bank of Korea		
2.375% due 07/17/2017	2,200	2,207
ING Bank NV		
2.050% due 08/17/2018	4,000	4,004
International Lease Finance Corp.		
6.250% due 05/15/2019	2,250	2,424
8.750% due 03/15/2017	1,000	1,014
Intesa Sanpaolo SpA		
2.375% due 01/13/2017	9,400	9,401
JPMorgan Chase & Co.		
0.816% due 05/30/2017	GBP 6,300	7,762
1.441% due 03/01/2018	$ 3,000	3,006
1.837% due 01/23/2020	4,100	4,147
2.092% due 10/29/2020	5,800	5,908
JPMorgan Chase Bank N.A.		
6.000% due 10/01/2017	1,000	1,032
Kookmin Bank		
1.761% due 01/27/2017	10,000	10,003
LeasePlan Corp. NV		
2.500% due 05/16/2018	900	901
3.000% due 10/23/2017	1,200	1,209
Macquarie Bank Ltd.		
2.007% due 07/29/2020	8,900	8,960
Metropolitan Life Global Funding		
1.300% due 04/10/2017	3,600	3,602
Mitsubishi UFJ Financial Group, Inc.		
2.811% due 03/01/2021	1,300	1,346
Morgan Stanley		
2.261% due 02/01/2019	9,600	9,779
MUFG Americas Holdings Corp.		
1.457% due 02/09/2018	3,500	3,495
MUFG Union Bank N.A.		
1.281% due 05/05/2017	5,000	5,005
Nordea Kredit Realkreditaktieselskab		
2.000% due 10/01/2017	DKK 58,300	8,400
Nykredit Realkredit A/S		
1.000% due 01/01/2018	167,100	24,015
2.000% due 07/01/2017	54,200	7,769
2.000% due 10/01/2017	44,500	6,411
Pacific Life Global Funding		
3.813% due 06/02/2018	$ 3,500	3,449
Piper Jaffray Cos.		
5.060% due 10/09/2018	1,500	1,528
Realkredit Danmark A/S		
1.000% due 04/01/2017	DKK 71,100	10,103
1.000% due 01/01/2018	110,800	15,924
2.000% due 04/01/2017	323,500	46,081
Royal Bank of Scotland PLC		
6.934% due 04/09/2018	EUR 2,735	3,094
Santander Bank N.A.		
1.804% due 01/12/2018	$ 6,200	6,205
Santander Holdings USA, Inc.		
2.380% due 11/24/2017	3,200	3,228
2.700% due 05/24/2019	3,400	3,398

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Springleaf Finance Corp.		
6.500% due 09/15/2017	$ 4,900	$ 5,035
Sumitomo Mitsui Banking Corp.		
1.460% due 01/16/2018	12,300	12,317
Synchrony Financial		
2.111% due 02/03/2020	5,600	5,539
2.287% due 11/09/2017	5,800	5,839
UBS AG		
1.375% due 08/14/2017	3,000	2,999
1.491% due 06/01/2017	6,500	6,508
UBS Group Funding Jersey Ltd.		
2.661% due 04/14/2021	9,900	10,213
Unibail-Rodamco SE		
1.650% due 04/16/2019	9,800	9,762
WEA Finance LLC		
1.750% due 09/15/2017	1,000	1,001
Wells Fargo & Co.		
1.762% due 07/22/2020	2,000	2,011
2.282% due 03/04/2021	4,000	4,088
		584,319
INDUSTRIALS 8.2%		
Actavis Funding SCS		
2.033% due 03/12/2018	1,700	1,710
Actavis, Inc.		
1.875% due 10/01/2017	2,800	2,806
Adani Ports & Special Economic Zone Ltd.		
3.500% due 07/29/2020	4,300	4,281
Aetna, Inc.		
1.601% due 12/08/2017	3,900	3,914
Amgen, Inc.		
2.125% due 05/15/2017	3,695	3,707
Anheuser-Busch InBev Finance, Inc.		
2.650% due 02/01/2021	3,400	3,419
Anheuser-Busch InBev Worldwide, Inc.		
6.500% due 07/15/2018	300	321
Becton Dickinson and Co.		
1.800% due 12/15/2017	1,623	1,627
2.675% due 12/15/2019	784	796
Boston Scientific Corp.		
2.850% due 05/15/2020	2,800	2,842
5.125% due 01/12/2017	1,500	1,501
Canadian Natural Resources Ltd.		
1.750% due 01/15/2018	1,000	998
Cardinal Health, Inc.		
1.950% due 06/15/2018	1,000	1,002
Charter Communications Operating LLC		
3.579% due 07/23/2020	3,700	3,775
4.464% due 07/23/2022	600	627
ConocoPhillips Co.		
1.806% due 05/15/2022	3,500	3,468
Cox Communications, Inc.		
9.375% due 01/15/2019	400	452
Daimler Finance North America LLC		
1.303% due 03/10/2017	11,700	11,705
1.354% due 03/02/2018	2,700	2,705
2.000% due 08/03/2018	6,000	6,009
2.375% due 08/01/2018	900	907
Diamond Finance Corp.		
3.480% due 06/01/2019	10,200	10,416
DISH DBS Corp.		
4.625% due 07/15/2017	4,700	4,765
Dominion Gas Holdings LLC		
2.500% due 12/15/2019	2,300	2,326
Energy Transfer Partners LP		
6.700% due 07/01/2018	2,800	2,975
Georgia-Pacific LLC		
2.539% due 11/15/2019	4,400	4,439
5.400% due 11/01/2020	2,400	2,639
Hellenic Railways Organization S.A.		
4.028% due 03/17/2017	EUR 1,300	1,358

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Humana, Inc.		
7.200% due 06/15/2018	$ 1,200	$ 1,290
Hyundai Capital America		
1.450% due 02/06/2017	950	950
Imperial Tobacco Finance PLC		
2.050% due 02/11/2018	1,250	1,251
Kinder Morgan Energy Partners LP		
2.650% due 02/01/2019	500	503
9.000% due 02/01/2019	300	338
Kinder Morgan, Inc.		
2.000% due 12/01/2017	1,500	1,503
7.000% due 06/15/2017	1,500	1,535
7.250% due 06/01/2018	400	426
KLA-Tencor Corp.		
2.375% due 11/01/2017	500	503
3.375% due 11/01/2019	150	154
Kraft Heinz Foods Co.		
2.000% due 07/02/2018	1,000	1,000
Merck & Co., Inc.		
1.257% due 02/10/2020	4,700	4,727
MGM Resorts International		
8.625% due 02/01/2019	1,000	1,129
Newell Brands, Inc.		
2.600% due 03/29/2019	1,300	1,315
Nissan Motor Acceptance Corp.		
1.800% due 03/15/2018	200	200
1.950% due 09/12/2017	400	401
2.350% due 03/04/2019	200	201
Oracle Corp.		
1.900% due 09/15/2021	9,900	9,671
Pearson Dollar Finance PLC		
6.250% due 05/06/2018	600	630
Pioneer Natural Resources Co.		
6.875% due 05/01/2018	300	319
QUALCOMM, Inc.		
3.000% due 05/20/2022	4,600	4,660
Reynolds American, Inc.		
2.300% due 06/12/2018	1,000	1,007
Southern Natural Gas Co. LLC		
5.900% due 04/01/2017	300	303
Southwestern Energy Co.		
5.050% due 01/23/2018	700	712
Telefonica Emisiones S.A.U.		
1.648% due 06/23/2017	13,000	13,021
Time Warner Cable LLC		
5.850% due 05/01/2017	700	710
6.750% due 07/01/2018	1,900	2,029
8.750% due 02/14/2019	1,100	1,240
UnitedHealth Group, Inc.		
1.400% due 12/15/2017	1,000	1,000
1.450% due 07/17/2017	1,800	1,803
1.900% due 07/16/2018	1,500	1,507
Volkswagen Group of America Finance LLC		
1.250% due 05/23/2017	1,500	1,498
1.351% due 11/20/2017	7,500	7,482
1.386% due 05/22/2018	1,900	1,891
2.450% due 11/20/2019	4,200	4,190
Walgreens Boots Alliance, Inc.		
1.750% due 11/17/2017	1,700	1,704
WestRock RKT Co.		
4.450% due 03/01/2019	400	417
Whirlpool Corp.		
1.650% due 11/01/2017	1,100	1,102
Woodside Finance Ltd.		
3.650% due 03/05/2025	650	635
		162,447
UTILITIES 3.9%		
AES Corp.		
3.931% due 06/01/2019	196	197
AT&T, Inc.		
1.418% due 03/30/2017	6,800	6,804
1.928% due 06/30/2020	$ 12,300	$ 12,373
3.000% due 06/30/2022	500	491
Consumers Energy Co.		
6.700% due 09/15/2019	200	225
DTE Energy Co.		
2.400% due 12/01/2019	3,700	3,719
Exelon Corp.		
1.550% due 06/09/2017	900	898
Kinder Morgan Finance Co. LLC		
6.000% due 01/15/2018	1,500	1,562
KT Corp.		
1.750% due 04/22/2017	3,700	3,700
Petrobras Global Finance BV		
4.875% due 03/17/2020	4,400	4,361
Plains All American Pipeline LP		
8.750% due 05/01/2019	700	797
Sprint Communications, Inc.		
9.125% due 03/01/2017	14,800	14,985
Verizon Communications, Inc.		
2.550% due 06/17/2019	4,655	4,721
2.709% due 09/14/2018	21,300	21,781
		76,614
Total Corporate Bonds & Notes (Cost $832,992)		**823,380**
MUNICIPAL BONDS & NOTES 0.6%		
CALIFORNIA 0.6%		
University of California Revenue Bonds, Series 2011		
1.117% due 07/01/2041	10,600	10,600
TEXAS 0.0%		
North Texas Higher Education Authority, Inc., Revenue Bonds, Series 2011		
1.946% due 04/01/2040	290	289
Total Municipal Bonds & Notes (Cost $10,896)		**10,889**
U.S. GOVERNMENT AGENCIES 31.7%		
Fannie Mae		
0.816% due 12/25/2036 - 07/25/2037	452	442
1.000% due 01/25/2043	293	270
1.106% due 09/25/2042 - 03/25/2044	358	356
1.256% due 12/25/2022	34	34
1.556% due 04/25/2023	38	39
1.606% due 02/25/2023	2	2
1.636% due 06/17/2027	26	27
1.656% due 05/25/2022	3	3
1.741% due 07/01/2042 - 06/01/2043	266	272
1.791% due 09/01/2041	181	184
1.941% due 09/01/2040	1	1
2.421% due 11/01/2035	37	39
2.774% due 09/01/2035	238	254
2.834% due 07/01/2035	50	52
2.962% due 05/01/2038	4,068	4,314
4.000% due 11/01/2044 - 08/01/2045	148	155
4.311% due 12/01/2036	13	13
4.500% due 03/01/2018 - 08/01/2046	15,073	16,137
4.714% due 09/01/2034	7	7
5.000% due 05/01/2027 - 04/25/2033	195	212
5.500% due 12/01/2027 - 12/01/2028	670	745
5.591% due 12/25/2042	7	8
6.000% due 03/01/2017 - 01/01/2039	2,446	2,798
6.500% due 04/01/2036	94	107
Fannie Mae, TBA		
3.000% due 01/01/2047 - 02/01/2047	$ 97,000	$ 96,240
3.500% due 01/01/2047 - 02/01/2047	202,000	206,819
4.000% due 01/01/2047 - 02/01/2047	132,400	139,054
4.500% due 01/01/2047 - 02/01/2047	119,000	127,841
FDIC Structured Sale Guaranteed Notes		
2.980% due 12/06/2020	1,077	1,086
Federal Housing Administration		
7.430% due 10/01/2020	1	1
Freddie Mac		
0.796% due 12/25/2036	496	494
1.016% due 08/25/2031	116	114
1.104% due 06/15/2018	1	1
1.741% due 02/25/2045	237	240
2.000% due 11/15/2026	7,077	7,099
2.966% due 07/01/2035	83	88
3.021% due 09/01/2035	276	294
5.000% due 05/01/2024 - 12/01/2041	524	575
5.500% due 12/01/2022 - 08/15/2030	1	1
6.500% due 07/25/2043	51	59
8.554% due 08/15/2044	4,613	5,260
Ginnie Mae		
0.990% due 06/20/2065	3,747	3,722
1.050% due 10/20/2065	10,676	10,616
1.750% due 02/20/2041	419	421
6.000% due 09/15/2017	36	37
Total U.S. Government Agencies (Cost $627,509)		**626,533**
U.S. TREASURY OBLIGATIONS 12.3%		
U.S. Treasury Inflation Protected Securities (f)		
0.125% due 04/15/2018	152,982	154,410
0.125% due 04/15/2019 (i)(k)	28,884	29,251
0.125% due 04/15/2020	24,463	24,723
0.125% due 04/15/2021	10,505	10,571
0.625% due 07/15/2021 (i)	10,188	10,520
0.750% due 02/15/2042	1,926	1,826
1.000% due 02/15/2046	510	512
1.250% due 07/15/2020 (i)(k)	4,212	4,450
1.375% due 02/15/2044 (k)	5,186	5,666
Total U.S. Treasury Obligations (Cost $242,105)		**241,929**
NON-AGENCY MORTGAGE-BACKED SECURITIES 5.5%		
Adjustable Rate Mortgage Trust		
5.094% due 09/25/2035	760	634
American Home Mortgage Investment Trust		
3.082% due 10/25/2034	133	134
3.293% due 02/25/2045	120	122
Banc of America Commercial Mortgage Trust		
5.587% due 04/10/2049	1,841	1,850
Banc of America Funding Trust		
1.036% due 07/25/2037	941	808
3.211% due 01/20/2047 ^	379	322
Banc of America Mortgage Trust		
3.170% due 07/25/2034	465	473
3.296% due 08/25/2034	1,528	1,515
3.390% due 05/25/2033	267	270
6.500% due 10/25/2031	6	6
Bear Stearns Adjustable Rate Mortgage Trust		
2.819% due 04/25/2033	4	4
2.820% due 08/25/2035	794	793
3.109% due 02/25/2033	1	1
3.128% due 03/25/2035	969	978
3.321% due 07/25/2034	228	221
3.476% due 01/25/2035	2,986	2,926
3.526% due 01/25/2034	17	17
3.588% due 01/25/2035	119	116

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Bear Stearns ALT-A Trust		
0.916% due 02/25/2034	$ 368	$ 338
Bear Stearns Commercial Mortgage Securities Trust		
5.331% due 02/11/2044	89	89
Bear Stearns Structured Products, Inc. Trust		
3.006% due 01/26/2036	838	660
3.107% due 12/26/2046	497	385
Chevy Chase Funding LLC Mortgage-Backed Certificates		
1.036% due 01/25/2035	65	59
Citigroup Commercial Mortgage Trust		
5.711% due 12/10/2049	3,500	3,531
6.136% due 12/10/2049	736	751
Citigroup Global Markets Mortgage Securities, Inc.		
7.000% due 12/25/2018	4	4
Citigroup Mortgage Loan Trust, Inc.		
3.040% due 05/25/2035	114	112
3.041% due 08/25/2035 ^	505	352
Citigroup/Deutsche Bank Commercial Mortgage Trust		
5.289% due 12/11/2049	5,852	5,849
Countrywide Alternative Loan Trust		
0.936% due 05/25/2047	405	345
6.000% due 10/25/2033	11	11
Countrywide Home Loan Mortgage Pass-Through Trust		
3.094% due 11/20/2034	950	916
3.105% due 11/25/2034	466	462
3.156% due 02/20/2035	612	615
3.306% due 02/20/2036 ^	399	354
Credit Suisse First Boston Mortgage Securities Corp.		
1.173% due 03/25/2032	1	1
Credit Suisse Mortgage Capital Certificates		
3.024% due 09/26/2047	411	411
3.083% due 09/27/2036	165	165
Deutsche Mortgage Securities, Inc. Re-REMIC Trust Certificates		
3.054% due 06/26/2035	131	130
Eurosail PLC		
0.044% due 12/10/2044	EUR 132	136
1.077% due 09/13/2045	GBP 651	796
1.327% due 06/13/2045	9,300	11,003
First Horizon Alternative Mortgage Securities Trust		
2.757% due 09/25/2034	$ 945	922
First Horizon Mortgage Pass-Through Trust		
2.911% due 02/25/2035	1,987	1,970
2.978% due 08/25/2035	226	196
GE Commercial Mortgage Corp. Trust		
5.483% due 12/10/2049	5,288	5,305
GMAC Mortgage Corp. Loan Trust		
3.435% due 11/19/2035	185	167
Great Hall Mortgages PLC		
1.123% due 06/18/2039	1,871	1,787
GS Mortgage Securities Corp. Trust		
3.980% due 02/10/2029	5,000	5,130
GS Mortgage Securities Trust		
2.286% due 11/10/2045 (a)	2,805	224
GSR Mortgage Loan Trust		
3.010% due 09/25/2035	528	548
3.293% due 09/25/2034	130	125
HarborView Mortgage Loan Trust		
1.176% due 05/19/2035	103	87
3.107% due 07/19/2035	510	450
Impac CMB Trust		
1.756% due 07/25/2033	129	125
Infinity Classico		
0.011% due 02/15/2024	EUR 451	471
JPMorgan Chase Commercial Mortgage Securities Trust		
2.005% due 10/15/2045 (a)	$ 20,623	1,384
5.420% due 01/15/2049	146	146
5.794% due 02/12/2051	2,591	2,631
5.882% due 02/15/2051	1,081	1,096
JPMorgan Commercial Mortgage-Backed Securities Trust		
5.716% due 03/18/2051	605	606
JPMorgan Mortgage Trust		
5.750% due 01/25/2036 ^	$ 22	$ 19
Juno Eclipse Ltd.		
0.000% due 11/20/2022	EUR 1,337	1,395
MASTR Asset Securitization Trust		
5.500% due 09/25/2033	$ 4	4
Merrill Lynch Mortgage Investors Trust		
1.006% due 11/25/2035	152	140
1.416% due 09/25/2029	974	967
1.617% due 10/25/2035	89	85
Merrill Lynch/Countrywide Commercial Mortgage Trust		
5.485% due 03/12/2051	1,984	1,989
Morgan Stanley Capital Trust		
5.665% due 04/15/2049	8,400	8,460
Opteum Mortgage Acceptance Corp. Asset-Backed Pass-Through Certificates		
1.036% due 12/25/2035	598	548
1.066% due 04/25/2035	132	133
PHHMC Trust		
5.602% due 07/18/2035	505	506
Prime Mortgage Trust		
1.156% due 02/25/2034	7	7
Residential Funding Mortgage Securities, Inc. Trust		
3.412% due 09/25/2035 ^	809	638
RFTI Issuer Ltd.		
2.454% due 08/15/2030	9,604	9,595
Structured Adjustable Rate Mortgage Loan Trust		
1.974% due 01/25/2035	259	203
3.081% due 08/25/2035	209	193
3.093% due 02/25/2034	261	262
3.124% due 08/25/2034	334	332
Structured Asset Mortgage Investments Trust		
1.036% due 02/25/2036 ^	150	127
1.396% due 09/19/2032	3	3
Ulysses European Loan Conduit PLC		
0.561% due 07/25/2017	GBP 2,700	3,318
Wachovia Bank Commercial Mortgage Trust		
0.917% due 04/15/2047	$ 9,800	9,768
WaMu Mortgage Pass-Through Certificates Trust		
1.026% due 12/25/2045	131	125
1.297% due 01/25/2047	292	265
1.436% due 01/25/2045	775	712
1.767% due 11/25/2042	47	43
1.933% due 08/25/2042	106	102
1.967% due 06/25/2042	27	26
Washington Mutual Mortgage Loan Trust		
1.737% due 05/25/2041	2	2
Wells Fargo Commercial Mortgage Trust		
2.018% due 10/15/2045 (a)	4,643	327
Wells Fargo Mortgage-Backed Securities Trust		
2.876% due 03/25/2035	198	200
3.003% due 03/25/2036	278	278
3.029% due 12/25/2034	262	258
3.039% due 09/25/2034	4,429	4,516
3.040% due 01/25/2035	331	334
Total Non-Agency Mortgage-Backed Securities (Cost $113,970)		**107,915**
ASSET-BACKED SECURITIES 9.6%		
ACE Securities Corp. Home Equity Loan Trust		
0.816% due 10/25/2036	110	63
1.656% due 12/25/2034	1,518	1,408
Ameriquest Mortgage Securities, Inc. Asset-Backed Pass-Through Certificates		
1.256% due 09/25/2035	7,100	6,879
Amortizing Residential Collateral Trust		
1.336% due 07/25/2032	13	12
Asset-Backed Funding Certificates Trust		
1.431% due 06/25/2035	8,378	8,205
Asset-Backed Securities Corp. Home Equity Loan Trust		
2.354% due 03/15/2032	103	101
Atlas Senior Loan Fund Ltd.		
2.126% due 08/15/2024	4,915	4,916
AVANT Loans Funding Trust		
2.960% due 09/16/2019	$ 4,296	$ 4,300
3.920% due 08/15/2019	1,448	1,455
Bear Stearns Asset-Backed Securities Trust		
1.756% due 10/25/2037	1,806	1,703
Cadogan Square CLO BV		
0.040% due 01/17/2023	EUR 634	667
Capital Auto Receivables Asset Trust		
1.439% due 11/20/2018	$ 3,478	3,485
Carlyle Global Market Strategies CLO Ltd.		
2.111% due 04/20/2022	3,072	3,076
Carlyle High Yield Partners Ltd.		
1.103% due 04/19/2022	462	462
Cavalry CLO Ltd.		
2.250% due 01/16/2024	7,201	7,207
CIFC Funding Ltd.		
2.292% due 12/05/2024	4,800	4,806
Citigroup Mortgage Loan Trust, Inc.		
1.476% due 09/25/2035 ^	4,223	4,133
Countrywide Asset-Backed Certificates		
0.996% due 12/25/2031 ^	28	21
1.456% due 12/25/2033	1,507	1,423
1.556% due 03/25/2033	1,071	1,026
Credit Suisse First Boston Mortgage Securities Corp.		
1.376% due 01/25/2032	7	6
Duane Street CLO Ltd.		
1.132% due 11/14/2021	85	85
Educational Services of America, Inc.		
1.906% due 09/25/2040	1,424	1,415
Equity One Mortgage Pass-Through Trust		
1.316% due 11/25/2032	3	3
First Franklin Mortgage Loan Trust		
1.476% due 05/25/2035	279	276
Fortress Credit Investments Ltd.		
2.130% due 07/17/2023	3,112	3,114
Fraser Sullivan CLO Ltd.		
1.956% due 04/20/2023	1,848	1,849
GE-WMC Mortgage Securities Trust		
0.796% due 08/25/2036	10	6
GM Financial Automobile Leasing Trust		
1.239% due 10/22/2018	11,300	11,317
GSAMP Trust		
1.146% due 01/25/2036	1,067	930
Halcyon Structured Asset Management European CLO BV		
0.052% due 01/25/2023	EUR 57	60
Highbridge Loan Management Ltd.		
1.436% due 09/20/2022	$ 2,395	2,402
JPMorgan Mortgage Acquisition Corp.		
0.936% due 02/25/2036	548	543
0.986% due 05/25/2035	6,456	6,330
Jubilee CDO BV		
0.049% due 08/21/2021	EUR 115	121
KVK CLO Ltd.		
2.332% due 02/10/2025	$ 6,382	6,387
LCM LP		
2.138% due 10/19/2022	5,100	5,099
Madison Park Funding Ltd.		
1.160% due 02/26/2021	2,618	2,611
Malin CLO BV		
0.000% due 05/07/2023	EUR 2,390	2,517
0.015% due 05/07/2023	2,000	2,092
Massachusetts Educational Financing Authority		
1.832% due 04/25/2038	$ 438	433
Motor PLC		
1.361% due 06/25/2022	5,222	5,224
Navient Private Education Loan Trust		
1.904% due 12/15/2028	2,100	2,122
NYMT Residential		
4.000% due 03/25/2021	2,354	2,342
Panhandle-Plains Higher Education Authority, Inc.		
1.976% due 10/01/2035	1,121	1,110

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Panther CDO BV			
0.067% due 03/20/2084	EUR	2,728	$ 2,866
Prestige Auto Receivables Trust			
1.460% due 07/15/2020	$	6,000	5,995
RAAC Trust			
1.236% due 03/25/2037		484	473
Renaissance Home Equity Loan Trust			
1.256% due 12/25/2033		3,276	3,084
Residential Asset Securities Corp. Trust			
1.076% due 01/25/2036		2,059	2,051
1.469% due 01/25/2034		3,915	3,591
SLC Student Loan Trust			
1.032% due 11/15/2021		2,026	2,025
1.063% due 09/15/2026		4,527	4,488
SLM Private Credit Student Loan Trust			
1.143% due 03/15/2024		212	211
1.153% due 12/15/2023		315	312
SLM Private Education Loan Trust			
1.454% due 10/16/2023		66	66
SLM Student Loan Trust			
0.972% due 10/25/2024		3,280	3,265
2.382% due 04/25/2023		437	438
SoFi Consumer Loan Program LLC			
3.050% due 12/26/2025		5,700	5,687
South Carolina Student Loan Corp.			
1.681% due 03/02/2020		744	744
Specialty Underwriting & Residential Finance Trust			
1.146% due 12/25/2036		4,800	4,105
Stone Tower CLO Ltd.			
1.110% due 04/17/2021		3	3
Structured Asset Investment Loan Trust			
1.461% due 03/25/2034		599	556
1.731% due 10/25/2033		606	597
Telos CLO Ltd.			
2.530% due 04/17/2025		8,469	8,483
Tralee CLO Ltd.			
1.803% due 07/20/2026		5,000	4,993
VOLT LLC			
4.125% due 10/25/2045		2,456	2,477
4.375% due 11/27/2045		2,805	2,834
Voya CLO Ltd.			
2.180% due 10/15/2022		4,800	4,803
2.200% due 10/15/2022		5,300	5,306
Wells Fargo Home Equity Asset-Backed Securities Trust			
1.016% due 05/25/2036		1,100	1,064
WhiteHorse Ltd.			
2.078% due 02/03/2025		5,000	5,000
Total Asset-Backed Securities (Cost $186,061)			**189,259**
SOVEREIGN ISSUES 4.9%			
Autonomous Community of Catalonia			
4.750% due 06/04/2018	EUR	2,700	2,977
Brazil Letras do Tesouro Nacional (d)			
0.000% due 04/01/2017	BRL	121,400	$ 36,160
0.000% due 10/01/2017		25,600	7,230
0.000% due 01/01/2018		29,700	8,189
0.000% due 04/01/2018		77,100	20,748
Export-Import Bank of Korea			
1.631% due 01/17/2017	$	4,600	4,600
Korea Development Bank			
1.507% due 01/23/2017		800	800
3.875% due 05/04/2017		1,200	1,209
Korea Land & Housing Corp.			
1.875% due 08/02/2017		500	500
Province of Ontario			
1.100% due 10/25/2017		13,600	13,580
Total Sovereign Issues (Cost $95,879)			**95,993**

	SHARES	MARKET VALUE (000S)
CONVERTIBLE PREFERRED SECURITIES 0.0%		
INDUSTRIALS 0.0%		
Motors Liquidation Co.		
6.250% due 07/15/2033 (b)	4,000	0
Total Convertible Preferred Securities (Cost $0)		**0**

		PRINCIPAL AMOUNT (000s)	MARKET VALUE (000S)
SHORT-TERM INSTRUMENTS 6.3%			
CERTIFICATES OF DEPOSIT 0.5%			
Barclays Bank PLC			
1.696% due 12/06/2017	$	9,900	9,908
COMMERCIAL PAPER 4.2%			
Autonation, Inc.			
1.300% due 01/03/2017		10,200	10,199
1.300% due 01/04/2017		7,700	7,699
Comcast Corp.			
1.050% due 01/24/2017		2,600	2,598
1.060% due 01/27/2017		5,700	5,696
Dominion Resources			
1.040% due 01/13/2017		8,000	7,997
Energy Transfer Partners LP			
1.550% due 01/10/2017		3,800	3,799
Entergy Corp.			
1.090% due 01/04/2017		11,600	11,598
Enterprise Products Operating LLC			
1.070% due 01/23/2017		3,000	2,998
Marriott International			
1.015% due 01/18/2017		12,000	11,995
NiSource Finance Corp.			
1.050% due 01/09/2017		6,900	6,898
Plains All American Pipeline			
1.570% due 01/13/2017		3,000	2,999
Wyndham Worldwide			
1.350% due 01/13/2017		8,200	$ 8,197
			82,673
REPURCHASE AGREEMENTS (g) 0.0%			
			656
SHORT-TERM NOTES 0.5%			
Hewlett Packard Enterprise Co.			
2.450% due 10/05/2017		5,900	5,934
2.738% due 10/05/2017		4,100	4,139
			10,073
MEXICO TREASURY BILLS 0.2%			
5.789% due 02/02/2017 (d)(e)	MXN	101,200	4,859
U.S. TREASURY BILLS 0.9%			
0.453% due 01/12/2017 - 03/09/2017 (c)(d)(k)	$	18,373	18,365
Total Short-Term Instruments (Cost $126,552)			**126,534**
Total Investments in Securities (Cost $2,237,695)			**2,224,169**

	SHARES	MARKET VALUE (000S)
INVESTMENTS IN AFFILIATES 16.3%		
SHORT-TERM INSTRUMENTS 16.3%		
CENTRAL FUNDS USED FOR CASH MANAGEMENT PURPOSES 16.3%		
PIMCO Short-Term Floating NAV Portfolio III	32,586,448	322,117
Total Short-Term Instruments (Cost $322,133)		**322,117**
Total Investments in Affiliates (Cost $322,133)		**322,117**
Total Investments 129.0% (Cost $2,559,828)	$	**2,546,286**
Financial Derivative Instruments (h)(j) 0.5% (Cost or Premiums, net $(1,083))		**10,618**
Other Assets and Liabilities, net (29.5)%		**(582,389)**
Net Assets 100.0%	$	**1,974,515**

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 security.

(e) Coupon represents a yield to maturity.

(f) Principal amount of security is adjusted for inflation.

BORROWINGS AND OTHER FINANCING TRANSACTIONS

(g) 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%	12/30/2016	01/03/2017	$ 656	U.S. Treasury Notes 1.000% due 05/15/2018[(2)]	$ (670)	$ 656	$ 656
Total Repurchase Agreements						**$ (670)**	**$ 656**	**$ 656**

(1) Includes accrued interest.

(2) Collateral is held in custody by the counterparty.

The average amount of borrowings outstanding during the period ended December 31, 2016 was $(4,245) at a weighted average interest rate of 0.697%. Average borrowings includes reverse repurchase agreements and sale-buyback transactions, of which there were none open at period end.

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%	01/01/2047	$ 100	$ (109)	$ (109)
Fannie Mae, TBA	6.000	01/01/2047	3,000	(3,399)	(3,397)
Freddie Mac, TBA	5.000	01/01/2047	500	(546)	(545)
Total Short Sales				**$ (4,054)**	**$ (4,051)**

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, 2016:

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[(3)]
Global/Master Repurchase Agreement						
SSB	$ 656	$ 0	$ 0	$ 656	$ (670)	$ (14)
Total Borrowings and Other Financing Transactions	**$ 656**	**$ 0**	**$ 0**			

(3) 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.

(h) 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	Long	06/2018	418	$ (6)	$ 26	$ 0
90-Day Eurodollar March Futures	Long	03/2019	610	175	46	0
90-Day Eurodollar September Futures	Long	09/2018	1,469	38	92	0
Euro-Bund 10-Year Bond March Futures	Short	03/2017	26	(66)	12	(15)
U.S. Treasury 2-Year Note March Futures	Long	03/2017	1,726	(301)	108	0
U.S. Treasury 5-Year Note March Futures	Long	03/2017	484	(128)	79	0
U.S. Treasury 30-Year Bond March Futures	Short	03/2017	95	(229)	0	(71)
Total Futures Contracts				**$ (517)**	**$ 363**	**$ (86)**

SWAP AGREEMENTS:

CREDIT DEFAULT SWAPS ON CORPORATE ISSUES - SELL PROTECTION[1]

Reference Entity	Fixed Receive Rate	Maturity Date	Implied Credit Spread at December 31, 2016[2]	Notional Amount[3]	Market Value	Unrealized Appreciation	Variation Margin Asset	Variation Margin Liability
Berkshire Hathaway, Inc.	1.000%	12/20/2023	1.163%	$ 1,000	$ (10)	$ 1	$ 0	$ 0
BP Capital Markets America, Inc.	1.000	12/20/2019	0.452	EUR 7,200	127	23	2	0
BP Capital Markets America, Inc.	1.000	12/20/2021	0.813	2,800	28	13	1	0
MetLife, Inc.	1.000	03/20/2019	0.382	$ 1,700	24	4	0	(1)
Prudential Financial, Inc.	1.000	09/20/2019	0.418	8,400	135	16	0	(2)
Volkswagen International Finance NV	1.000	12/20/2017	0.289	EUR 3,200	25	4	0	0
Volkswagen International Finance NV	1.000	12/20/2018	0.459	1,700	20	3	0	0
					$ 349	$ 64	$ 3	$ (3)

(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, securities or other deliverable obligations 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 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.

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%	12/16/2020	$ 128,800	$ (862)	$ 1,870	$ 0	$ (85)
Receive*	3-Month USD-LIBOR	1.450	06/28/2021	65,000	1,126	1,243	0	(49)
Receive	3-Month USD-LIBOR	1.500	12/21/2021	8,000	178	55	0	(9)
Receive	3-Month USD-LIBOR	2.250	06/15/2026	21,000	90	539	0	(67)
Receive	3-Month USD-LIBOR	1.750	12/21/2026	7,010	371	569	0	(23)
Receive*	3-Month USD-LIBOR	1.500	06/21/2027	700	59	(3)	0	(2)
Receive	3-Month USD-LIBOR	2.750	12/16/2045	3,700	(100)	(26)	0	(31)
Receive	3-Month USD-LIBOR	2.500	06/15/2046	4,000	70	339	0	(36)
					$ 932	$ 4,586	$ 0	$ (302)
Total Swap Agreements					**$ 1,281**	**$ 4,650**	**$ 3**	**$ (305)**

* This instrument has a forward starting effective date. See Note 2(a) in the Notes to Financial Statements 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, 2016:

(i) Securities with an aggregate market value of $14,383 and cash of $4,906 have been pledged as collateral for exchange-traded and centrally cleared financial derivative instruments as of December 31, 2016. 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**	**$ 363**	**$ 3**	**$ 366**	**$ 0**	**$ (86)**	**$ (305)**	**$ (391)**

(j) 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	Liability
AZD	01/2017	KRW	2,414,880	$	2,064	$ 64	$ 0
	01/2017	$	1,811	MYR	8,095	0	(7)
BOA	01/2017	TWD	55,568	$	1,735	16	0
	01/2017	$	19,994	EUR	19,225	246	0
	01/2017		4,400	KRW	5,173,080	0	(115)
	02/2017	EUR	19,225	$	20,022	0	(245)
	04/2017	DKK	241,488		36,791	2,425	0
BPS	01/2017	BRL	67,104		21,722	1,124	(20)
	01/2017	GBP	37,772		47,232	678	0
	01/2017	MYR	520		116	0	0
	01/2017	$	19,726	BRL	67,104	891	0
	01/2017		6,781	GBP	5,444	0	(71)
	02/2017		1,864	CHF	1,875	0	(18)
	02/2017		4,930	MXN	92,924	0	(472)
	03/2017	TWD	45,146	$	1,429	35	0
	03/2017	$	115	MYR	520	0	0
	04/2018	BRL	77,100	$	20,421	0	(960)
BRC	07/2017	DKK	55,284		8,433	526	0
CBK	01/2017	GBP	4,724		5,960	138	0
	01/2017	KRW	56,002,189		49,486	3,098	0
	01/2017	$	36,552	KRW	43,954,741	20	(163)
	02/2017		2,805	MXN	58,500	2	0
	03/2017	KRW	39,469,689	$	32,671	0	(15)
DUB	01/2017		1,953,878		1,665	47	0
	01/2017	SGD	2,832		1,961	6	0
	01/2017	$	628	KRW	741,071	0	(14)
	02/2017	MXN	271,241	$	14,139	1,126	0
	04/2017	BRL	63,600		18,726	0	(338)
FBF	01/2017	KRW	1,088,080		938	37	0
	02/2017	$	4,930	MXN	92,924	0	(472)
	03/2017	TWD	462,078	$	14,661	397	0
GLM	01/2017	EUR	19,225		20,509	268	0
	01/2017	GBP	2,849		3,596	85	0
	01/2017	KRW	7,665,315		6,566	217	0
	01/2017	$	5,646	GBP	4,531	0	(62)
	01/2017		3,833	KRW	4,354,384	0	(226)
	02/2017	DKK	281,500	$	39,643	0	(281)
	02/2017	JPY	42,100		410	49	0
	02/2017	$	7,712	MXN	158,830	0	(92)
HUS	01/2017	KRW	4,666,435	$	3,985	120	0
	01/2017	SGD	1,707		1,224	45	0
	01/2017	$	219	INR	14,797	0	(1)
	01/2017		6,647	KRW	7,768,947	0	(212)
	03/2017	TWD	126,869	$	3,988	73	0
	10/2017	DKK	64,974		9,950	607	0
IND	01/2017	$	26,734	GBP	21,836	179	0
	02/2017	GBP	21,836	$	26,751	0	(181)
	02/2017	JPY	575,727		5,475	538	0
JPM	01/2017	AUD	640		472	10	0
	01/2017	KRW	7,026,347		6,007	187	0
	01/2017	SGD	14,243		9,970	135	0
	01/2017	$	15,291	GBP	12,207	0	(246)
	01/2017		25,829	KRW	30,173,939	0	(836)
	01/2017		461	MYR	2,008	0	(13)
	01/2017		1,194	SGD	1,702	0	(19)
	01/2017		284	THB	10,231	2	0
	01/2017		1,267	TWD	40,633	0	(10)
	02/2017	CHF	1,443	$	1,423	2	0
	02/2017	$	10,975	JPY	1,244,700	0	(303)
	02/2017		2,805	MXN	58,500	2	0
	03/2017	THB	10,231	$	283	0	(2)
	03/2017	TWD	700,559		21,938	316	0
	04/2017	DKK	57,879		8,947	711	0
	10/2017	BRL	25,600		7,240	0	(105)
	01/2018		29,700		8,146	0	(235)
NGF	01/2017	KRW	10,180,061		8,717	285	0
	03/2017	TWD	63,200		2,016	65	0

See Accompanying Notes

Counterparty	Settlement Month	Currency to be Delivered		Currency to be Received		Unrealized Appreciation/ (Depreciation) Asset	Liability
SCX	01/2017	KRW	8,088,561	$	6,901	$ 201	$ 0
	01/2017	MYR	10,582		2,522	164	0
	01/2017	$	3,086	KRW	3,585,724	0	(116)
	01/2017		228	MYR	998	0	(6)
	01/2017		468	TWD	14,929	0	(5)
	02/2017	MXN	100,388	$	4,890	67	0
	02/2017	$	4,345	MXN	83,215	0	(353)
	03/2017	TWD	51,739	$	1,624	27	0
SOG	01/2017	$	638	KRW	749,969	0	(17)
	03/2017	TWD	86,935	$	2,718	35	0
TOR	01/2017	BRL	64,000		18,643	0	(1,021)
	01/2017	$	19,428	BRL	64,000	236	0
	03/2017	SGD	8,540	$	5,896	1	0
	04/2017	BRL	57,800		16,979	0	(347)
UAG	01/2017	THB	10,231		290	4	0
	01/2017	$	1,639	GBP	1,327	0	(4)
	01/2017		2,184	KRW	2,583,890	0	(44)
	03/2017	TWD	185,768	$	5,828	96	0
	04/2017	DKK	102,414		15,566	992	0
	10/2017		40,030		6,110	353	0
Total Forward Foreign Currency Contracts						**$ 16,948**	**$ (7,647)**

WRITTEN OPTIONS:

FOREIGN CURRENCY OPTIONS

Counterparty	Description	Strike Price	Expiration Date	Notional Amount	Premiums (Received)	Market Value
GLM	Call - OTC USD versus RUB	RUB 67.450	01/16/2017	$ 14,400	$ (157)	$ (4)
JPM	Call - OTC USD versus BRL	BRL 3.700	01/18/2017	3,700	(40)	0
					$ (197)	$ (4)

OPTIONS ON SECURITIES

Counterparty	Description	Strike Price	Expiration Date	Notional Amount	Premiums (Received)	Market Value
FAR	Put - OTC Fannie Mae, TBA 3.500% due 01/01/2047	$ 101.645	01/11/2017	$ 37,900	$ (145)	$ (37)
Total Written Options					**$ (342)**	**$ (41)**

TRANSACTIONS IN WRITTEN CALL AND PUT OPTIONS FOR THE PERIOD ENDED DECEMBER 31, 2016:

	Balance at Beginning of Period	Sales	Closing Buys	Expirations	Exercised	Balance at End of Period
# of Contracts	0	1,977	(170)	(611)	(1,196)	0
Notional Amount in $	$ 93,000	$ 694,600	$ (56,500)	$ (565,000)	$ (110,100)	$ 56,000
Notional Amount in AUD	AUD 0	AUD 97,500	AUD (4,000)	AUD (74,600)	AUD (18,900)	AUD 0
Notional Amount in EUR	EUR 13,100	EUR 89,000	EUR (31,200)	EUR (33,300)	EUR (37,600)	EUR 0
Notional Amount in GBP	GBP 0	GBP 3,200	GBP 0	GBP (3,200)	GBP 0	GBP 0
Premiums	$ (1,327)	$ (5,692)	$ 1,081	$ 4,502	$ 1,094	$ (342)

As of December 31, 2016 there were no open written options.

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, 2016(2)	Notional Amount(3)	Premiums Paid/(Received)	Unrealized Appreciation	Swap Agreements, at Value Asset	Liability
BRC	Mexico Government International Bond	1.000%	03/20/2018	0.579%	$ 4,300	$ (2)	$ 26	$ 24	$ 0
JPM	PSEG Power LLC	1.000	12/20/2018	0.787	1,700	5	2	7	0
						$ 3	$ 28	$ 31	$ 0

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	Swap Agreements, at Value[4] Liability
GST	CDX.IG-9 10-Year Index 30-100%	0.548%	12/20/2017	$ 193	$ 0	$ 1	$ 1	$ 0
JPM	CDX.IG-9 10-Year Index 30-100%	0.553	12/20/2017	386	0	2	2	0
MYC	CMBX.NA.AAA.3 Index	0.080	12/13/2049	416	(3)	2	0	(1)
	CMBX.NA.AAA.8 Index	0.500	10/17/2057	10,100	(741)	626	0	(115)
					$ (744)	$ 631	$ 3	$ (116)

(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, securities or other deliverable obligations 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	Swap Agreements, at Value Liability
BOA	Receive	CPURNSA	1.598%	06/02/2018	$ 116,900	$ 0	$ 877	$ 877	$ 0
	Receive	CPURNSA	1.565	06/07/2018	35,900	0	275	275	0
MYC	Receive	CPURNSA	1.593	06/03/2018	42,800	0	313	313	0
						$ 0	$ 1,465	$ 1,465	$ 0
Total Swap Agreements						**$ (741)**	**$ 2,124**	**$ 1,499**	**$ (116)**

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 pledged/(received) as of December 31, 2016:

(k) Securities with an aggregate market value of $1,781 have been pledged as collateral for financial derivative instruments as governed by International Swaps and Derivatives Association, Inc. master agreements as of December 31, 2016.

	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 Pledged/ (Received)	Net Exposure[5]
AZD	$ 64	$ 0	$ 0	$ 64	$ (7)	$ 0	$ 0	$ (7)	$ 57	$ (10)	$ 47
BOA	2,687	0	1,152	3,839	(360)	0	0	(360)	3,479	(3,500)	(21)
BPS	2,728	0	0	2,728	(1,541)	0	0	(1,541)	1,187	(1,510)	(323)
BRC	526	0	24	550	0	0	0	0	550	(430)	120
CBK	3,258	0	0	3,258	(178)	0	0	(178)	3,080	(3,320)	(240)
DUB	1,179	0	0	1,179	(352)	0	0	(352)	827	(2,471)	(1,644)
FAR	0	0	0	0	0	(37)	0	(37)	(37)	272	235
FBF	434	0	0	434	(472)	0	0	(472)	(38)	0	(38)
GLM	619	0	0	619	(661)	(4)	0	(665)	(46)	(200)	(246)
GST	0	0	1	1	0	0	0	0	1	(10)	(9)
HUS	845	0	0	845	(213)	0	0	(213)	632	(693)	(61)
IND	717	0	0	717	(181)	0	0	(181)	536	(610)	(74)
JPM	1,365	0	9	1,374	(1,769)	0	0	(1,769)	(395)	292	(103)
MYC	0	0	313	313	0	0	(116)	(116)	197	78	275
NGF	350	0	0	350	0	0	0	0	350	(280)	70
RYL	0	0	0	0	0	0	0	0	0	(20)	(20)
SCX	459	0	0	459	(480)	0	0	(480)	(21)	23	2
SOG	35	0	0	35	(17)	0	0	(17)	18	0	18
TOR	237	0	0	237	(1,368)	0	0	(1,368)	(1,131)	1,115	(16)
UAG	1,445	0	0	1,445	(48)	0	0	(48)	1,397	(1,540)	(143)
Total Over the Counter	**$ 16,948**	**$ 0**	**$ 1,499**	**$ 18,447**	**$ (7,647)**	**$ (41)**	**$ (116)**	**$ (7,804)**			

(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, 2016:

	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	$ 363	$ 363
Swap Agreements	0	3	0	0	0	3
	$ 0	$ 3	$ 0	$ 0	$ 363	$ 366
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 16,948	$ 0	$ 16,948
Swap Agreements	0	34	0	0	1,465	1,499
	$ 0	$ 34	$ 0	$ 16,948	$ 1,465	$ 18,447
	$ 0	$ 37	$ 0	$ 16,948	$ 1,828	$ 18,813
Financial Derivative Instruments - Liabilities						
Exchange-traded or centrally cleared						
Futures	$ 0	$ 0	$ 0	$ 0	$ 86	$ 86
Swap Agreements	0	3	0	0	302	305
	$ 0	$ 3	$ 0	$ 0	$ 388	$ 391
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 7,647	$ 0	$ 7,647
Written Options	0	0	0	4	37	41
Swap Agreements	0	116	0	0	0	116
	$ 0	$ 116	$ 0	$ 7,651	$ 37	$ 7,804
	$ 0	$ 119	$ 0	$ 7,651	$ 425	$ 8,195

The effect of Financial Derivative Instruments on the Statement of Operations for the period ended December 31, 2016:

	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	$ 213	$ 213
Futures	0	0	0	0	(8,482)	(8,482)
Swap Agreements	0	6	0	0	(13,303)	(13,297)
	$ 0	$ 6	$ 0	$ 0	$ (21,572)	$ (21,566)
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 20,586	$ 0	$ 20,586
Purchased Options	0	0	0	0	(967)	(967)
Written Options	0	0	0	3,674	949	4,623
Swap Agreements	0	1,047	0	0	432	1,479
	$ 0	$ 1,047	$ 0	$ 24,260	$ 414	$ 25,721
	$ 0	$ 1,053	$ 0	$ 24,260	$ (21,158)	$ 4,155
Net Change in Unrealized Appreciation (Depreciation) on Financial Derivative Instruments						
Exchange-traded or centrally cleared						
Futures	$ 0	$ 0	$ 0	$ 0	$ 1,028	$ 1,028
Swap Agreements	0	64	0	0	9,260	9,324
	$ 0	$ 64	$ 0	$ 0	$ 10,288	$ 10,352
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ (16,802)	$ 0	$ (16,802)
Written Options	0	0	0	(631)	27	(604)
Swap Agreements	0	585	0	0	336	921
	$ 0	$ 585	$ 0	$ (17,433)	$ 363	$ (16,485)
	$ 0	$ 649	$ 0	$ (17,433)	$ 10,651	$ (6,133)

FAIR VALUE MEASUREMENTS

The following is a summary of the fair valuations according to the inputs used as of December 31, 2016 in valuing the Portfolio's assets and liabilities:

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 12/31/2016
Investments in Securities, at Value				
Bank Loan Obligations	$ 0	$ 1,737	$ 0	$ 1,737
Corporate Bonds & Notes				
Banking & Finance	0	584,319	0	584,319
Industrials	0	162,447	0	162,447
Utilities	0	76,614	0	76,614
Municipal Bonds & Notes				
California	0	10,600	0	10,600
Texas	0	289	0	289
U.S. Government Agencies	0	626,532	1	626,533
U.S. Treasury Obligations	0	241,929	0	241,929
Non-Agency Mortgage-Backed Securities	0	107,530	385	107,915
Asset-Backed Securities	0	189,259	0	189,259
Sovereign Issues	0	95,993	0	95,993
Short-Term Instruments				
Certificates of Deposit	0	9,908	0	9,908
Commercial Paper	0	82,673	0	82,673
Repurchase Agreements	0	656	0	656
Short-Term Notes	0	10,073	0	10,073
Mexico Treasury Bills	0	4,859	0	4,859
U.S. Treasury Bills	0	18,365	0	18,365
	$ 0	$ 2,223,783	$ 386	$ 2,224,169
Investments in Affiliates, at Value				
Short-Term Instruments				
Central Funds Used for Cash Management Purposes	$ 322,117	$ 0	$ 0	$ 322,117
Total Investments	$ 322,117	$ 2,223,783	$ 386	$ 2,546,286

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 12/31/2016
Short Sales, at Value - Liabilities				
U.S. Government Agencies	$ 0	$ (4,051)	$ 0	$ (4,051)
Financial Derivative Instruments - Assets				
Exchange-traded or centrally cleared	363	3	0	366
Over the counter	0	18,447	0	18,447
	$ 363	$ 18,450	$ 0	$ 18,813
Financial Derivative Instruments - Liabilities				
Exchange-traded or centrally cleared	(86)	(305)	0	(391)
Over the counter	0	(7,804)	0	(7,804)
	$ (86)	$ (8,109)	$ 0	$ (8,195)
Total Financial Derivative Instruments	$ 277	$ 10,341	$ 0	$ 10,618
Totals	$ 322,394	$ 2,230,073	$ 386	$ 2,552,853

There were no significant transfers between Levels 1, 2, or 3 during the period ended December 31, 2016.

1. ORGANIZATION

PIMCO Variable Insurance Trust (the "Trust") was established as a Delaware business trust on October 3, 1997. The Trust is registered under the Investment Company Act of 1940, as amended (the "Act"), as an open-end management investment company. 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. Information presented in these financial statements pertains to the Institutional Class, Administrative Class and Advisor Class shares of the PIMCO Low Duration Portfolio (the "Portfolio") offered by the Trust. 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 beyond a standard settlement period for the security after the trade date. Realized gains (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 (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 denominated in foreign currencies 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. Realized foreign exchange gains (losses) arising from sales of spot foreign currencies, currency gains (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 (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 Trust 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 (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) Distributions to Shareholders Distributions 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 distributions and capital gain distributions are determined in accordance with income tax regulations which may differ from U.S. GAAP. Differences between tax regulations and U.S. GAAP may cause timing differences between income and capital gain recognition. Further, the character of investment income and capital gains may be different for certain transactions under the two methods of accounting. As a result, income distributions 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.

If a Portfolio estimates that a portion of one of its dividend distributions may be comprised of amounts from sources other than net investment income, the Portfolio will notify shareholders of record of the estimated composition of such distribution through a Section 19 Notice. To determine the sources of a Portfolio's distributions during the reporting period, the Portfolio references its internal accounting records at the time the distribution is paid and generally bases its projections of the final tax character of those distributions on the tax characteristics of the distribution reflected in its internal accounting records at the time of such payment. If, based on such records, a particular distribution does not include capital gains or paid-in surplus or other capital sources, a Section 19 Notice generally would not be issued. It is important to note that differences exist between a Portfolio's daily internal accounting records, the Portfolio's financial statements presented in accordance with U.S. GAAP, and recordkeeping practices under income tax regulations. Examples of such differences may include, among others, the treatment of paydowns on mortgage-backed securities purchased at a discount and periodic payments under interest rate swap contracts. Notwithstanding a Portfolio's estimates and projections, it is possible that a Portfolio may not issue a Section 19 Notice in situations where the Portfolio's financial statements prepared later and in accordance with U.S. GAAP or the final tax character of those distributions might later report that the sources of those distributions included capital gains and/or a return of capital.

Additionally, given differences in tax and U.S. GAAP treatment of certain distributions, a Portfolio may not issue a Section 19 Notice in situations where the Portfolio's financial statements prepared later and in accordance with U.S. GAAP might report that the sources of these distributions included capital gains and/or a return of capital. Final determination of a distribution's tax character will be provided to shareholders when such information is available.

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 gain (loss) and/or paid in capital to more appropriately conform U.S. GAAP to tax characterizations of distributions.

(e) New Accounting Pronouncements In August 2014, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU"), 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. The Portfolio has adopted the ASU. The implementation of the ASU did not have an impact on the Portfolio's 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. The ASU did not have an impact on the Portfolio's financial statements.

In August 2016, the FASB issued ASU 2016-15 which amends ASC 230 to clarify guidance on the classification of certain cash receipts and cash payments in the statement of cash flows. The ASU is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. At this time, management is evaluating the implications of these changes on the financial statements.

In October 2016, the U.S. Securities and Exchange Commission ("SEC") adopted new rules and forms, and amendments to certain current rules and forms, to modernize reporting and disclosure of information by registered investment companies. The amendments to Regulation S-X will require standardized, enhanced disclosure about derivatives in investment company financial statements, and will also change the rules governing the form and content of such financial statements. The amendments to Regulation S-X take effect on August 1, 2017. At this time, management is assessing the anticipated impact of these regulatory developments.

In November 2016, the FASB issued ASU 2016-18 which amends ASC 230 to provide guidance on the classification and presentation of changes in restricted cash and restricted cash equivalents on the statement of cash flows. The ASU is effective for annual periods beginning after December 15, 2017, 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, less any liabilities attributable to the Portfolio or class, 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. The Portfolio's investments in open-end management investment companies, other than exchange-traded funds ("ETFs"), are valued at 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 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 the 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 — 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 into 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 into and out of the Level 3 category during the period. The end of period value 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.

Equity-linked securities are valued by referencing the last reported sale or settlement price of the linked referenced equity on the day of valuation. Foreign exchange adjustments are applied to the last reported price to convert the linked equity’s trading currency to the contract’s settling currency. These investments are 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.

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.

Equity exchange-traded options and over the counter financial derivative instruments, such as forward foreign currency contracts, and options contracts, derive their value from underlying asset prices, indices, reference rates, and other inputs or a combination of these factors. 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 and over the counter swaps derive their value from underlying asset prices, indices, reference rates, and other inputs or a combination of these factors. They are valued using a broker-dealer bid quotation or on market-based prices provided by Pricing Services or other pricing sources (normally determined as of the NYSE close). Centrally cleared swaps and over the counter swaps can be valued by Pricing Services using a series of techniques, including simulation pricing models. The pricing models may use inputs that are observed from actively quoted markets such as the overnight index swap rate ("OIS"), London Interbank Offered Rate ("LIBOR") forward rate, interest rates, yield curves and credit spreads. 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 its investment activities, but does 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 an affiliated Fund for the period ended December 31, 2016 (amounts in thousands†):

Investment in PIMCO Short-Term Floating NAV Portfolio III

Market Value 12/31/2015	Purchases at Cost	Proceeds from Sales	Net Realized Gain (Loss)	Change in Unrealized Appreciation (Depreciation)	Market Value 12/31/2016	Dividend Income[(1)]	Realized Net Capital Gain Distributions[(1)]
$ 114,868	$ 1,343,103	$ (1,135,900)	$ (402)	$ 448	$ 322,117	$ 703	$ 0

† A zero balance may reflect actual amounts rounding to less than one thousand.

(1) The tax characterization of distributions is determined in accordance with Federal income tax regulations. The actual tax characterization of distributions paid are determined at the end of the fiscal year. See Note 2 in the Notes to Financial Statements for more information.

(b) Investments in Securities

Delayed-Delivery Transactions The Portfolio may purchase or sell securities on a delayed-delivery basis. These transactions involve a commitment by the Portfolio to purchase or sell securities for a predetermined price or yield, with payment and delivery taking place beyond the customary settlement period. When delayed-delivery transactions are outstanding, the Portfolio will designate or receive as collateral liquid assets in an amount sufficient to meet the purchase price or respective obligations. When purchasing a security on a delayed-delivery basis, the Portfolio assumes the rights and risks of ownership of the security, including the risk of price and yield fluctuations, and takes such fluctuations into account when determining its NAV. The Portfolio may dispose of or renegotiate a delayed-delivery transaction after it is entered into, which may result in a realized gain (loss). When the Portfolio has sold a security on a delayed-delivery basis, the Portfolio does not participate in future gains (losses) with respect to the security.

Inflation-Indexed Bonds The Portfolio may invest in inflation-indexed bonds. Inflation-indexed bonds are fixed income securities whose principal value is periodically adjusted by 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. Repayment of the original bond principal upon maturity (as adjusted for inflation) is guaranteed in the case of U.S. TIPS. For bonds that do not provide a similar guarantee, the adjusted principal value of the bond repaid at maturity may be less than the original principal.

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 the Portfolio. A loan is often administered by a bank or other financial institution (the "agent") 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 agents 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 agent selling the loan agreement and only upon receipt of payments by the agent 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, 2016, 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 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.

Collateralized Mortgage Obligations ("CMOs") are debt obligations of a legal entity that are collateralized by whole mortgage loans or private mortgage bonds and divided into classes. CMOs are structured into multiple classes, often referred to as "tranches", with each class bearing a different stated maturity and entitled to a different schedule for payments of principal and interest, including prepayments. CMOs may be less liquid and may exhibit greater price volatility than other types of mortgage-related or asset-backed securities.

Stripped Mortgage-Backed Securities ("SMBS") are derivative multi-class mortgage securities. SMBS are usually structured with two classes that receive different proportions of the interest and principal distributions on a pool of mortgage assets. 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 in the Portfolio's financial statements 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 purchases 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 by the Portfolio's custodian or designated subcustodians under tri-party repurchase agreements and in certain instances will remain in custody with the counterparty. The market value of the collateral must be equal to or exceed the total amount of the repurchase obligations, including interest. Repurchase agreements, if any, 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 (loss). Realized gains (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 (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 (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 (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 (loss) when the underlying transaction is executed.

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 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.

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.

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.

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 disclosed 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 (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 (loss) on the Statement of Operations. Net periodic payments received or paid by the Portfolio are included as part of realized gain (loss) 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, 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 swap 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 may be 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 The 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 the Portfolio owns or has exposure to the referenced obligation) or to take an active long or short position with respect to the likelihood of a particular issuer's default. Credit default swap agreements 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 asset-backed securities involve one party making a stream of payments to another party in exchange for the right to receive a specified return in the event that the referenced entity, obligation or index, as specified in the agreement, undergoes a certain credit event. Unlike credit default swaps on corporate, loan, sovereign, U.S. municipal or U.S. Treasury issues, deliverable obligations in most instances would be limited to the specific referenced obligation, as performance for asset-backed securities can vary across deals. Prepayments, principal paydowns, and other writedown or loss events on the underlying mortgage loans will reduce the outstanding principal balance of the referenced obligation. These reductions may be temporary or permanent as defined under the terms of the swap agreement and the notional amount for the swap agreement will be adjusted by corresponding amounts. The Portfolio may use credit default swaps on asset-backed securities to provide a measure of protection against defaults of the referenced obligation or to take an active long or short position with respect to the likelihood of a particular referenced obligation's default.

Credit default swap agreements on credit indices involve one party making a stream of payments to another party in exchange for the right to receive a specified return in the event of a write-down, principal shortfall, interest shortfall or default of all or part of the referenced entities comprising the credit index. A credit index is a basket of credit instruments or exposures designed to be representative of some part of the credit market as a whole. These indices are made up of reference credits that are judged by a poll of dealers to be the most liquid entities in the credit default swap market based on the sector of the index. Components of the indices may include, but are not limited to, investment grade securities, high yield securities, asset-backed securities, emerging markets, and/or various credit ratings within each sector. Credit indices are traded using credit default swaps with standardized terms including a fixed spread and standard maturity dates. An index credit default swap references all the names in the index, and if there is a default, the credit event is settled based on that name's weight in the index. The composition of the indices changes periodically, usually every six months, and for most indices, each name has an equal weight in the index. The Portfolio may use credit default swaps on credit indices to hedge a portfolio of credit default swaps or bonds, which is less expensive than it would be to buy many credit default swaps to achieve a similar effect. Credit default swaps on indices are instruments for protecting investors owning bonds against default, and traders use them to speculate on changes in credit quality.

Implied credit spreads, represented in absolute terms, utilized in determining the market value of credit default swap agreements on corporate, 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. The value of the fixed rate bonds that the Portfolio holds 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 (non-U.S.) currency, equity and commodity risks.

Interest rate risk is the risk that fixed income securities and other instruments held by the Portfolio 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 used to determine the sensitivity of a security's price to changes in interest rates 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, etc.). At present, the U.S. and many parts of the world, including certain European countries, are at or near 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. To the extent that the Fed continues to raise interest rates, there is a risk that rates across the financial system may rise. Further, while bond markets have steadily grown over the past three decades, dealer "market making" ability has not kept pace and in some cases has decreased. 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 shareholder redemptions, which could force the Portfolio to liquidate investments at disadvantageous times or prices, thereby adversely affecting the Portfolio. Also, the Portfolio may be adversely affected when a large shareholder purchases or redeems large amounts of shares, which can occur at any time and may impact the Portfolio in the same manner as a high volume of redemption requests. Large shareholder transactions may impact the Portfolio's liquidity and net asset value. Such transactions may also increase the Portfolio's transaction costs or otherwise cause the Portfolio to perform differently than intended. Moreover, the Portfolio is subject to the risk that other shareholders may make investment decisions based on the choices of a large shareholder.

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, a smaller market capitalization and a smaller number of traded securities. 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. Over the counter ("OTC") derivative transactions are subject to the risk that a counterparty to the transaction will not fulfill its contractual obligations to the other party, as many of the protections afforded to centrally cleared derivative transactions might not be available for OTC derivative transactions. For derivatives traded on an exchange or through a central counterparty, credit risk resides with the Portfolio's clearing broker, or the clearinghouse itself, rather than with a counterparty in an OTC derivative transaction. 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. PIMCO's attempts to minimize counterparty risk may, however, be unsuccessful.

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 TBA 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, transaction 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 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 may be reduced as creditors of an FCM cannot have a claim to Portfolio assets in the segregated account. Portability of exposure 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 unless the parties have agreed to a separate arrangement in respect of portfolio margining. 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 posting 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, as applicable, is charged at the annual rate as noted in the following table (calculated as a percentage of the Portfolio's average daily net assets attributable to each class):

	Supervisory and Administrative Fee
Institutional Class	0.25%
Administrative Class	0.25%
Advisor Class	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.

	Distribution Fee	Servicing Fee
Administrative Class	—	0.15%
Advisor Class	0.25%	—

(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 Portfolio, 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, so that each co-lead individually receives an additional retainer of $1,625) and the governance committee chair receives an additional annual retainer of $1,500. The Lead Independent Trustee receives an annual retainer of $3,500.

These expenses are allocated on a pro rata basis to each Portfolio of the Trust according to its respective net assets. 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, Fees and Expenses, 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, or an affiliate of 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, 2016, the Portfolio engaged in purchases and sales of securities pursuant to Rule 17a-7 under the Act (amounts in thousands):

Purchases	Sales
$ 32,324	$ 64,967

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, 2016, were as follows (amounts in thousands):

U.S. Government/ Agency		All Other	
Purchases	Sales	Purchases	Sales
$ 8,171,892	$ 7,956,347	$ 422,087	$ 556,406

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 12/31/2016		Year Ended 12/31/2015	
	Shares	Amount	Shares	Amount
Receipts for shares sold				
Institutional Class	557	$ 5,723	409	$ 4,303
Administrative Class	26,077	267,411	24,857	261,154
Advisor Class	20,114	206,250	15,590	164,276
Issued as reinvestment of distributions				
Institutional Class	13	137	30	308
Administrative Class	1,856	19,034	4,414	45,887
Advisor Class	943	9,668	2,167	22,510
Cost of shares redeemed				
Institutional Class	(529)	(5,435)	(914)	(9,687)
Administrative Class	(35,065)	(359,498)	(40,239)	(425,738)
Advisor Class	(17,083)	(174,933)	(12,840)	(135,449)
Net increase (decrease) resulting from Portfolio share transactions	(3,117)	$ (31,643)	(6,526)	$ (72,436)

As of December 31, 2016, 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, the investment manager of the PIMCO Total Return Active Exchange-Traded Fund ("BOND"), has entered into a settlement agreement with the SEC that relates to BOND.

The settlement relates to disclosures regarding BOND's performance attribution during the first four months of its existence in 2012 and the valuation of 43 smaller-sized positions of non-agency mortgage-backed securities using third-party vendor prices, as well as PIMCO's policies and procedures related to these matters.

The settlement resolves the SEC's investigation of BOND.

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, 2016, 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 2013-2015, 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, 2016, the components of distributable taxable earnings are as follows (amounts in thousands†):

	Undistributed Ordinary Income(1)	Undistributed Long-Term Capital Gains	Net Tax Basis Unrealized Appreciation/ (Depreciation)(2)	Other Book-to-Tax Accounting Differences(3)	Accumulated Capital Losses(4)	Qualified Late-Year Loss Deferral - Capital(5)	Qualified Late-Year Loss Deferral - Ordinary(6)
PIMCO Low Duration Portfolio	$ 0	$ 0	$ (7,487)	$ (1,146)	$ (44,991)	$ 0	$ 0

† A zero balance may reflect actual amounts rounding to less than one thousand.

(1) Includes undistributed short-term capital gains, if any.

(2) 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.

(3) 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.

(4) Capital losses available to offset future net capital gains expire in varying amounts in the years shown below.

(5) Capital losses realized during the period November 1, 2016 through December 31, 2016 which the Fund elected to defer to the following taxable year pursuant to income tax regulations.

(6) Specified losses realized during the period November 1, 2016 through December 31, 2016, which the Fund elected to defer to the following taxable year pursuant to income tax regulations.

As of December 31, 2016, 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	
	12/31/2017	12/31/2018
PIMCO Low Duration Portfolio	$ 8,599	$ 0

† A zero balance may reflect actual amounts rounding to less than one thousand.

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, 2016, the Portfolio had the following post-effective capital losses with no expiration (amounts in thousands):

	Short-Term	Long-Term
PIMCO Low Duration Portfolio	$ 20,994	$ 15,398

† A zero balance may reflect actual amounts rounding to less than one thousand.

As of December 31, 2016, 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)[7]
PIMCO Low Duration Portfolio	$ 2,567,723	$ 13,436	$ (34,873)	$ (21,437)

† A zero balance may reflect actual amounts rounding to less than one thousand.
[7] Primary differences, if any, between book and tax net unrealized appreciation/(depreciation) on investments are attributable to open wash sale loss deferrals

For the fiscal years ended December 31, 2016 and December 31, 2015, respectively, the Portfolio made the following tax basis distributions (amounts in thousands):

	December 31, 2016			December 31, 2015		
	Ordinary Income Distributions[8]	Long-Term Capital Gain Distributions	Return of Capital[9]	Ordinary Income Distributions[8]	Long-Term Capital Gain Distributions	Return of Capital[9]
PIMCO Low Duration Portfolio	$ 14,198	$ 0	$ 14,641	$ 68,706	$ 0	$ 0

† A zero balance may reflect actual amounts rounding to less than one thousand.
[8] Includes short-term capital gains, if any, distributed.
[9] A portion of the distributions made represents a tax return of capital. Return of capital distributions have been reclassified from undistributed net investment income to paid-in capital to more appropriately conform to financial accounting to tax accounting.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of PIMCO Variable Insurance Trust and Shareholders of the 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 the PIMCO Low Duration Portfolio (one of the portfolios constituting PIMCO Variable Insurance Trust, hereafter referred to as the "Portfolio") as of December 31, 2016, 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 as of December 31, 2016 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Kansas City, Missouri

February 17, 2017

Glossary: (abbreviations that may be used in the preceding statements)

(Unaudited)

Counterparty Abbreviations:

AZD	Australia and New Zealand Banking Group	**FBF**	Credit Suisse International	**NGF**	Nomura Global Financial Products, Inc.
BOA	Bank of America N.A.	**GLM**	Goldman Sachs Bank USA	**RYL**	Royal Bank of Scotland Group PLC
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.	**IND**	Crédit Agricole Corporate and Investment Bank S.A.	**SSB**	State Street Bank and Trust Co.
DUB	Deutsche Bank AG	**JPM**	JPMorgan Chase Bank N.A.	**TOR**	Toronto Dominion Bank
FAR	Wells Fargo Bank National Association	**MYC**	Morgan Stanley Capital Services, Inc.	**UAG**	UBS AG Stamford

Currency Abbreviations:

AUD	Australian Dollar	**INR**	Indian Rupee	**RUB**	Russian Ruble
BRL	Brazilian Real	**JPY**	Japanese Yen	**SGD**	Singapore Dollar
CHF	Swiss Franc	**KRW**	South Korean Won	**THB**	Thai Baht
DKK	Danish Krone	**MXN**	Mexican Peso	**TWD**	Taiwanese Dollar
EUR	Euro	**MYR**	Malaysian Ringgit	**USD (or $)**	United States Dollar
GBP	British Pound				

Exchange Abbreviations:

OTC	Over the Counter

Index/Spread Abbreviations:

CDX.IG	Credit Derivatives Index - Investment Grade	**CMBX**	Commercial Mortgage-Backed Index	**CPURNSA**	Consumer Price All Urban Non-Seasonally Adjusted Index

Other Abbreviations:

ALT	Alternate Loan Trust	**CLO**	Collateralized Loan Obligation	**LIBOR**	London Interbank Offered Rate
CDO	Collateralized Debt Obligation	**FDIC**	Federal Deposit Insurance Corp.	**REMIC**	Real Estate Mortgage Investment Conduit

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.

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 fiscal 2016 ordinary income dividend that qualifies for the corporate dividend received deduction is set forth below.

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 2016.

Qualified Interest Income and Qualified Short-Term Capital Gain (for non-U.S. resident shareholders only). Under the American Jobs Creation Act of 2004, the following amounts of ordinary dividends paid during the fiscal year ended December 31, 2016 are considered to be derived from "qualified interest income," as defined in Section 871(k)(1)(E) of the Code, and therefore are designated as interest-related dividends, as defined in Section 871(k)(1)(C) of the Code. Further, the following amounts of ordinary dividends paid during the fiscal year ended December 31, 2016 are considered to be derived from "qualified short-term capital gain," as defined in Section 871(k)(2)(D) of the Code, and therefore are designated as qualified short-term gain dividends, as defined by Section 871(k)(2)(C) of the Code.

	Dividend Received Deduction %	Qualified Dividend Income %	Qualified Interest Income (000s†)	Qualified Short-Term Capital Gain (000s†)
PIMCO Low Duration Portfolio	0.00%	0.00%	$ 14,198	$ 0

† A zero balance may reflect actual amounts rounding to less than one thousand.

Shareholders are advised to consult their own tax advisor with respect to the tax consequences of their investment in the Trust.

In January 2017, you will be advised on IRS Form 1099-DIV as to the federal tax status of the dividends and distributions received by you in calendar year 2016.

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.	144	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, PIMCO; Chief Executive Officer, PIMCO (2/14 - 10/16); Chief Operating Officer, PIMCO (7/09 - 2/14); Member Global Executive Committee, Allianz Asset Management. Formerly, member of Executive Committee and Head of PIMCO's Asia Pacific region.	126	Trustee, PIMCO Funds and 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.	126	Trustee, PIMCO Funds and PIMCO ETF Trust.
E. Philip Cannon* (1940)** *Trustee*	05/2000 to present	Private Investor. Formerly, President, Houston Zoo.	144	Trustee, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and 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).	144	Trustee, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT; Director, PS Business Parks; Director, Big 5 Sporting Goods Corporation.
Kym M. Hubbard* (1957)** *Trustee*	02/2017 to present	Formerly, Global Head of Investments, Chief Investment Officer and Treasurer, Ernst & Young.	126	Trustee, PIMCO Funds and PIMCO ETF Trust.
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).	126	Trustee, PIMCO Funds and 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.	144	Trustee, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT.
Ronald C. Parker (1951) *Lead Independent Trustee*	07/2009 to present Lead Independent Trustee - 02/2017 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).	144	Lead Independent Trustee, PIMCO Funds and PIMCO ETF Trust; Trustee, PIMCO Equity Series and 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.

*** The information for the individuals listed is as of December 31, 2016. Effective February 14, 2017, Ms. Hubbard became a Trustee of the Trust and Mr. Cannon retired from service as a Trustee of the Trust.

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, PIMCO-Sponsored Interval Funds and PIMCO-Sponsored 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, PIMCO. Senior Vice President, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. Formerly, member of Executive Committee, PIMCO.
Douglas M. Hodge (1957) *Senior Vice President*	05/2010 to present	Managing Director, PIMCO; Chief Executive Officer, PIMCO (2/14 - 10/16); Chief Operating Officer, PIMCO (7/09 - 2/14); Member Global Executive Committee, Allianz Asset Management. Senior Vice President, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. Formerly, member of Executive Committee and Head of PIMCO's Asia Pacific region.
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, PIMCO-Sponsored Interval Funds and PIMCO-Sponsored 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, PIMCO-Sponsored Interval Funds and PIMCO-Sponsored 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	Executive Vice President, PIMCO. Vice President, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series, PIMCO Equity Series VIT, PIMCO Managed Accounts Trust, PIMCO-Sponsored Interval Funds and PIMCO-Sponsored 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, PIMCO-Sponsored Interval Funds and PIMCO-Sponsored Closed-End Funds.
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, PIMCO-Sponsored Interval Funds and PIMCO-Sponsored 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, PIMCO-Sponsored Interval Funds and PIMCO-Sponsored 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, PIMCO-Sponsored Interval Funds and PIMCO-Sponsored Closed-End Funds.
Christopher M. Morin (1980) *Assistant Treasurer*	08/2016 to present	Vice President, PIMCO. Assistant Treasurer, PIMCO Funds, PIMCO ETF Trust, PIMCO Equity Series, PIMCO Equity Series VIT, PIMCO Managed Accounts Trust, PIMCO-Sponsored Interval Funds and PIMCO-Sponsored Closed-End Funds. Formerly, Vice President of Operations, Standard Life Investments USA; Assistant Vice President, Brown Brothers Harriman.
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, PIMCO-Sponsored Interval Funds and PIMCO-Sponsored Closed-End Funds. Formerly, Head of Mutual Fund Reporting, GMO and Assistant Treasurer, GMO Trust and GMO Series Trust Funds.

* The term "PIMCO-Sponsored 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 and Mortgage 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 term "PIMCO-Sponsored Interval Funds" as used herein includes: PIMCO Flexible Credit Income Fund.

** 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] Amended as of December 14, 2016.
[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 15-16, 2016, the Board of Trustees (the "Board") of PIMCO Variable Insurance Trust (the "Trust"), including 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 renewal of 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, 2017. The Board also considered and unanimously approved the renewal of the Supervision and Administration Agreement (together with the Investment Advisory Contract, the "Agreements") between the Trust, on behalf of the Portfolios, and PIMCO for an additional one-year term through August 31, 2017. 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, 2017.

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 and each of the Portfolios, as applicable. In considering whether to approve the renewal of the Agreements and the Asset Allocation Agreement, the Board reviewed additional 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 renewal of the Agreements and the Asset Allocation Agreement.

(b) Review Process: In connection with considering 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 encompassing a wide variety of topics. The Board requested and received assistance and advice regarding, among other things, 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 information and fee and expense data. The Board received 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 15-16, 2016 meeting. The Independent Trustees also conducted a telephonic meeting with counsel to the Trust and the Independent Trustees in advance of the August 15-16, 2016 meeting to discuss the materials presented and other matters deemed relevant to their consideration of the renewal of the Agreements and the Asset Allocation Agreement. In addition, the Independent Trustees requested and received additional information from PIMCO 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 and evaluation 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. The discussion below is intended to summarize the broad factors and information that figured prominently in the Board's consideration 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 the Portfolios' asset levels. 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 and infrastructure supporting investment management and compliance, as well as PIMCO's continuing efforts to attract, retain and promote qualified personnel and to maintain and enhance its resources and systems. The Board considered PIMCO's policies, procedures and systems reasonably designed to assure compliance with applicable laws and regulations and its commitment to further developing and strengthening 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 services to the Portfolios and has allowed PIMCO to introduce innovative new portfolios over time. In addition, the Board considered the nature and quality of services provided by PIMCO to the wholly-owned subsidiaries of certain applicable Portfolios.

The Trustees considered information they had received about the steps that PIMCO has taken 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 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 2015, including, but not limited to: continuing enhancement of analytics and technology systems; enhancing data processing and security and development tools and applications; continuing investment in its enterprise risk management function, including PIMCO's cybersecurity program; building specialized talent in the PIMCO Global Advisory Board and continuing to hire new portfolio managers; continuing to expand the Funds Business Group global operating model; developing a website monitoring application to ensure accurate data content; engaging a third-party to perform an independent assessment of the application utilized for income servicing and enhancing the application to provide portfolio managers with more timely and high quality quarterly reporting; establishing a Fund Treasurer's Office to provide, among other things, guidance with respect to industry and regulatory initiatives; advancing technology developers in global tax management application; conducting an end-to-end review of State Street IMS, custodian and pricing vendor connectivity in connection with the pricing function; continuing development of Pricing Portal to improve identification and feedback to vendors regarding valuations; continuing extensive pricing vendor due diligence; and partnering with Boston Financial Data Services, Inc. to establish secondary call center and other call center enhancements. The Trustees also considered the Portfolios' outflows over recent periods, including 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 resource 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 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 provided by PIMCO under the Agreements and by Research Affiliates under the Asset Allocation Agreement are likely to continue to benefit the Portfolios and their respective shareholders, as applicable.

(b) Other Services: The Board also considered the nature, extent and quality of supervisory and administrative services provided by PIMCO to the Portfolios under the Supervision and 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, sub-accounting and printing costs. The Board noted that the scope and complexity, as well as the costs, 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 supervisory and administrative 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 reviewed information from PIMCO concerning the Portfolios' performance, as available, over short- and long-term periods ended May 31, 2016 and other performance data, as available, over short- and long-term periods ended June 30, 2016 (the "PIMCO Report") and from Lipper concerning the Portfolios' performance, as available, over short- and long-term periods ended May 31, 2016 (the "Lipper Report").

The Board considered information regarding both the short 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 15-16, 2016 meeting. The Trustees noted that a majority of the Portfolios outperformed their respective Lipper medians over the ten-year period ended May 31, 2016. The Board also noted that, as of May 31, 2016, the Administrative Class of 25%, 38% and 75% 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: categorize funds to limit heterogeneity and broad-based peer groups; account for the applicable Portfolios' hedging strategies; or 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). 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 but found the comparative information supported its overall evaluation.

The Board noted that a majority of the Portfolios outperformed their respective benchmark indexes over the ten-year period ended May 31, 2016. The Board noted that, as of May 31, 2016, 1%, 23%, and 75% of the Trust's assets (based on Administrative Class performance) outperformed their respective benchmarks on a net-of-fees basis over the three-year, five-year and ten-year periods, respectively. 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 $18.1 billion as of December 31, 2015.

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 and corporate events; workouts; derivatives; net new issuance in the bond market and extensive research for new issuances; 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 PIMCO's ability to generate "alpha" (*i.e.,* non-market correlated excess performance) for its clients over time, including the Trust.

The Board ultimately concluded, within the context of all of its considerations in connection with the Agreements, 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 renewal 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, but not limited to, 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 considered that portfolio pricing generally is not driven by comparison to passively-managed products. The Board also considered that PIMCO reviews the Portfolios' fee levels and carefully considers reductions where appropriate, and noted in particular, the proposed reduction in advisory fees for the PIMCO Global Multi-Asset Managed Volatility Portfolio and PIMCO Global Advantage Strategy Bond Portfolio effective October 21, 2016.

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 advisory fee and supervisory and administrative fee 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 and negotiated fee rate PIMCO charges to separate accounts and sub-advised clients with similar investment strategies. 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, but not limited to, 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 or arrangements across PIMCO strategies 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 PIMCO 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 and the number of Portfolios has grown over time, 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. In return for this unified fee, 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, sub-accounting and printing costs. The Board further considered that many other funds pay for comparable 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 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 considered historical advisory fee reductions implemented for different Portfolios. 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 negative in 2015 as the allocation of compensation and benefits and other administrative expenses to the Trust increased as the Trust's assets now comprise a larger percentage of PIMCO's total sponsored fund assets compared to the previous year. 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. The Board noted that 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 a Portfolio's shareholders of the fees associated with the Portfolio, and that the Portfolio bears certain expenses that are not covered by the advisory fee or the unified fee. The Board further considered the challenges that arise when managing large funds, which can result in certain "diseconomies" of scale.

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 may be 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 realized 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 comprehensive consideration and evaluation of each of the broad factors and information 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 supported 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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Washington, D.C. 20006

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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FRANKLIN TEMPLETON
INVESTMENTS

Annual Report

December 31, 2016

Franklin Templeton
Variable Insurance Products Trust

Franklin Templeton Variable Insurance Products Trust Annual Report

Table of Contents

*Not part of the annual report. Retain for your records.

Not FDIC Insured | May Lose Value | No Bank Guarantee

FARMERS NEW WORLD LIFE/ZURICH AMERICAN LIFE A 02/17

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.

VIP3 SAI5 09/16

SUPPLEMENT DATED SEPTEMBER 28, 2016
TO THE STATEMENT OF ADDITIONAL INFORMATION
DATED MAY 1, 2016
OF
FRANKLIN FLEX CAP GROWTH VIP FUND
FRANKLIN FOUNDING FUNDS ALLOCATION VIP FUND
FRANKLIN GLOBAL REAL ESTATE VIP FUND
FRANKLIN GROWTH AND INCOME VIP FUND
FRANKLIN HIGH INCOME VIP FUND
FRANKLIN INCOME VIP FUND
FRANKLIN LARGE CAP GROWTH VIP FUND
FRANKLIN MUTUAL GLOBAL DISCOVERY VIP FUND
FRANKLIN MUTUAL SHARES VIP FUND
FRANKLIN RISING DIVIDENDS VIP FUND
FRANKLIN SMALL CAP VALUE VIP FUND
FRANKLIN SMALL-MID CAP GROWTH VIP FUND
FRANKLIN STRATEGIC INCOME VIP FUND
FRANKLIN VOLSMART ALLOCATION VIP FUND
TEMPLETON DEVELOPING MARKETS VIP FUND
TEMPLETON FOREIGN VIP FUND
TEMPLETON GLOBAL BOND VIP FUND
TEMPLETON GROWTH VIP FUND
(Series of Franklin Variable Insurance Products Trust)

The Statement of Additional Information is amended as follows:

"The Funds – Goals, Additional Strategies and Risks – Foreign securities" section is revised to add the following after the seventh paragraph:

On June 23, 2016, the United Kingdom voted via referendum to leave the European Union (EU), which immediately led to significant market volatility around the world, as well as political, economic, and legal uncertainty. It is generally expected that the United Kingdom's exit from the EU will take place within two years after the United Kingdom formally notifies the European Council of its intention to withdraw, but there is still considerable uncertainty relating to the potential consequences and timeframe for the exit. The consequences and timeframe of the exit; how the negotiations for the withdrawal and new trade agreements will be conducted; and whether the United Kingdom's exit will increase the likelihood of other countries also departing the EU, may increase market volatility across the global economy. During this period of uncertainty, the negative impact on, not only the United Kingdom and European economies, but the broader global economy, could be significant, potentially resulting in increased volatility and illiquidity and lower economic growth for companies that rely significantly on Europe for their business activities and revenues. Any further exits from the EU, or an increase in the belief that such exits are likely or possible, would likely cause additional market disruption globally and introduce new legal and regulatory uncertainties.

Please keep this supplement with your Statement of Additional Information for future reference.

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Templeton Developing Markets VIP Fund

We are pleased to bring you Templeton Developing Markets VIP Fund's annual report for the fiscal year ended December 31, 2016.

Class 2 Performance Summary as of December 31, 2016

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 12/31/16	1-Year	5-Year	10-Year
Average Annual Total Return	+17.44%	-0.61%	+0.09%

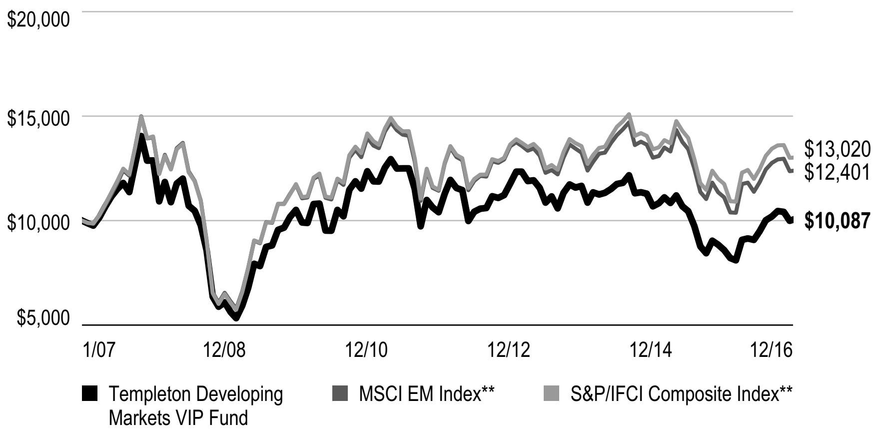
*The Fund has a fee waiver associated with any investment it makes in a Franklin Templeton money fund and/or other Franklin Templeton fund, contractually guaranteed through its current fiscal year-end. Fund investment results reflect the fee waiver; without this waiver, the results would have been lower.

*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 (1/1/07–12/31/16)

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.

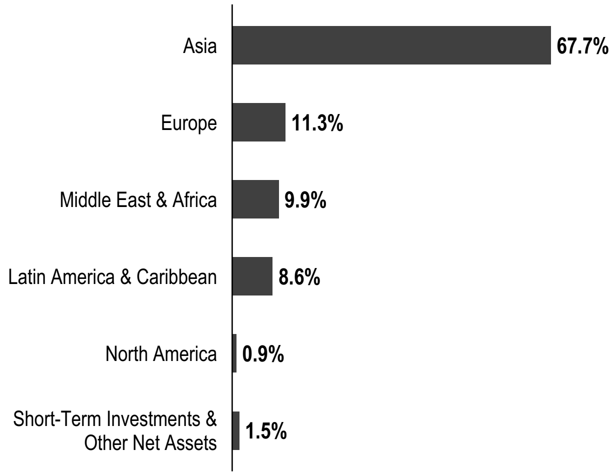
Performance Overview

You can find the Fund's one-year total return in the Performance Summary. In comparison, the MSCI EM Index generated a total return of +11.60% and the S&P/IFCI Composite Index posted a +10.78% total return for the same period.[1] Please note, index performance numbers are for reference and we do not attempt to track an index but rather undertake investments on the basis of fundamental research.

Economic and Market Overview

The global economy grew moderately during the 12 months under review amid a generally modest recovery in developed markets and slowing growth in emerging markets. Nonetheless, emerging market economies in general continued to grow faster than developed market economies. China's economy grew at a stable rate in the first three quarters of 2016 and expanded slightly faster in the fourth quarter, as full-year 2016 growth

Geographic Composition
Based on Total Net Assets as of 12/31/16



remained within the government's targeted range. After growing strongly in the March 2016 quarter, India's economy cooled in the June quarter, due to slower private consumption growth and declining fixed investment, but improved slightly in the September quarter. Russia's economic contraction eased in 2016, following a rebound in oil prices and an improvement in industrial production. Brazil's economy continued to be in recession due to weak domestic demand and slower export growth. Among other emerging markets, South Africa's economy showed signs of improvement, while Mexico's, South Korea's and the Czech Republic's economies moderated.

Several central banks, including those of Mexico, Turkey and South Africa, raised their benchmark interest rates to control inflation and support their currencies, while some, including those of South Korea, Hungary and Indonesia, lowered their benchmark interest rates to promote economic growth. The Reserve Bank of India cut its benchmark interest rate to a six-year low and increased monetary liquidity. The Bank of Russia reduced its key interest rates in June and September, citing lower inflation expectations amid an economic recession. Brazil's central bank cut its benchmark interest rate in October and November to spur economic growth. The People's Bank of China (PBOC) left its benchmark interest rate unchanged in 2016, but employed other monetary easing measures that included cutting the cash reserve requirement ratio for the country's banks and effectively devaluing the renminbi against the U.S. dollar.

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.

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).

Emerging market stocks recovered from a weak start to 2016 caused by investor concerns about the direction of the U.S. Federal Reserve's (Fed's) monetary policy, a plunge in China's domestic equity market in January 2016, a collapse in crude oil prices and moderating global economic growth. Equity markets generally trended higher beginning in late January as prices of many commodities rose, the PBOC implemented further monetary stimulus measures, Greece finalized a new debt deal with its creditors and Brazil impeached President Dilma Rousseff. The U.K.'s referendum to leave the European Union, volatile commodity prices, U.S. President Donald Trump's potential protectionist trade policies, and the Fed's decision to raise the federal funds target rate in December weighed on market sentiment. However, emerging market stocks overall rebounded by period-end amid additional monetary easing by major central banks, notably the Bank of Japan, the Bank of England and the European Central Bank, and subsiding concerns about global economic growth. The agreement by members of the Organization of the Petroleum Exporting Countries (OPEC) to curb production, followed by commitments of 11 non-OPEC members, including Russia, to curb oversupply, also supported stocks. In this environment, emerging market stocks, as measured by the MSCI EM Index, generated a +11.60% total return for the 12 months ended December 31, 2016.[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 12 months under review, key contributors to the Fund's absolute performance included Banco Bradesco, Taiwan Semiconductor Manufacturing Co. (TSMC) and Samsung Electronics.

Banco Bradesco is one of Brazil's largest financial conglomerates. It operates across a wide range of segments, including asset management, insurance, wholesale banking, full retail operations, credit cards, and general corporate and personal lending. Banco Bradesco announced above-consensus third-quarter results and also benefited from improved sentiment in Brazil as investors cheered the impeachment of Dilma Rousseff and welcomed Michel Temer as the country's official president. Investors were also encouraged by the approval of key reforms and the central bank's monetary easing efforts to stimulate economic growth.

Top 10 Countries
12/31/16

	% of Total Net Assets
China	20.4%
South Korea	14.8%
Taiwan	10.5%
India	8.2%
South Africa	7.8%
Brazil	6.2%
Russia	4.5%
U.K.	4.1%
Thailand	4.1%
Indonesia	3.7%

TSMC is the world's largest independent integrated circuit foundry. Based in Taiwan, it produces a wide variety of semiconductors on an outsourced basis for other companies in the technology hardware industry. Its products are used in computers and other consumer electronics. Early in the period, the company announced better-than-expected results, aided by low- and mid-end smartphone demand. Development in new areas, such as computing, also led investors to adopt a positive view on the company.

Samsung Electronics is a major South Korea-based manufacturer of consumer electronics. It is one of the world's largest manufacturers of mobile phones, smartphones, tablets and televisions. Its shares rose over the period, helped by the company's solid earnings. However, the company suffered a setback during the year after implementing a global recall and ultimately discontinuing production of Galaxy Note 7 smartphones. Despite the anticipated costs associated with the incident, its shares recovered in late 2016 amid investor expectations that fourth-quarter earnings would grow significantly compared to a year earlier, due to strong demand for memory chips and a rebound in display and smartphone operations. Further supporting investor sentiment were share buybacks, expectations for higher dividends and the company's efforts to improve its governance structure.

In contrast, key detractors from the Fund's absolute performance included China Life Insurance, Fila Korea and Baidu.

Top 10 Holdings
12/31/16

Company *Sector/Industry, Country*	**% of Total Net Assets**
Samsung Electronics Co. Ltd. *Technology Hardware, Storage & Peripherals, South Korea*	6.5%
Taiwan Semiconductor Manufacturing Co. Ltd. *Semiconductors & Semiconductor Equipment, Taiwan*	5.9%
Naspers Ltd. *Media, South Africa*	4.9%
Tencent Holdings Ltd. *Internet Software & Services, China*	4.3%
Brilliance China Automotive Holdings Ltd. *Automobiles, China*	4.2%
Unilever PLC *Personal Products, U.K.*	4.1%
Itau Unibanco Holding SA *Banks, Brazil*	3.3%
Hon Hai Precision Industry Co. Ltd. *Electronic Equipment, Instruments & Components, Taiwan*	2.4%
Astra International Tbk PT *Automobiles, Indonesia*	2.1%
ICICI Bank Ltd. *Banks, India*	2.1%

China Life Insurance is one of China's largest life insurance companies. Disappointing first-half 2016 earnings, mainly due to lower investment income and a change in the discount rate of traditional portfolio reserve calculation, combined with investor concerns about a lower interest-rate environment and the Chinese renminbi's depreciation, impacted the company's share price in the first half of the reporting period. However, share price performance rebounded in the latter part of 2016, supported by solid third-quarter earnings growth, resulting from better investment performance, especially domestic A-share equity investment. However, the late recovery was insufficient to fully offset the earlier decline.

Fila Korea is a South Korean sporting goods manufacturer that produces a wide variety of products, including footwear, clothing and accessories. The company reported disappointing third-quarter results, driven by losses in its South Korean operations. A major driver of Fila's share price was its stake in Acushnet, which makes golf equipment and accessories under the Titleist and FootJoy brands. In late 2016, Acushnet listed its shares in the U.S., but the lower-than-expected initial public offering price had a negative impact on Fila's shares. During this process, Fila added to its existing holding in Acushnet.

Baidu is China's leading Internet search platform and provider of online marketing solutions. The company also operates an e-commerce platform with an online payment tool, develops and markets web application software, provides entertainment products, and provides human resources-related services. Its shares fell early in the period after the company was criticized for misleading users with search results, leading the Chinese government to institute new Internet regulations. Third-quarter earnings exceeded market expectations, but weaker-than-expected fourth-quarter guidance weighed on investor sentiment. Chinese Internet stocks also generally corrected late in the year following the U.S. presidential election, as many investors were concerned that the incoming president's potential anti-globalization stance could hamper the operating environment for Chinese technology companies.

During the period, our continued search for what we considered undervalued investments with attractive fundamentals led us to increase the Fund's investments in South Korea, Russia, Saudi Arabia[2] and Mexico. Additionally, we initiated exposure to Peru and made some purchases in Taiwan and Hungary. In sector terms, we initiated exposure to utilities and increased holdings largely in consumer discretionary, materials, energy and information technology (IT).[3] Key purchases included additional investment in the aforementioned Samsung Electronics and new positions in Alibaba Group Holding, China's biggest e-commerce company, and Saudi Basic Industries,[2] one of the world's largest petrochemical producers.

Conversely, we made some sales in Brazil and reduced the Fund's holdings in India, South Africa and Thailand, as well as in emerging market companies listed in Belgium and the U.S., to focus on opportunities we considered to be more attractively valued within our investment universe. In sector terms, we

2. Investments were made through participatory notes, which are equity access products structured as debt obligations and are issued or backed by banks and broker-dealers and designed to replicate equity market exposure in markets where direct investment is either impossible or difficult due to local investment restrictions.
3. The utilities sector comprises gas utilities in the SOI. The consumer discretionary sector comprises auto components; automobiles; distributors; hotels, restaurants and leisure; Internet and direct marketing retail; media; and textiles, apparel and luxury goods in the SOI. The materials sector comprises chemicals, construction materials, and metals and mining in the SOI. The energy sector comprises oil, gas and consumable fuels in the SOI. The IT 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.

made some sales in financials and reduced holdings in consumer staples, health care and telecommunication services.[4] Key sales included trimming the Fund's positions in the aforementioned Banco Bradesco; Tata Consultancy Services, an Indian IT consulting and services company; and Anheuser-Busch InBev, a Belgium-listed global brewer with significant emerging markets operations.

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, 2016, 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.

4. The financials sector comprises banks, diversified financial services and insurance in the SOI. The consumer staples sector comprises beverages, food and staples retailing, food products and personal products in the SOI. The health care sector comprises biotechnology and pharmaceuticals in the SOI. The telecommunication services sector comprises diversified telecommunication services and wireless telecommunication services 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: (1) transaction expenses can include sales charges (loads) on purchases, surrender fees, transfer fees and premium taxes; and (2) 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 table below shows Fund-level ongoing expenses and can help you understand these costs 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 table below provides information about the actual account values and actual expenses in the columns under the heading "Actual." In these columns the Fund's actual return, which includes the effect of ongoing Fund expenses but does not include the effect of ongoing Contract expenses, is used to calculate the "Ending Account Value." You can estimate the Fund-level expenses you paid during the period by following these steps (o*f course, your account value and expenses will differ from those in this illustration*): Divide your account value by $1,000 (*if your account had an $8,600 value, then $8,600 ÷ $1,000 = 8.6*). Then multiply the result by the number under the headings "Actual" and "Fund-Level Expenses Paid During Period" (*if Fund-Level Expenses Paid During Period were $ 7.50, then 8.6 x $ 7.50 = $64.50*). In this illustration, the estimated expenses paid this period at the Fund level are $64.50.

Hypothetical Example for Comparison with Other Mutual Funds

Under the heading "Hypothetical" in the table, information is provided 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. This information may not be used to estimate the actual ending account balance or expenses you paid for the period, but it can help you compare ongoing costs of investing in the Fund with those of other mutual funds offered through the Contract. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of other funds offered through the Contract.

Please note that expenses shown in the table are meant to highlight ongoing costs at the Fund level only and do not reflect any ongoing expenses at the Contract level, or transaction expenses at either the Fund or Contract levels. In addition, 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.

		Actual (actual return after expenses)		Hypothetical (5% annual return before expenses)		
Share Class	**Beginning Account Value 7/1/16**	**Ending Account Value 12/31/16**	**Fund-Level Expenses Paid During Period 7/1/16–12/31/16[1,2]**	**Ending Account Value 12/31/16**	**Fund-Level Expenses Paid During Period 7/1/16–12/31/16[1,2]**	**Net Annualized Expense Ratio[2]**
Class 2	$1,000	$1,062.00	$8.34	$1,017.04	$8.16	1.61%

1. Expenses are equal to the annualized expense ratio for the six-month period as indicated above—in the far right column—multiplied by the simple average account value over the period indicated, and then multiplied by 184/366 to reflect the one-half year period.
2. Reflects expenses after fee waivers and expense reimbursements. Does not include any ongoing expenses of the Contract for which the Fund is an investment option or acquired fund fees and expenses.

Financial Highlights

Templeton Developing Markets VIP Fund

	Year Ended December 31,				
	2016	2015	2014	2013	2012
Class 1					
Per share operating performance					
(for a share outstanding throughout the year)					
Net asset value, beginning of year	$ 6.37	$ 9.27	$10.26	$10.58	$ 9.50
Income from investment operations[a]:					
Net investment income[b]	0.05	0.06	0.15[c]	0.13	0.19
Net realized and unrealized gains (losses)	1.08	(1.63)	(0.97)	(0.22)	1.06
Total from investment operations	1.13	(1.57)	(0.82)	(0.09)	1.25
Less distributions from:					
Net investment income	(0.08)	(0.20)	(0.17)	(0.23)	(0.17)
Net realized gains	—	(1.13)	—	—	—
Total distributions	(0.08)	(1.33)	(0.17)	(0.23)	(0.17)
Redemption fees	—	—	—[d]	—[d]	—[d]
Net asset value, end of year	$ 7.42	$ 6.37	$ 9.27	$10.26	$10.58
Total return[e]	17.79%	(19.42)%	(8.09)%	(0.73)%	13.40%
Ratios to average net assets					
Expenses before waiver and payments by affiliates	1.38%	1.33%	1.36%	1.35%	1.35%
Expenses net of waiver and payments by affiliates	1.36%	1.32%	1.36%[f]	1.35%	1.35%
Net investment income	0.79%	0.74%	1.51%[c]	1.25%	1.93%
Supplemental data					
Net assets, end of year (000's)	$82,596	$77,000	$114,487	$145,707	$203,568
Portfolio turnover rate	26.78%	71.69%	82.87%	44.59%	24.45%

[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,				
	2016	2015	2014	2013	2012
Class 2					
Per share operating performance					
(for a share outstanding throughout the year)					
Net asset value, beginning of year	$ 6.32	$ 9.20	$10.19	$10.50	$ 9.42
Income from investment operations[a]:					
Net investment income[b]	0.04	0.04	0.12[c]	0.10	0.17
Net realized and unrealized gains (losses)	1.06	(1.61)	(0.96)	(0.21)	1.05
Total from investment operations	1.10	(1.57)	(0.84)	(0.11)	1.22
Less distributions from:					
Net investment income	(0.06)	(0.18)	(0.15)	(0.20)	(0.14)
Net realized gains	—	(1.13)	—	—	—
Total distributions	(0.06)	(1.31)	(0.15)	(0.20)	(0.14)
Redemption fees	—	—	—[d]	—[d]	—[d]
Net asset value, end of year	$ 7.36	$ 6.32	$ 9.20	$10.19	$10.50
Total return[e]	17.44%	(19.60)%	(8.39)%	(0.92)%	13.16%
Ratios to average net assets					
Expenses before waiver and payments by affiliates	1.63%	1.58%	1.61%	1.60%	1.60%
Expenses net of waiver and payments by affiliates	1.61%	1.57%	1.61%[f]	1.60%	1.60%
Net investment income	0.54%	0.49%	1.26%[c]	1.00%	1.68%
Supplemental data					
Net assets, end of year (000's)	$205,151	$192,120	$250,813	$274,683	$291,638
Portfolio turnover rate	26.78%	71.69%	82.87%	44.59%	24.45%

[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,				
	2016	2015	2014	2013	2012
Class 4					
Per share operating performance					
(for a share outstanding throughout the year)					
Net asset value, beginning of year	$ 6.34	$ 9.22	$10.20	$10.50	$ 9.42
Income from investment operations[a]:					
Net investment income[b]	0.03	0.03	0.12[c]	0.10	0.16
Net realized and unrealized gains (losses)	1.06	(1.62)	(0.97)	(0.21)	1.04
Total from investment operations	1.09	(1.59)	(0.85)	(0.11)	1.20
Less distributions from:					
Net investment income	(0.04)	(0.16)	(0.13)	(0.19)	(0.12)
Net realized gains	—	(1.13)	—	—	—
Total distributions	(0.04)	(1.29)	(0.13)	(0.19)	(0.12)
Redemption fees	—	—	—[d]	—[d]	—[d]
Net asset value, end of year	$ 7.39	$ 6.34	$ 9.22	$10.20	$10.50
Total return[e]	17.32%	(19.70)%	(8.48)%	(1.07)%	13.06%
Ratios to average net assets					
Expenses before waiver and payments by affiliates	1.73%	1.68%	1.71%	1.70%	1.70%
Expenses net of waiver and payments by affiliates	1.71%	1.67%	1.71%[f]	1.70%	1.70%
Net investment income	0.44%	0.39%	1.16%[c]	0.90%	1.58%
Supplemental data					
Net assets, end of year (000's)	$6,377	$7,109	$11,106	$15,225	$23,341
Portfolio turnover rate	26.78%	71.69%	82.87%	44.59%	24.45%

[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, 2016

Templeton Developing Markets VIP Fund

	Industry	Shares	Value
Common Stocks 91.8%			
Argentina 0.3%			
[a] Grupo Clarin SA, B, GDR, Reg S	Media	9,190	$ 207,694
MercadoLibre Inc.	Internet Software & Services	3,500	546,490
			754,184
Belgium 1.1%			
Anheuser-Busch InBev SA/NV	Beverages	31,970	3,382,385
Brazil 1.2%			
M Dias Branco SA	Food Products	45,400	1,604,281
Mahle-Metal Leve SA	Auto Components	136,600	871,299
Totvs SA	Software	139,400	1,029,642
			3,505,222
Cambodia 0.9%			
NagaCorp Ltd.	Hotels, Restaurants & Leisure	4,824,000	2,780,744
China 20.4%			
[b] Alibaba Group Holding Ltd., ADR	Internet Software & Services	62,770	5,511,834
[b] Baidu Inc., ADR	Internet Software & Services	24,400	4,011,604
Bloomage Biotechnology Corp. Ltd.	Chemicals	772,000	1,162,804
Brilliance China Automotive Holdings Ltd.	Automobiles	8,909,300	12,270,465
China Life Insurance Co. Ltd., H	Insurance	610,000	1,589,013
China Mobile Ltd.	Wireless Telecommunication Services	490,500	5,199,445
China Petroleum and Chemical Corp., H	Oil, Gas & Consumable Fuels	8,024,000	5,691,147
COSCO Shipping Ports Ltd.	Transportation Infrastructure	1,069,334	1,074,229
Dah Chong Hong Holdings Ltd.	Distributors	1,746,100	666,511
Inner Mongolia Yitai Coal Co. Ltd., B	Oil, Gas & Consumable Fuels	1,309,700	1,216,711
NetEase Inc., ADR	Internet Software & Services	16,771	3,611,467
Ping An Insurance Group Co. of China Ltd., A	Insurance	308,395	1,573,281
Poly Culture Group Corp. Ltd., H	Media	229,200	559,219
Tencent Holdings Ltd.	Internet Software & Services	522,100	12,772,244
Uni-President China Holdings Ltd.	Food Products	3,563,300	2,513,541
Weifu High-Technology Co. Ltd., B	Auto Components	219,000	521,059
			59,944,574
Czech Republic 0.3%			
[b] Moneta Money Bank AS	Banks	303,100	977,552
Hong Kong 3.2%			
Dairy Farm International Holdings Ltd.	Food & Staples Retailing	202,333	1,454,774
MGM China Holdings Ltd.	Hotels, Restaurants & Leisure	2,156,400	4,471,586
Sands China Ltd.	Hotels, Restaurants & Leisure	807,600	3,509,720
			9,436,080
Hungary 1.3%			
Richter Gedeon Nyrt	Pharmaceuticals	177,170	3,743,155
India 8.2%			
Bajaj Holdings & Investment Ltd.	Diversified Financial Services	33,990	910,016
Biocon Ltd.	Biotechnology	322,743	4,511,213
Coal India Ltd.	Oil, Gas & Consumable Fuels	338,475	1,494,271
Glenmark Pharmaceuticals Ltd.	Pharmaceuticals	91,248	1,192,993
ICICI Bank Ltd.	Banks	1,642,190	6,169,581
Infosys Ltd.	IT Services	183,099	2,722,994
Oil & Natural Gas Corp. Ltd.	Oil, Gas & Consumable Fuels	302,100	850,669
Reliance Industries Ltd.	Oil, Gas & Consumable Fuels	128,900	2,053,157
Tata Chemicals Ltd.	Chemicals	238,500	1,765,378

Templeton Developing Markets VIP Fund (continued)

	Industry	Shares	Value
Common Stocks (continued)			
India (continued)			
Tata Consultancy Services Ltd.	IT Services	22,980	$ 799,951
Tata Motors Ltd., A	Automobiles	346,107	1,523,380
			23,993,603
Indonesia 3.7%			
Astra International Tbk PT	Automobiles	10,115,100	6,212,838
Bank Danamon Indonesia Tbk PT	Banks	5,707,000	1,571,570
Perusahaan Gas Negara (Persero) Tbk PT	Gas Utilities	6,697,400	1,342,214
Semen Indonesia (Persero) Tbk PT	Construction Materials	2,764,700	1,882,807
			11,009,429
Kenya 0.4%			
Equity Group Holdings Ltd.	Banks	3,712,900	1,096,079
Mexico 1.2%			
America Movil SAB de CV, L, ADR	Wireless Telecommunication Services	82,991	1,043,197
Grupo Financiero Santander Mexico SAB de CV, B, ADR	Banks	171,410	1,232,438
Nemak SAB de CV	Auto Components	1,426,300	1,273,875
[b] Telesites SAB de CV	Diversified Telecommunication Services	82,000	44,448
			3,593,958
Nigeria 0.0%†			
Nigerian Breweries PLC	Beverages	167,352	78,543
Pakistan 1.4%			
Habib Bank Ltd.	Banks	1,550,000	4,042,994
Peru 0.9%			
Compania de Minas Buenaventura SA, ADR	Metals & Mining	243,390	2,745,439
Philippines 0.5%			
BDO Unibank Inc.	Banks	272,900	616,782
[b] Bloomberry Resorts Corp.	Hotels, Restaurants & Leisure	6,177,500	765,968
			1,382,750
Russia 4.5%			
LUKOIL PJSC, ADR	Oil, Gas & Consumable Fuels	41,300	2,316,930
LUKOIL PJSC, ADR (London Stock Exchange)	Oil, Gas & Consumable Fuels	38,600	2,165,460
[a,b] Mail.ru Group Ltd., GDR, Reg S	Internet Software & Services	179,485	3,293,550
MMC Norilsk Nickel PJSC, ADR	Metals & Mining	137,400	2,306,946
[b] Yandex NV, A	Internet Software & Services	150,078	3,021,070
			13,103,956
Singapore 0.1%			
DBS Group Holdings Ltd.	Banks	25,706	307,854
South Africa 7.8%			
Massmart Holdings Ltd.	Food & Staples Retailing	190,769	1,751,810
MTN Group Ltd.	Wireless Telecommunication Services	276,096	2,535,559
Naspers Ltd., N	Media	97,448	14,285,956
Remgro Ltd.	Diversified Financial Services	272,238	4,419,860
			22,993,185
South Korea 14.8%			
Daelim Industrial Co. Ltd.	Construction & Engineering	50,285	3,627,919
Fila Korea Ltd.	Textiles, Apparel & Luxury Goods	33,470	1,954,546
Hankook Tire Co. Ltd.	Auto Components	21,600	1,037,726
Hanon Systems	Auto Components	206,051	1,757,976
Hite Jinro Co. Ltd.	Beverages	64,320	1,124,163

Templeton Developing Markets VIP Fund (continued)

	Industry	Shares	Value
Common Stocks (continued)			
South Korea (continued)			
Hyundai Development Co-Engineering & Construction	Construction & Engineering	132,630	$ 4,938,243
Hyundai Wia Corp.	Auto Components	17,000	1,027,952
iMarketkorea Inc.	Trading Companies & Distributors	70,490	607,242
Interpark Holdings Corp.	Internet & Direct Marketing Retail	142,053	590,684
KT Skylife Co. Ltd.	Media	176,060	2,522,945
POSCO	Metals & Mining	2,900	618,552
Samsung Electronics Co. Ltd.	Technology Hardware, Storage & Peripherals	12,767	19,056,566
SK Hynix Inc.	Semiconductors & Semiconductor Equipment	113,860	4,215,797
Youngone Corp.	Textiles, Apparel & Luxury Goods	22,200	563,617
			43,643,928
Taiwan 10.5%			
Catcher Technology Co. Ltd.	Technology Hardware, Storage & Peripherals	357,000	2,464,003
Hon Hai Precision Industry Co. Ltd.	Electronic Equipment, Instruments & Components	2,700,500	7,006,181
Largan Precision Co. Ltd.	Electronic Equipment, Instruments & Components	14,000	1,634,904
Pegatron Corp.	Technology Hardware, Storage & Peripherals	973,800	2,310,392
Taiwan Semiconductor Manufacturing Co. Ltd.	Semiconductors & Semiconductor Equipment	3,100,000	17,336,579
			30,752,059
Thailand 4.1%			
Kasikornbank PCL, fgn.	Banks	604,100	2,991,011
Kiatnakin Bank PCL, fgn.	Banks	1,009,800	1,661,875
Land and Houses PCL, fgn.	Real Estate Management & Development	4,853,900	1,320,098
PTT Exploration and Production PCL, fgn.	Oil, Gas & Consumable Fuels	584,500	1,569,264
Siam Commercial Bank PCL, fgn.	Banks	306,400	1,303,375
Thai Beverage PCL, fgn.	Beverages	5,290,600	3,105,885
			11,951,508
United Kingdom 4.1%			
Unilever PLC	Personal Products	299,133	12,132,435
United States 0.9%			
[b] IMAX Corp.	Media	84,117	2,641,274
Total Common Stocks (Cost $242,885,354)			269,992,890
[c] **Participatory Notes 1.7%**			
Saudi Arabia 1.7%			
Deutsche Bank AG/London, Samba Financial Group, 8/03/20	Banks	143,055	928,458
HSBC Bank PLC,			
Saudi Basic Industries Corp., 1/22/18	Chemicals	167,110	4,075,528
[d] Savola Al-Azizia United Co., 144A, 2/06/17	Food Products	2,500	26,720
Total Participatory Notes (Cost $4,463,391)			5,030,706

Templeton Developing Markets VIP Fund (continued)

	Industry	Shares	Value
Preferred Stocks 5.0%			
Brazil 5.0%			
[e] Banco Bradesco SA, 4.637%, ADR, pfd.	Banks	570,650	$ 4,970,362
[e] Itau Unibanco Holding SA, 4.696%, ADR, pfd.	Banks	953,162	9,798,505
Total Preferred Stocks (Cost $9,722,435)			14,768,867
Total Investments before Short Term Investments (Cost $257,071,180)			289,792,463
Short Term Investments (Cost $4,395,622) 1.5%			
Money Market Funds 1.5%			
United States 1.5%			
[f,g] Institutional Fiduciary Trust Money Market Portfolio, 0.09%		4,395,622	4,395,622
Total Investments (Cost $261,466,802) 100.0%			294,188,085
Other Assets, less Liabilities (0.0)%†			(64,264)
Net Assets 100.0%			$294,123,821

See Abbreviations on page TD- 24.

†Rounds to less than 0.1% of net assets.

[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, 2016, the aggregate value of these securities was $3,501,244, representing 1.2% of net assets.

[b] Non-income producing.

[c] See Note 1(c) regarding Participatory Notes.

[d] 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. At December 31, 2016, value of this security was $26,720, representing less than 0.1% of net assets.

[e] Variable rate security. The rate shown represents the yield at period end.

[f] See Note 3(e) regarding investments in affiliated management investment companies.

[g] The rate shown is the annualized seven-day yield at period end.

Financial Statements

Statement of Assets and Liabilities
December 31, 2016

	Templeton Developing Markets VIP Fund
Assets:	
Investments in securities:	
Cost - Unaffiliated issuers	$257,071,180
Cost - Non-controlled affiliates (Note 3e)	4,395,622
Total cost of investments	$261,466,802
Value - Unaffiliated issuers	$289,792,463
Value - Non-controlled affiliates (Note 3e)	4,395,622
Total value of investments	294,188,085
Receivables:	
Capital shares sold	160,123
Dividends	646,727
Foreign tax	22,570
Other assets	21
Total assets	295,017,526
Liabilities:	
Payables:	
Capital shares redeemed	63,709
Management fees	309,863
Distribution fees	92,496
Reports to shareholders	83,535
Professional fees	53,828
Deferred tax	269,393
Accrued expenses and other liabilities	20,881
Total liabilities	893,705
Net assets, at value	$294,123,821
Net assets consist of:	
Paid-in capital	$302,780,927
Distributions in excess of net investment income	(1,674,192)
Net unrealized appreciation (depreciation)	32,418,311
Accumulated net realized gain (loss)	(39,401,225)
Net assets, at value	$294,123,821
Class 1:	
Net assets, at value	$ 82,595,941
Shares outstanding	11,135,294
Net asset value and maximum offering price per share	$7.42
Class 2:	
Net assets, at value	$205,150,888
Shares outstanding	27,880,292
Net asset value and maximum offering price per share	$7.36
Class 4:	
Net assets, at value	$ 6,376,992
Shares outstanding	862,798
Net asset value and maximum offering price per share	$7.39

Statement of Operations

for the year ended December 31, 2016

	Templeton Developing Markets VIP Fund
Investment income:	
Dividends: (net of foreign taxes of $850,906)	
Unaffiliated issuers	$ 6,304,961
Non-controlled affiliates (Note 3e)	140
Total investment income	6,305,101
Expenses:	
Management fees (Note 3a)	3,651,393
Distribution fees: (Note 3c)	
Class 2	515,612
Class 4	23,971
Custodian fees (Note 4)	92,891
Reports to shareholders	205,239
Registration and filing fees	84
Professional fees	71,498
Trustees' fees and expenses	1,326
Other	24,698
Total expenses	4,586,712
Expenses waived/paid by affiliates (Note 3e)	(58,372)
Net expenses	4,528,340
Net investment income	1,776,761
Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments	10,061,016
Foreign currency transactions	31,103
Net realized gain (loss)	10,092,119
Net change in unrealized appreciation (depreciation) on:	
Investments	34,571,875
Translation of other assets and liabilities denominated in foreign currencies	5,893
Change in deferred taxes on unrealized appreciation	(149,541)
Net change in unrealized appreciation (depreciation)	34,428,227
Net realized and unrealized gain (loss)	44,520,346
Net increase (decrease) in net assets resulting from operations	$46,297,107

Statements of Changes in Net Assets

	Templeton Developing Markets VIP Fund	
	Year Ended December 31,	
	2016	2015
Increase (decrease) in net assets:		
Operations:		
Net investment income	$ 1,776,761	$ 1,869,006
Net realized gain (loss)	10,092,119	(40,238,876)
Net change in unrealized appreciation (depreciation)	34,428,227	(29,184,006)
Net increase (decrease) in net assets resulting from operations	46,297,107	(67,553,876)
Distributions to shareholders from:		
Net investment income:		
Class 1	(875,959)	(2,280,023)
Class 2	(1,674,699)	(4,605,588)
Class 4	(44,436)	(178,865)
Net realized gains:		
Class 1	—	(12,555,712)
Class 2	—	(29,329,089)
Class 4	—	(1,242,906)
Total distributions to shareholders	(2,595,094)	(50,192,183)
Capital share transactions: (Note 2)		
Class 1	(6,421,627)	(3,228,881)
Class 2	(17,591,736)	21,548,017
Class 4	(1,794,556)	(748,959)
Total capital share transactions	(25,807,919)	17,570,177
Net increase (decrease) in net assets	17,894,094	(100,175,882)
Net assets:		
Beginning of year	276,229,727	376,405,609
End of year	$294,123,821	$ 276,229,727
Distributions in excess of net investment income included in net assets:		
End of year	$ (1,674,192)	$ (3,021,032)

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. 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 Committee (VC). The VC 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. 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 VC 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 VC 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 VC 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 Fund’s business day. Occasionally, events occur between the time at which trading in a foreign security is completed and 4 p.m. Eastern time 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 4 p.m. Eastern time. In order to minimize the potential for these differences, the VC monitors price movements following the close of trading in foreign stock markets through a series of country specific market proxies (such as baskets of American

Templeton Developing Markets VIP Fund (continued)

1. Organization and Significant Accounting Policies (continued)

a. Financial Instrument Valuation *(continued)*

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 Fund's NAV is not calculated, 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, net of fees paid to the securities lending agent and/or third-party vendor, 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

Templeton Developing Markets VIP Fund (continued)

collateral received. The securities lending agent has agreed to indemnify the Fund in the event of default by a third party borrower. At December 31, 2016, the Fund had no securities on loan.

e. Income and Deferred Taxes

It is the Fund's policy to qualify as a regulated investment company under the Internal Revenue Code. The Fund intends to distribute to shareholders substantially all of its taxable income 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, 2016, 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 in future tax years). 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 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. 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, 2016, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

	Year Ended December 31,			
	2016		2015	
	Shares	Amount	Shares	Amount
Class 1 Shares:				
Shares sold	1,670,412	$ 11,807,302	1,121,738	$ 9,288,141
Shares issued in reinvestment of distributions	130,351	875,960	1,921,727	14,835,735
Shares redeemed	(2,747,707)	(19,104,889)	(3,309,863)	(27,352,757)
Net increase (decrease)	(946,944)	$ (6,421,627)	(266,398)	$ (3,228,881)
Class 2 Shares:				
Shares sold	6,851,485	$ 48,325,937	4,635,193	$ 35,599,642
Shares issued in reinvestment of distributions	251,080	1,674,699	4,430,114	33,934,677
Shares redeemed	(9,617,120)	(67,592,372)	(5,930,164)	(47,986,302)
Net increase (decrease)	(2,514,555)	$(17,591,736)	3,135,143	$ 21,548,017
Class 4 Shares:				
Shares sold	84,033	$ 595,503	96,241	$ 723,497
Shares issued in reinvestment of distributions	6,622	44,436	184,886	1,421,771
Shares redeemed	(348,788)	(2,434,495)	(364,639)	(2,894,227)
Net increase (decrease)	(258,133)	$ (1,794,556)	(83,512)	$ (748,959)

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

For the year ended December 31, 2016, the effective investment management fee rate was 1.244% of the Fund's average daily net assets.

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.

Templeton Developing Markets VIP Fund (continued)

3. Transactions with Affiliates (continued)

e. Investments in Affiliated Management Investment Companies

The Fund invests in one or more affiliated management investment companies 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 companies, as noted in the Statements 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. During the year ended December 31, 2016, the Fund held investments in affiliated management investment companies as follows:

	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, 0.09%	36,108,301	58,316,358	(90,029,037)	4,395,622	$4,395,622	$140	$ —	0.0%[a]

[a]Rounds to less than 0.1%.

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, 2016, 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, 2016, the capital loss carryforwards were as follows:

Capital loss carryforwards not subject to expiration:	
Short term	$19,728,638
Long term	13,677,912
Total capital loss carryforwards	$33,406,550

The tax character of distributions paid during the years ended December 31, 2016 and 2015, was as follows:

	2016	2015
Distributions paid from:		
Ordinary income	$2,595,094	$ 7,065,009
Long term capital gain	—	43,127,174
	$2,595,094	$50,192,183

Templeton Developing Markets VIP Fund (continued)

At December 31, 2016, the cost of investments, net unrealized appreciation (depreciation) and undistributed ordinary income for income tax purposes were as follows:

Cost of investments	$272,758,152
Unrealized appreciation	$ 55,012,459
Unrealized depreciation	(33,582,526)
Net unrealized appreciation (depreciation)	$ 21,429,933
Distributable earnings - undistributed ordinary income	$ 3,622,485

Differences between income and/or capital gains as determined on a book basis and a tax basis are primarily due to differing treatment of corporate actions and wash sales.

6. Investment Transactions

Purchases and sales of investments (excluding short term securities) for the year ended December 31, 2016, aggregated $77,363,215 and $73,221,623, 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.

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 10, 2017. 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 10, 2017, the Borrowers renewed the Global Credit Facility for a one year term, maturing February 9, 2018, 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 0.15% based upon the unused portion of the Global Credit Facility. These fees are reflected in other expenses in the Statement of Operations. During the year ended December 31, 2016, 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.)

Templeton Developing Markets VIP Fund (continued)

9. Fair Value Measurements (continued)

- 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, 2016, 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]				
Energy	$ 15,040,680	$ 2,316,930	$ —	$ 17,357,610
Materials	8,174,981	2,306,946	—	10,481,927
All Other Equity Investments[b]	256,922,220	—	—	256,922,220
Participatory Notes	—	5,030,706	—	5,030,706
Short Term Investments	4,395,622	—	—	4,395,622
Total Investments in Securities	$ 284,533,503	$ 9,654,582	$ —	$ 294,188,085

[a]Includes common and preferred stocks.
[b]For detailed categories, see the accompanying Statement of Investments.

10. Investment Company Reporting Modernization

In October 2016, the U.S. Securities and Exchange Commission adopted new rules and amended existing rules (together, final rules) intended to modernize the reporting and disclosure of information by registered investment companies. In part, the final rules amend Regulation S-X and require standardized, enhanced disclosures about derivatives in investment company financial statements, as well as other amendments. The compliance date for the amendments to Regulation S-X is August 1, 2017. Management is currently evaluating the impact that the adoption of the amendments to Regulation S-X will have on the Fund's financial statements and related disclosures.

11. Subsequent Events

The Fund has evaluated subsequent events through the issuance of the financial statements and determined that no events have occurred that require disclosure.

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 The Franklin Templeton Variable Insurance Products Trust

In our opinion, the accompanying statements of assets and liabilities, including the statements 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, 2016, the results of each of their operations for the year then ended, the changes in each of their net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with 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 account 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, 2016 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California
February 15, 2017

Tax Information (unaudited)

Templeton Developing Markets VIP Fund

At December 31, 2016, 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 Internal Revenue Code (Code). This election will allow shareholders of record as of the 2017 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. They do not reflect any fees, expenses or sales charges.

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.

Bloomberg 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.

Bloomberg 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 allocation 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 12/31/16, there were 305 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 12/31/16, there were 69 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 12/31/16, 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 12/31/16, there were 109 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 All Country World Index (ACWI) ex USA Index captures large- and mid-capitalization representation across 22 of 23 developed markets countries (excluding the U.S.) and 23 emerging markets countries. The index covers approximately 85% of the global equity opportunity set outside the U.S.

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 2000® Index is market capitalization weighted and measures performance of the 2,000 smallest companies in the Russell 3000® Index, which represent a small amount of the total market capitalization of the Russell 3000® Index.

Russell 2000™ Value Index is market capitalization weighted and measures performance of those Russell 2000™ Index companies with lower price-to-book ratios and lower forecasted growth values.

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 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 represents 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 occupations during at least the past five years and number of U.S. registered 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	142	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	136	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) (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	142	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), Santander Consumer USA Holdings, Inc. (consumer finance) (November 2016), 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	142	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) (2006-present); 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
Larry D. Thompson (1945) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2007	142	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, (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	116	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	158	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).

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	142	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 45 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
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 45 of the investment companies in Franklin Templeton Investments.				
Gaston Gardey (1967) One Franklin Parkway San Mateo, CA 94403-1906	Treasurer, Chief Financial Officer and Chief Accounting Officer	Since 2009	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Treasurer, U.S. Fund Administration & Reporting, Franklin Templeton Investments; and officer of 27 of the investment companies in Franklin Templeton Investments.				
Aliya S. Gordon (1973) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2009	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Senior Associate General Counsel, Franklin Templeton Investments; and officer of 45 of the investment companies in Franklin Templeton Investments.				
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 45 of the investment companies in Franklin Templeton Investments.				
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.				
Robert Lim (1948) One Franklin Parkway San Mateo, CA 94403-1906	Vice President – AML Compliance	Since May 2016	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Vice President, Franklin Templeton Companies, LLC; Chief Compliance Officer, Franklin Templeton Distributors, Inc. and Franklin Templeton Investor Services, LLC; and officer of 45 of the investment companies in Franklin Templeton Investments.				
Kimberly H. Novotny (1972) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Vice President	Since 2013	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Associate General Counsel, Franklin Templeton Investments; Vice President and Corporate Secretary, Fiduciary Trust International of the South; Vice President, Templeton Investment Counsel, LLC; Assistant Secretary, Franklin Resources, Inc.; and officer of 45 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
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 45 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).

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 45 of the investment companies in Franklin Templeton Investments

Navid J. Tofigh (1972) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2015	Not Applicable	Not Applicable

Principal Occupation During at Least the Past 5 Years:
Associate General Counsel, Franklin Templeton Investments; and officer of 45 of the investment companies in Franklin Templeton Investments.

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 45 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 45 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 May 13, 2016, Frank J. Crothers 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) DIAL BEN/342-5236 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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