ZURICH

February 28, 2018

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, 2017. Fund performance does not take into account the fees charged by your contract. If these fees had been included, the performance would have been lower. As always, past performance cannot predict or guarantee future returns.

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

Thank you for placing your variable annuity contract with us.

Sincerely,

Richard W. Grilli
Senior Vice President and Chief Operating Officer

Enclosure

Zurich American
Life Insurance Company

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

Telephone 877-301-5376
Fax 1-866-315-0729

ZURICHAMERICANLIFEINSURANCE.COM

SUPPLEMENT TO THE CURRENTLY EFFECTIVE SUMMARY PROSPECTUSES

Deutsche Global Income Builder Fund

Deutsche Global Income Builder VIP

The following sentence replaces the similar sentence contained under "Main Investments" in the "PRINCIPAL INVESTMENT STRATEGY" section of the summary section and the "FUND DETAILS" section of the fund's prospectus:

The fund can buy many types of securities, among them common stocks, including dividend-paying stocks, convertible securities, corporate bonds, government bonds, municipal securities, inflation-indexed bonds, mortgage- and asset-backed securities, exchange-traded funds (ETFs) and exchange-traded notes (ETNs).

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

ETN risk. Because ETNs are senior, unsecured, unsubordinated debt securities of an issuer (typically a bank or bank holding company), ETNs are subject to the credit risk of the issuer and may lose value due to a downgrade in the issuer's credit rating. The returns of an ETN are linked to the performance of an underlying instrument (typically an index), minus applicable fees. ETNs typically do not make periodic interest payments and principal typically is not protected. The value of an ETN may fluctuate based on factors such as time to maturity, level of supply and demand for the ETN, volatility and lack of liquidity in the underlying assets, changes in the applicable interest rates, and economic, legal, political or geographic events that affect the underlying assets. The fund bears its proportionate share of any fees and expenses borne by the ETN. Because ETNs trade on a securities exchange, their shares may trade at a premium or discount to their net asset value.

Please Retain This Supplement for Future Reference

December 8, 2017
PROSTKR-985

Deutsche
Asset Management

SUPPLEMENT TO THE CURRENTLY EFFECTIVE SUMMARY PROSPECTUS

Deutsche Global Income Builder VIP

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

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

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

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

Kevin Bliss, Director. Portfolio Manager of the fund. Began managing the fund in 2017.

Please Retain This Supplement for Future Reference

Deutsche Asset Management

October 25, 2017
PROSTKR-978

SUPPLEMENT TO THE CURRENTLY EFFECTIVE SUMMARY PROSPECTUS

Deutsche Bond VIP

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

Portfolio Manager(s)

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.

Kelly L. Beam, CFA, Director. Portfolio Manager of the fund. Began managing the fund in 2018.

Please Retain This Supplement for Future Reference

Deutsche
Asset Management

PIMCO Variable Insurance Trust

Supplement dated December 22, 2017 to the Administrative Class Prospectus, Institutional Class Prospectus and Advisor Class and Class M Prospectus, each dated April 28, 2017, as supplemented from time to time (the "Prospectuses")

Disclosure Related to the PIMCO Balanced Allocation Portfolio, PIMCO CommodityRealReturn® Strategy Portfolio, PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged), PIMCO Foreign Bond Portfolio (Unhedged), PIMCO Global Bond Portfolio (Unhedged), PIMCO Global Multi-Asset Managed Allocation Portfolio, PIMCO Income Portfolio, PIMCO Low Duration Portfolio and PIMCO Total Return Portfolio (the "Portfolios")

PIMCO Balanced Allocation Portfolio

Effective January 22, 2018, the second sentence of the third paragraph of the "Principal Investment Strategies" section of the Portfolio's Portfolio Summary in each of the Administrative Class Prospectus and the Advisor Class Prospectus is deleted in its entirety and replaced with the following:

Within the Fixed Income Sleeve, the Portfolio invests primarily in investment grade debt securities, but may invest up to 10% of its total assets in high yield securities ("junk bonds"), as rated by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services ("S&P") or Fitch, Inc. ("Fitch"), or, if unrated, as determined by PIMCO.

PIMCO CommodityRealReturn® Strategy Portfolio

Effective January 22, 2018, the fourth sentence of the fifth paragraph of the "Principal Investment Strategies" section of the Portfolio's Portfolio Summary in each of the Prospectuses is deleted in its entirety and replaced with the following:

The Portfolio may invest up to 10% of its total assets in high yield securities ("junk bonds"), as rated by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services ("S&P") or Fitch, Inc. ("Fitch"), or, if unrated, as determined by PIMCO.

PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

Effective January 22, 2018, the sixth sentence of the second paragraph of the "Principal Investment Strategies" section of the Portfolio's Portfolio Summary in each of the Prospectuses is deleted in its entirety and replaced with the following:

The Portfolio invests primarily in investment grade debt securities, but may invest up to 10% of its total assets in high yield securities ("junk bonds"), as rated by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services ("S&P") or Fitch, Inc. ("Fitch"), or, if unrated, as determined by PIMCO.

PIMCO Foreign Bond Portfolio (Unhedged)

Effective January 22, 2018, the fifth sentence of the second paragraph of the "Principal Investment Strategies" section of the Portfolio's Portfolio Summary in each of the Prospectuses is deleted in its entirety and replaced with the following:

The Portfolio invests primarily in investment grade debt securities, but may invest up to 10% of its total assets in high yield securities ("junk bonds"), as rated by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services ("S&P") or Fitch, Inc. ("Fitch"), or, if unrated, as determined by PIMCO.

PIMCO Global Bond Portfolio (Unhedged)

Effective January 22, 2018, the seventh sentence of the second paragraph of the "Principal Investment Strategies" section of the Portfolio's Portfolio Summary in each of the Prospectuses is deleted in its entirety and replaced with the following:

The Portfolio invests primarily in investment grade debt securities, but may invest up to 20% of its total assets in high yield securities ("junk bonds"), as rated by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services ("S&P") or Fitch, Inc. ("Fitch"), or, if unrated, as determined by PIMCO.

PIMCO Global Multi-Asset Managed Allocation Portfolio

Effective January 22, 2018, the third sentence of the fourth paragraph of the "Principal Investment Strategies" section of the Portfolio's Portfolio Summary in each of the Prospectuses is deleted in its entirety and replaced with the following:

The Portfolio may invest up to 10% of its total assets in high yield securities ("junk bonds"), as rated by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services ("S&P") or Fitch, Inc. ("Fitch"), or, if unrated, as determined by PIMCO.

PIMCO Income Portfolio

Effective January 22, 2018, the first sentence of the third paragraph of the "Principal Investment Strategies" section of the Portfolio's Portfolio Summary in each of the Prospectuses is deleted in its entirety and replaced with the following:

The Portfolio may invest up to 50% of its total assets in high yield securities rated below investment grade by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services ("S&P") or Fitch, Inc. ("Fitch"), or if unrated, as determined by PIMCO (except such 50% limitation shall not apply to the Portfolio's investments in mortgage- and asset-backed securities).

PIMCO Low Duration Portfolio

Effective January 22, 2018, the first sentence of the second paragraph of the "Principal Investment Strategies" section of the Portfolio's Portfolio Summary in each of the Prospectuses is deleted in its entirety and replaced with the following:

The Portfolio invests primarily in investment grade debt securities, but may invest up to 10% of its total assets in high yield securities ("junk bonds"), as rated by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services ("S&P") or Fitch, Inc. ("Fitch"), or, if unrated, as determined by PIMCO.

PIMCO Total Return Portfolio

Effective January 22, 2018, the first sentence of the second paragraph of the "Principal Investment Strategies" section of the Portfolio's Portfolio Summary in each of the Prospectuses is deleted in its entirety and replaced with the following:

The Portfolio invests primarily in investment-grade debt securities, but may invest up to 20% of its total assets in high yield securities ("junk bonds"), as rated by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services ("S&P") or Fitch, Inc. ("Fitch"), or, if unrated, as determined by Pacific Investment Management Company LLC ("PIMCO").

Investors Should Retain This Supplement for Future Reference

PIMCO Variable Insurance Trust (the "Trust")

Supplement dated December 21, 2017 to the Administrative Class Prospectus, Institutional Class Prospectus and Advisor Class and Class M Prospectus, each dated April 28, 2017, each as supplemented from time to time; Prospectuses for each share class of the PIMCO All Asset Portfolio, PIMCO All Asset All Authority Portfolio, PIMCO Balanced Allocation Portfolio, PIMCO CommodityRealReturn® Strategy Portfolio, PIMCO Emerging Markets Bond Portfolio, PIMCO Foreign Bond Portfolio (Unhedged), PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged), PIMCO Global Core Bond (Hedged) Portfolio, PIMCO Global Bond Portfolio (Unhedged), PIMCO Global Diversified Allocation Portfolio, PIMCO Global Multi-Asset Managed Allocation Portfolio, PIMCO High Yield Portfolio, PIMCO Income Portfolio, PIMCO Long-Term U.S. Government Portfolio, PIMCO Low Duration Portfolio, PIMCO Real Return Portfolio, PIMCO Short-Term Portfolio, PIMCO Total Return Portfolio and PIMCO Unconstrained Bond Portfolio, each dated April 28, 2017, each as supplemented from time to time (the "Prospectuses"); and the Statement of Additional Information dated April 28, 2017, as supplemented from time to time (the "SAI")

The Trust's transfer agent is Boston Financial Data Services, Inc. Effective January 1, 2018, the legal entity name of Boston Financial Data Services, Inc. will change to DST Asset Manager Solutions, Inc. Therefore, effective January 1, 2018, all references in the Prospectuses and SAI to Boston Financial Data Services, Inc. are deleted and replaced with DST Asset Manager Solutions, Inc.

Investors Should Retain This Supplement For Future Reference

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ALGER

THE ALGER PORTFOLIOS

Alger Balanced Portfolio

ANNUAL REPORT

DECEMBER 31, 2017

Table of Contents

ALGER BALANCED PORTFOLIO

Go Paperless With Alger Electronic Delivery Service

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

Dear Shareholders,

After a Noteworthy Year, Equities Are Poised for Additional Gains

Calendar year 2017 was remarkable on three fronts. First, the strong bull market continued, with equities in the U.S. and many countries generating impressive gains. Second, a rare convergence of developments, including a strong pro-business climate in Washington, D.C., that resulted in dramatic tax cuts for businesses and many individuals, supported expectations of corporate earnings growth. Third, a variety of factors created what we believe is a virtuous cycle that is likely to support additional equity gains.

The Bull Market Advances

From the market low of 2009 to the start of 2017, the S&P 500 Index produced an impressive 290.73% cumulative return. The S&P 500's considerable 21.83% return in 2017 brought the index's post-Great Recession gain to 376.04% as of the end of the reporting period. In 2017 growth equities led with the S&P 500 Growth Index advancing 27.44% compared to the 15.36% return of the S&P 500 Value Index. The outperformance was equally spectacular for the 10-year period ended December 31, 2017, with the 159% gain of the S&P 500 Growth Index outpacing the 93.13% return of its value-focused counterpart. We have explored this trend in considerable depth in our Market Update "A New Perspective on Growth Versus Value", which is available on Alger.com.

Looking beyond the U.S., emerging markets in 2017 advanced 37.76%, as measured by the MSCI Emerging Markets Index. In addition to outperforming U.S. equities, emerging markets trounced international developed markets as illustrated by the 25.62% return of the MSCI World Index.

The Economic Recovery Continues

Investors reacted favorably to the following economic data during the year:

- The U.S. Consumer Confidence Index strengthened and hit a 17-year high of 128.6 in November.
- Unemployment declined to 4.1%, the lowest level since 2000 as the labor market continued to create jobs. Jobs have been created during 86 consecutive months, an all-time record.
- The Conference Board's Leading Economic Index (LEI) hit a record high of 130.9 in November, the most recent month for which data is available. The LEI is based on a variety of economic data and is part of the Conference Board's analytic system that seeks to signal peaks and troughs in the business cycle.

Investor sentiment was also supported by anticipation that economic expansion in 2017 would reach 184 out of 197 countries, a feat that hasn't occurred since at least 1980, according to the International Monetary Fund. The organization estimates that the number of countries experiencing growth will increase to 192 over the next two years. Widespread economic growth coupled with a recovery in commodity prices, a relatively weak U.S. dollar, and growing currency reserves helped drive the strong returns of emerging markets.

The Far Reach of Tax Reform and Corporate Fundamentals

In late December, U.S. legislation was signed into law that slashed the corporate tax rate from 35% to 21% while accelerating depreciation schedules and providing incentives for businesses to repatriate profits. The anticipation of tax reform and the eventual adoption of the legislation resulted in investors increasing their expectations of corporate earnings. This was particularly noticeable in the Consumer Discretionary sector, which typically faces relatively high effective tax rates. We maintain that tax reform combined with a strengthening consumer supported the Consumer Discretionary sector, which was the third-strongest performer within the S&P 500. While tax reform and economic growth supported the overall outlook for equities, other factors, such as strengthening corporate fundamentals, provided a boost to the top performing Information Technology sector as well as the Health Care, Materials, and Financials sectors.

Regarding corporate fundamentals, it appears that the fourth quarter will be the sixth consecutive quarter of S&P 500 earnings growth. In addition, as of the end of the third quarter, S&P 500 companies held $1.63 trillion in cash, another all-time record.

Investors' increased emphasis on corporate fundamentals also resulted in a substantial rotation out of equities that offer high dividend yields, with the Telecommunication Services sector performing worst. Price competition in wireless services also adversely impacted the sector. The Real Estate and Utilities sectors, which are also characterized as having high dividend yielding companies, also fared poorly and produced the third- and fourth-worst results, respectively.

The Legacy of 2017: A Virtuous Cycle Surfaces

The Conference Board Measure of CEO Confidence ended 2017 at a fairly high level of 63, a result, we believe, of certainty about tax reform and optimism that Washington will further its pro-growth agenda by rolling back regulations. We strongly believe that high levels of innovation, widespread global economic growth, economic stimulus resulting from tax reform and the positive impact of lower statutory business tax rates will result in S&P 500 earnings increasing 15% to 20% in 2018.

High levels of business optimism combined with stronger after-tax earnings and robust balance sheets are likely to sustain an ongoing acceleration in capital expenditures and investment in research and development as corporations seek to boost productivity. In the process, business investment may potentially become the primary driver of U.S. GDP growth acceleration. The resulting increase in productivity among corporations is also likely to support the U.S. economy. As a result, we believe nominal 2018 GDP growth could reach 5%, which would be the highest level for at least the past 10 years and substantially above the nominal annualized growth rate of 4% for the first three quarters of 2017. The virtuous cycle of earnings growth, a strong economy, and an increased level of corporate investments, we believe, will support equity gains this year.

Additional Reasons for Optimism

The LEI is also encouraging. The index, which hit a record high in the fourth quarter of 2017, typically leads earnings growth by six to 18 months. We believe that the index implies that the bull market has considerable room to run.[i] Some observers have opined that equity returns may struggle as the Federal Reserve raises the benchmark Fed Funds rate to prevent the economy from overheating. We note that equities have historically produced positive returns during Fed Fund rate increases and that bear markets typically do not manifest until after the Fed stops raising rates. We believe that the Fed is in the early stages of rate increases, which implies that central bank policies are unlikely to trigger a bear market in the foreseeable future. The Fed can also take a very measured approach to raising rates because labor dynamics are helping to minimize wage pressure—retiring baby boomers are being replaced by younger, lower income employees and globalization is providing a pool of low-cost workers. Price transparency resulting from online shopping is also dampening inflation.

Finally, we believe historically high levels of innovation will continue to allow leading companies to grow their earnings by creating new products and services that can capture market share from businesses that fail to embrace change. The internet, for example, has resulted in explosive growth in online retailing, social media, and digital marketing. Yet that is only a small component of the technology story, which is permeating virtually every industry. In just a few examples, artificial intelligence has made nurses 30% to 50% more efficient while autonomous vehicles have cut time required to stock warehouses by 30%. In the Utilities sector, machine learning has increased energy production through existing assets by 20%.

We also have optimism about emerging markets, which are likely to continue to benefit from synchronized global economic growth. We continue to believe a 10% to 12% price-to-earnings multiple discount is appropriate for an emerging markets to developed markets comparison. At year-end, the discount was approximately 25%. We also believe that a potential increase in interest rates could spell the end of the bull market for bonds and trigger a large rotation from fixed income and cash assets into equities.

Managing Expectations

December was the 14th consecutive month to produce market gains, which is highly unusual, and could indicate that investor enthusiasm may be strengthening faster than corporate fundamentals. We believe investors should have realistic expectations and anticipate that equities may experience a temporary dip this year. Strong corporate fundamentals, we believe, are likely to cause a market decline to be only temporary and potentially support further equity gains over the long term. A potential market decline could therefore provide an attractive opportunity for buying equities at lower valuations.

A Closing Statement

We believe that expectations for many equities already reflect improved after-tax earnings as many companies with higher tax rates outperformed in 2017. In our view, some of the most compelling opportunities being created by tax reform are companies that provide technology and other equipment to corporations. Such companies can potentially benefit from increased business investment. At Alger, our analysts are experienced sector specialists and some have worked within the industries that they cover. Their sector expertise, we believe, allows them to conduct in-depth research to find companies that are well positioned to benefit from increased corporate investing, innovation, and the other large-scale changes that are quickly transpiring across the globe.

Portfolio Matters

Alger Balanced Portfolio

The Alger Balanced Portfolio returned 15.44% for the fiscal 12-month period ended December 31, 2017. The equity portion of the Portfolio underperformed the 30.21% return of the Russell 1000 Growth Index and the fixed-income portion underperformed the 4.00% return of the Barclays Capital U.S. Government/Credit Bond Index.

Regarding the equity portion, the largest sector weightings were Information Technology and Financials. The largest sector overweight was Financials and the largest underweight was Information Technology. The Financials and Utilities sectors provided the greatest contributions to relative performance while Information Technology and Consumer Discretionary were among sectors that detracted from results.

Apple, Inc.; Microsoft Corp.; Boeing Company; Broadcom Ltd.; and Home Depot, Inc. provided the greatest contributions to performance. Apple is a leading technology provider in telecommunications, computing, and services. Apple's iOS operating system drives extremely tight engagement with consumers and enterprises. Apple shares contributed to performance as a result of healthy growth in the company's customers as individuals and businesses have continued to embrace the iOS ecosystem. Investor excitement about the company's introduction of the new iPhone X also supported performance of Apple stock.

General Electric Co.; Mattel, Inc.; Exxon Mobil Corp.; Halliburton Company; and Molson Coors Brewing Co., Cl. B were the top detractors from results. General Electric is an American multinational conglomerate that provides industrial, household, and financial products. After becoming the company's chief executive officer, John Flannery has been undertaking a significant reorganization of General Electric's industrial business units to generate revenue growth and increase efficiency and productivity. Among other changes, GE is selling off its lighting business. Shares of GE underperformed after the company cut its dividend and lowered its earnings projections.

At the end of the reporting period, the fixed-income portion of the portfolio consisted of 11 corporate bonds, which was the same number as at the start of the reporting period. Despite a period of tightening spreads that started in the late summer and concluded in the early fall, the average option adjusted spread on the corporate sector within the Citigroup U.S. Broad Investment-Grade Index tightened in 2017 and reached levels not seen in more than 10 years. High grade issuance in 2017 outpaced the volume of high grade issuance in 2016.

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

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[i] *Alger "Winter 2018 Capital Markets: Observations and Insights." Productivity Picks Up.*

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 a Portfolio will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted. For performance data current to the most recent month-end, visit us at www.alger.com, or call us at (800) 992-3863.

The views and opinions of the Portfolio's management in this report are as of the date of the Shareholders' Letter and are subject to change at any time subsequent to this date. There is no guarantee that any of the assumptions that formed the basis for the opinions stated herein are accurate or that they will materialize. Moreover, the information forming the basis for such assumptions is from sources believed to be reliable; however, there is no guarantee that such information is accurate. Any securities mentioned, whether owned in a Portfolio or otherwise, are considered in the context of the construction of an overall portfolio of securities and therefore reference to them should not be construed as a recommendation or offer to purchase or sell any such security. Inclusion of such securities in a Portfolio and transactions in such securities, if any, may be for a variety of reasons, including without limitation, in response to cash flows, inclusion in a benchmark, and risk control. The reference to a specific security should also be understood in such context and not viewed as a statement that the security is a significant holding in a Portfolio. Please refer to the Schedule of Investments for the Portfolio which is included in this report for a complete list of Portfolio holdings as of December 21, 2017. 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 Portfolios' 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 a 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.

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

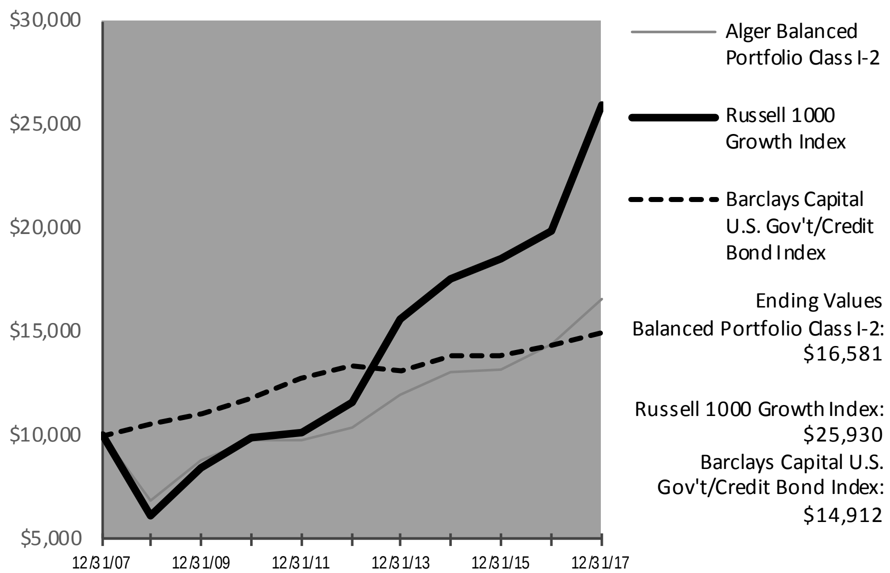
NOT FDIC INSURED. NOT BANK GUARANTEED. MAY LOSE VALUE.

Definitions:

- The Russell 1000 Growth Index is an unmanaged index designed to measure the performance of the largest 1,000 companies in the Russell 3000 Index with higher price-to-book ratios and higher forecasted growth values.
- The Barclays Capital U.S. Government/Credit Bond Index is an index designed to track performance of government and corporate bonds.
- The Citigroup U.S. Broad Investment-Grade Bond Index tracks the performance of U.S. Dollar-denominated bonds issued in the US investment-grade bond market. The index includes U.S. Treasury, government sponsored, collateralized, and corporate debt providing a reliable representation of the U.S. investment-grade bond market.
- The S&P 500 Index is an unmanaged index generally representative of the U.S. stock market without regard to company size.
- The S&P 500 Growth Index is an index consisting of stocks within the S&P 500 Index that exhibit strong growth characteristics.
- The S&P 500 Value Index is an index consisting of stocks within the S&P 500 Index that exhibit strong value characteristics.
- The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.
- The MSCI World Index is a broad global equity benchmark that represents large and mid-cap equity performance across 23 developed markets countries.
- The U.S. Consumer Confidence Index is an indicator designed to measure consumer confidence, which is defined as the degree of optimism about the state of the economy that consumers are expressing through savings and spending.
- The Conference Board's Leading Economic Index is based on a variety of economic data and is part of the Conference Board's analytic system that seeks to signal peaks and troughs in the business cycle.

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

— 10 years ended 12/31/17



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, 2017. 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 12/31/17

AVERAGE ANNUAL TOTAL RETURNS

	1 YEAR	5 YEARS	10 YEARS	Since 9/5/1989
Class I-2 (Inception 9/5/89)	15.44%	9.90%	5.19%	7.72%
Russell 1000 Growth Index	30.21%	17.33%	10.00%	9.59%
Barclays Capital U.S. Gov't/Credit Bond Index	4.00%	2.13%	4.08%	6.14%

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, 2017 (Unaudited)

SECTORS/SECURITY TYPES	Alger Balanced Portfolio
Consumer Discretionary	8.2%
Consumer Staples	6.3
Energy	3.4
Financials	10.6
Health Care	9.6
Industrials	7.0
Information Technology	14.5
Materials	1.1
Real Estate	1.6
Telecommunication Services	2.0
Utilities	0.4
Total Equity Securities	64.7
Corporate Bonds	34.4
Total Debt Securities	34.4
Short-Term Investments and Net Other Assets	0.9
	100.0%

† *Based on net assets for the Portfolio.*

COMMON STOCKS—61.2%	SHARES		VALUE
AEROSPACE & DEFENSE—2.4%			
General Dynamics Corp.	1,934	$	393,472
The Boeing Co.	2,563		755,855
			1,149,327
AIR FREIGHT & LOGISTICS—0.3%			
United Parcel Service, Inc., Cl. B	1,221		**145,482**
AIRPORT SERVICES—0.3%			
Macquarie Infrastructure Corp.	2,231		**143,230**
APPAREL ACCESSORIES & LUXURY GOODS—0.4%			
Tapestry, Inc.	4,380		**193,727**
APPAREL RETAIL—0.5%			
The Gap, Inc.	6,808		**231,881**
ASSET MANAGEMENT & CUSTODY BANKS—1.2%			
BlackRock, Inc., Cl. A	1,105		**567,650**
AUTO PARTS & EQUIPMENT—0.4%			
Aptiv PLC.	2,325		**197,230**
BIOTECHNOLOGY—1.4%			
AbbVie, Inc.	2,754		266,339
Amgen, Inc.	1,070		186,073
Gilead Sciences, Inc.	2,516		180,246
			632,658
BREWERS—0.3%			
Molson Coors Brewing Co., Cl. B	1,990		**163,319**
BUILDING PRODUCTS—0.6%			
Johnson Controls International PLC.	8,028		**305,947**
CABLE & SATELLITE—1.4%			
Comcast Corp., Cl. A	17,062		**683,333**
COMMUNICATIONS EQUIPMENT—0.9%			
Cisco Systems, Inc.	10,991		**420,955**
CONSUMER ELECTRONICS—0.3%			
Garmin Ltd.	2,432		**144,874**
CONSUMER FINANCE—0.4%			
Discover Financial Services	2,346		**180,454**
DIVERSIFIED BANKS—4.6%			
Bank of America Corp.	18,071		533,456
JPMorgan Chase & Co.	10,912		1,166,929
Wells Fargo & Co.	7,472		453,326
			2,153,711
DIVERSIFIED CHEMICALS—0.7%			
DowDuPont, Inc.	4,512		**321,345**
DRUG RETAIL—0.6%			
CVS Health Corp.	4,070		**295,075**
ELECTRICAL COMPONENTS & EQUIPMENT—0.8%			
Eaton Corp., PLC.	2,452		193,732

COMMON STOCKS—61.2% (CONT.)	SHARES	VALUE
ELECTRICAL COMPONENTS & EQUIPMENT—0.8% (CONT.)		
Hubbell, Inc., Cl. B	1,305	$ 176,619
		370,351
FINANCIAL EXCHANGES & DATA—1.1%		
CME Group, Inc., Cl. A	3,625	**529,431**
HEALTH CARE EQUIPMENT—0.4%		
Medtronic PLC.	2,374	**191,701**
HOME IMPROVEMENT RETAIL—1.6%		
The Home Depot, Inc.	3,903	**739,736**
HOTELS RESORTS & CRUISE LINES—1.0%		
Carnival Corp.	3,453	229,176
Extended Stay America, Inc.	12,658	240,502
		469,678
HOUSEHOLD PRODUCTS—0.9%		
The Procter & Gamble Co.	4,838	**444,515**
HYPERMARKETS & SUPER CENTERS—0.7%		
Wal-Mart Stores, Inc.	3,202	**316,198**
INDUSTRIAL CONGLOMERATES—2.3%		
General Electric Co.	17,451	304,520
Honeywell International, Inc.	4,941	757,752
		1,062,272
INDUSTRIAL GASES—0.4%		
Air Products & Chemicals, Inc.	1,266	**207,725**
INTEGRATED OIL & GAS—2.0%		
Exxon Mobil Corp.	7,375	616,845
TOTAL SA#	6,199	342,681
		959,526
INTEGRATED TELECOMMUNICATION SERVICES—2.0%		
AT&T, Inc.	8,324	323,637
Verizon Communications, Inc.	11,796	624,362
		947,999
INTERNET & DIRECT MARKETING RETAIL—0.4%		
Amazon.com, Inc.*	180	**210,505**
INTERNET SOFTWARE & SERVICES—3.5%		
Alphabet, Inc., Cl. A*	542	570,943
Alphabet, Inc., Cl. C*	535	559,824
Facebook, Inc., Cl. A*	2,895	510,852
		1,641,619
INVESTMENT BANKING & BROKERAGE—1.5%		
Morgan Stanley	13,875	**728,021**
LEISURE FACILITIES—0.4%		
Six Flags Entertainment Corp.	2,669	**177,675**
MANAGED HEALTH CARE—2.1%		
Aetna, Inc.	2,566	462,881
UnitedHealth Group, Inc.	2,500	551,150
		1,014,031

COMMON STOCKS—61.2% (CONT.)	SHARES	VALUE
MULTI-LINE INSURANCE—0.5%		
The Hartford Financial Services Group, Inc.	4,439	$ **249,827**
MULTI-UTILITIES—0.4%		
Sempra Energy	1,710	**182,833**
OIL & GAS EQUIPMENT & SERVICES—0.5%		
Schlumberger Ltd.	3,677	**247,793**
OIL & GAS EXPLORATION & PRODUCTION—0.6%		
ConocoPhillips	4,790	**262,923**
PACKAGED FOODS & MEATS—0.4%		
The Kraft Heinz Co.	2,280	**177,293**
PHARMACEUTICALS—5.4%		
Bristol-Myers Squibb Co.	7,675	470,324
Eli Lilly & Co.	5,461	461,236
GlaxoSmithKline PLC.#	5,896	209,131
Johnson & Johnson	5,142	718,440
Pfizer, Inc.	15,996	579,375
Roche Holding AG#	4,637	146,437
		2,584,943
RAILROADS—0.3%		
Union Pacific Corp.	1,159	**155,422**
RESTAURANTS—1.8%		
Darden Restaurants, Inc.	2,082	199,914
Dunkin' Brands Group, Inc.	2,843	183,288
McDonald's Corp.	2,591	445,963
		829,165
SEMICONDUCTOR EQUIPMENT—0.6%		
KLA-Tencor Corp.	2,816	**295,877**
SEMICONDUCTORS—2.9%		
Broadcom Ltd.	2,858	734,220
Intel Corp.	9,258	427,349
QUALCOMM, Inc.	3,370	215,747
		1,377,316
SOFT DRINKS—1.9%		
PepsiCo, Inc.	5,266	631,499
The Coca-Cola Co.	5,379	246,788
		878,287
SYSTEMS SOFTWARE—3.1%		
Microsoft Corp.	17,424	**1,490,449**
TECHNOLOGY HARDWARE STORAGE & PERIPHERALS—3.5%		
Apple, Inc.	8,682	1,469,255
Western Digital Corp.	2,535	201,609
		1,670,864
TOBACCO—1.5%		
Altria Group, Inc.	10,188	**727,525**
TOTAL COMMON STOCKS		
(Cost $18,441,806)		**29,071,698**

CONVERTIBLE PREFERRED STOCKS—0.3%	SHARES		VALUE
PHARMACEUTICALS—0.3%			
Allergan PLC., 5.50%, 3/1/18	224	$	**131,320**
(Cost $224,000)			**131,320**

MASTER LIMITED PARTNERSHIP—1.2%	SHARES	VALUE
ASSET MANAGEMENT & CUSTODY BANKS—0.9%		
The Blackstone Group LP.	13,535	**433,391**
OIL & GAS STORAGE & TRANSPORTATION—0.3%		
Cheniere Energy Partners LP.*	4,546	**134,743**
TOTAL MASTER LIMITED PARTNERSHIP		
(Cost $468,463)		**568,134**

REAL ESTATE INVESTMENT TRUST—2.0%	SHARES	VALUE
HEALTH CARE REITS—0.4%		
Welltower, Inc.	3,183	**202,980**
MORTGAGE REITS—0.5%		
Blackstone Mortgage Trust, Inc., Cl. A	6,717	**216,153**
SPECIALIZED REITS—1.1%		
Crown Castle International Corp.	2,997	332,697
Lamar Advertising Co., Cl. A	2,823	209,580
		542,277
TOTAL REAL ESTATE INVESTMENT TRUST		
(Cost $811,377)		**961,410**

CORPORATE BONDS—34.4%	PRINCIPAL AMOUNT	VALUE
AGRICULTURAL & FARM MACHINERY—3.7%		
John Deere Capital Corp., 2.75%, 3/15/22	1,750,000	**1,764,511**
DIVERSIFIED BANKS—4.3%		
JPMorgan Chase & Co., 4.35%, 8/15/21	1,000,000	1,061,149
Wells Fargo & Co., 3.30%, 9/9/24	1,000,000	1,016,421
		2,077,570
INDUSTRIAL CONGLOMERATES—4.5%		
General Electric Co., 6.00%, 8/7/19	2,000,000	**2,119,669**
INTEGRATED OIL & GAS—2.2%		
Total Capital SA, 4.45%, 6/24/20	1,000,000	**1,052,985**
INTEGRATED TELECOMMUNICATION SERVICES—3.1%		
Verizon Communications, Inc., 5.15%, 9/15/23	1,300,000	**1,448,240**
PACKAGED FOODS & MEATS—4.2%		
Campbell Soup Co., 2.50%, 8/2/22	2,000,000	**1,980,199**
SEMICONDUCTORS—3.4%		
Altera Corp., 4.10%, 11/15/23	1,500,000	**1,613,671**
SYSTEMS SOFTWARE—2.1%		
Microsoft Corp., 1.85%, 2/12/20	1,000,000	**996,433**
TECHNOLOGY HARDWARE STORAGE & PERIPHERALS—6.9%		
Apple, Inc., 1.80%, 5/11/20	1,200,000	1,190,246

CORPORATE BONDS—34.4% (CONT.)	PRINCIPAL AMOUNT		VALUE
TECHNOLOGY HARDWARE STORAGE & PERIPHERALS—6.9% (CONT.)			
HP, Inc., 4.38%, 9/15/21	2,000,000	$	2,106,996
			3,297,242
TOTAL CORPORATE BONDS			
(Cost $16,194,889)			**16,350,520**
Total Investments			
(Cost $36,140,535)	99.1%	**$**	**47,083,082**
Unaffiliated Securities (Cost $36,140,535)			47,083,082
Other Assets in Excess of Liabilities	0.9%		417,773
NET ASSETS	100.0%	**$**	**47,500,855**

American Depositary Receipts.
* *Non-income producing security.*

Industry classifications are unaudited.
See Notes to Financial Statements.

		Alger Balanced Portfolio
ASSETS:		
Investments in unaffiliated securities, at value (Identified cost below)* see accompanying schedule of investments	$	47,083,082
Cash and cash equivalents		274,651
Receivable for shares of beneficial interest sold		21,571
Dividends and interest receivable		229,201
Prepaid expenses		24,066
Total Assets		47,632,571
LIABILITIES:		
Payable for shares of beneficial interest redeemed		62,551
Accrued investment advisory fees		28,638
Accrued transfer agent fees		2,783
Accrued administrative fees		1,109
Accrued shareholder administrative fees		403
Accrued other expenses		36,232
Total Liabilities		131,716
NET ASSETS	**$**	**47,500,855**
NET ASSETS CONSIST OF:		
Paid in capital (par value of $.001 per share)		30,596,640
Undistributed net investment income		1,131,099
Undistributed net realized gain		4,830,569
Net unrealized appreciation on investments		10,942,547
NET ASSETS	**$**	**47,500,855**
* Identified cost	$	36,140,535[(a)]

See Notes to Financial Statements.

[(a)] *At December 31, 2017, the net unrealized appreciation on investments, based on cost for federal income tax purposes of $36,036,242, amounted to $11,046,840 which consisted of aggregate gross unrealized appreciation of $11,608,047 and aggregate gross unrealized depreciation of $561,207.*

		Alger Balanced Portfolio
NET ASSETS BY CLASS:		
Class I-2	$	47,500,855
SHARES OF BENEFICIAL INTEREST OUTSTANDING — NOTE 6:		
Class I-2		2,762,118
NET ASSET VALUE PER SHARE:		
Class I-2 — Net Asset Value Per Share Class I-2	$	17.20

See Notes to Financial Statements.

ALGER BALANCED PORTFOLIO
Statement of Operations for the year ended December 31, 2017

		Alger Balanced Portfolio
INCOME:		
Dividends (net of foreign withholding taxes*)	$	1,312,163
Interest from unaffiliated securities		540,216
Other Income		30,000
Total Income		1,882,379
EXPENSES:		
Advisory fees — Note 3(a)		490,369
Shareholder administrative fees — Note 3(f)		6,907
Administration fees — Note 3(b)		18,993
Custodian fees		27,062
Interest expenses		2,301
Transfer agent fees and expenses — Note 3(f)		18,105
Printing fees		20,675
Professional fees		32,140
Registration fees		24,521
Trustee fees — Note 3(g)		3,052
Fund accounting fees		11,695
Miscellaneous		6,656
Total Expenses		662,476
NET INVESTMENT INCOME		1,219,903
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY:		
Net realized gain on unaffiliated investments		11,474,586
Net realized gain on foreign currency transactions		2
Net change in unrealized (depreciation) on unaffiliated investments		(2,801,193)
Net realized and unrealized gain on investments and foreign currency		8,673,395
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$**	**9,893,298**
* Foreign withholding taxes	$	12,261

See Notes to Financial Statements.

ALGER BALANCED PORTFOLIO
Statements of Changes in Net Assets

	Alger Balanced Portfolio	
	For the Year Ended December 31, 2017	For the Year Ended December 31, 2016
Net investment income	$ 1,219,903	$ 1,392,748
Net realized gain on investments and foreign currency	11,474,588	533,850
Net change in unrealized appreciation (depreciation) on investments and foreign currency	(2,801,193)	3,624,189
Net increase in net assets resulting from operations	9,893,298	5,550,787
Dividends and distributions to shareholders from:		
Net investment income:		
Class I-2	(1,315,911)	(1,359,034)
Total dividends and distributions to shareholders	(1,315,911)	(1,359,034)
Decrease from shares of beneficial interest transactions — Note 6:		
Class I-2	(32,610,726)	(8,007,624)
Total decrease	(24,033,339)	(3,815,871)
Net Assets:		
Beginning of period	71,534,194	75,350,065
END OF PERIOD	**$ 47,500,855**	**$ 71,534,194**
Undistributed net investment income	$ 1,131,099	$ 1,317,842

See Notes to Financial Statements.

Alger Balanced Portfolio

	Class I-2				
	Year ended 12/31/2017	Year ended 12/31/2016	Year ended 12/31/2015	Year ended 12/31/2014	Year ended 12/31/2013
Net asset value, beginning of period	$ 15.32	$ 14.39	$ 14.48	$ 13.49	$ 11.84
INCOME FROM INVESTMENT OPERATIONS:					
Net investment income(i)	0.29	0.29	0.29	0.29	0.20
Net realized and unrealized gain (loss) on investments	2.08	0.94	(0.08)	0.98	1.61
Total from investment operations	2.37	1.23	0.21	1.27	1.81
Dividends from net investment income	(0.49)	(0.30)	(0.30)	(0.28)	(0.16)
Net asset value, end of period	$ 17.20	$ 15.32	$ 14.39	$ 14.48	$ 13.49
Total return	15.44%	8.51%	1.47%	9.43%	15.28%
RATIOS/SUPPLEMENTAL DATA:					
Net assets, end of period (000's omitted)	$ 47,501	$ 71,534	$ 75,350	$ 96,563	$ 95,577
Ratio of net expenses to average net assets	0.96%	0.96%	0.92%	0.92%	0.95%
Ratio of net investment income to average net assets	1.77%	1.97%	1.97%	2.09%	1.56%
Portfolio turnover rate	10.89%	3.58%	9.64%	24.89%	71.66%

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 an 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 Focus Portfolio (formerly 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, including traded rights, warrants and option contracts for which valuation information is readily available are valued at the last quoted sales price or official closing price as reported by an independent pricing service on the primary market or exchange on which they are traded. In the absence of quoted sales, such securities are valued at the bid price or, in the absence of a recent bid price, the equivalent as obtained from one or more of the major market makers for the securities to be valued.

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

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

Securities in which the Portfolio invests may be traded in foreign markets that close before the close of the NYSE. Developments that occur between the close of the foreign markets and the close of the NYSE may result in adjustments to the closing foreign prices to reflect what the investment adviser, 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 the 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, but are not limited to, 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 indexes. 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 adviser. 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 meets at least 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, foreign cash 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. There were no securities loaned as of December 31, 2017.

(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, if available, 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 ("ASC 740") requires the Portfolio to measure and recognize in its financial statements the benefit of a tax position taken (or expected to be taken) on an income tax return if such position will more likely than not be sustained upon examination based on the technical merits of the position. No tax years are currently under investigation. The Portfolio files income tax returns in the U.S. Federal jurisdiction, as well as the New York State and New York City jurisdictions. The statute of limitations on the Portfolio's tax returns remains open for the tax years 2015-2017. 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, 2017, is set forth below under the heading "Actual Rate."

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

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

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

(c) Brokerage Commissions: During the year ended December 31, 2017, the Portfolio paid Fred Alger & Company, Incorporated, the Fund's distributor (the "Distributor or Alger Inc.") and an affiliate of Alger Management, $4,219, 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, 2017.

During the year ended December 31, 2017, the Portfolio incurred interest expense of $1,218 in connection with interfund loans which is included in the 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, the Distributor, or their affiliates.

(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 DST Asset Manager Solutions, 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: 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 term "Alger Fund Complex" refers to the Fund, The Alger Funds, The Alger Institutional Funds, The Alger Funds II and Alger Global Growth Fund, each of which is a registered investment company managed by Fred Alger Management, Inc. 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.

On December 12, 2017, the Board of Trustees approved the following increase in Trustee compensation. Effective January 1, 2018, each Independent Trustee receives a fee of $28,000 for each board meeting attended, to a maximum of $112,000 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 $30,000 per annum paid pro rata by each fund in the Alger Fund Complex. Additionally, each member of the Audit Committee receives a fee of $2,750 for each Audit Committee meeting attended to a maximum of $11,000 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 other funds advised by Alger Management. For the year ended December 31, 2017, 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, 2017, were as follows:

	PURCHASES	SALES
Alger Balanced Portfolio	$ 7,378,714	$ 37,197,781

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, 2017, the Portfolio had the following borrowings from its custodian and other funds.

	AVERAGE DAILY BORROWING	WEIGHTED AVERAGE INTEREST RATE
Alger Balanced Portfolio	$ 96,996	2.39%

The highest amount borrowed from its custodian and other funds during the year ended December 31, 2017, for the Portfolio was as follows:

	HIGHEST BORROWING
Alger Balanced Portfolio	$ 21,683,000

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, 2017 and the year ended December 31, 2016, transactions of shares of beneficial interest were as follows:

	FOR THE YEAR ENDED DECEMBER 31, 2017		FOR THE YEAR ENDED DECEMBER 31, 2016	
	SHARES	AMOUNT	SHARES	AMOUNT
Alger Balanced Portfolio				
Class I-2:				
Shares sold	323,131	$ 5,291,541	424,213	$ 6,295,605
Dividends reinvested	76,462	1,315,911	88,594	1,359,034
Shares redeemed	(2,307,794)	(39,218,178)	(1,077,316)	(15,662,263)
Net decrease	**(1,908,201)**	**$(32,610,726)**	**(564,509)**	**$ (8,007,624)**

NOTE 7 — Income Tax Information:

The tax character of distributions paid during the year ended December 31, 2017 and the year ended December 31, 2016 were as follows:

	FOR THE YEAR ENDED DECEMBER 31, 2017	FOR THE YEAR ENDED DECEMBER 31, 2016
Alger Balanced Portfolio		
Distributions paid from:		
Ordinary Income	$ 1,315,911	$ 1,359,034
Long-term capital gain	—	—
Total distributions paid	**$ 1,315,911**	**$ 1,359,034**

As of December 31, 2017 the components of accumulated gains (losses) on a tax basis were as follows:

Alger Balanced Portfolio	
Undistributed ordinary income	$ 1,131,099
Undistributed long-term gains	4,726,276
Net accumulated earnings	5,857,375
Capital loss carryforwards	—
Net unrealized appreciation	11,046,840
Total accumulated earnings	$ 16,904,215

At December 31, 2017, the Portfolio, for federal income tax purposes, had no capital loss carryforwards.

During the year ended December 31, 2017, Alger Balanced Portfolio utilized $6,886,700 of its capital loss carryforward.

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.

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, 2017.

Alger Balanced Portfolio

Accumulated undistributed net investment income (accumulated loss)	$	(90,735)
Accumulated net realized gain (accumulated realized loss)	$	90,735
Paid-in Capital	$	–

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, 2017, the Portfolio has determined that presenting them by security type and sector is appropriate.

Alger Balanced Portfolio	TOTAL	LEVEL 1	LEVEL 2	LEVEL 3
COMMON STOCKS				
Consumer Discretionary	$ 3,877,803	$ 3,877,803	—	—
Consumer Staples	3,002,212	3,002,212	—	—
Energy	1,470,242	1,470,242	—	—
Financials	4,409,095	4,409,095	—	—
Health Care	4,423,333	4,423,333	—	—
Industrials	3,332,031	3,332,031	—	—
Information Technology	6,897,080	6,897,080	—	—
Materials	529,070	529,070	—	—
Telecommunication Services	947,999	947,999	—	—
Utilities	182,833	182,833	—	—
TOTAL COMMON STOCKS	**$ 29,071,698**	**$ 29,071,698**	**—**	**—**
CONVERTIBLE PREFERRED STOCKS				
Health Care	131,320	131,320	—	—
CORPORATE BONDS				
Consumer Staples	1,980,199	—	$ 1,980,199	—
Energy	1,052,985	—	1,052,985	—
Financials	2,077,570	—	2,077,570	—
Industrials	3,884,180	—	3,884,180	—
Information Technology	5,907,346	—	5,907,346	—
Telecommunication Services	1,448,240	—	1,448,240	—
TOTAL CORPORATE BONDS	**$ 16,350,520**	**—**	**$ 16,350,520**	**—**

Alger Balanced Portfolio	TOTAL	LEVEL 1	LEVEL 2	LEVEL 3
MASTER LIMITED PARTNERSHIP				
Energy	$ 134,743	$ 134,743	—	—
Financials	433,391	433,391	—	—
TOTAL MASTER LIMITED PARTNERSHIP	**$ 568,134**	**$ 568,134**	**—**	**—**
REAL ESTATE INVESTMENT TRUST				
Financials	216,153	216,153	—	—
Real Estate	745,257	745,257	—	—
TOTAL REAL ESTATE INVESTMENT TRUST	**$ 961,410**	**$ 961,410**	**—**	**—**
TOTAL INVESTMENTS IN SECURITIES	**$ 47,083,082**	**$ 30,732,562**	**$ 16,350,520**	**—**

On December 31, 2017, 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, 2017, such assets are categorized within the disclosure hierarchy as follows:

	TOTAL	LEVEL 1	LEVEL 2	LEVEL 3
Cash and Cash equivalents:				
Alger Balanced Portfolio	$ 274,651	—	$ 274,651	—

NOTE 9 — Derivatives:

Financial Accounting Standards Board Accounting Standards Codification 815 – Derivatives and Hedging ("ASC 815") requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements.

Options—The Portfolio seeks to capture the majority of the returns associated with equity market investments. To meet this investment goal, the Portfolio invests in a broadly diversified portfolio of common stocks and may also buy and sell call and put options on equities and equity indexes. 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 throughout the period or as of December 31, 2017.

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 may invest 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 may 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, 2017 through the issuance date of the financial statements. No such events have been identified which require recognition and/or disclosure.

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

Opinion on the Financial Statements and Financial Highlights

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of the Alger Balanced Portfolio, one of the portfolios constituting The Alger Portfolios (the "Fund"), as of December 31, 2017, 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, the financial highlights for each of the five years in the period then ended, and the related notes. In our opinion, the financial statements and financial highlights present fairly, in all material respects, the financial position of the Alger Balanced Portfolio of the Fund as of December 31, 2017, 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.

Basis for Opinion

These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on the Fund's financial statements and financial highlights based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Fund in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. 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, whether due to error or fraud. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting 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.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements and financial highlights, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements and financial highlights. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and financial highlights. Our procedures included confirmation of securities owned as of December 31, 2017, by correspondence with the custodian. We believe that our audits provide a reasonable basis for our opinion.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Deloitte & Touche LLP
New York, New York
February 23, 2018

We have served as the auditor of one or more investment companies within the group of investment companies since 2009.

Shareholder Expense Example

As a shareholder of a Portfolio, you incur two types of costs: transaction costs, if applicable; and ongoing costs, including management fees, distribution (12b-1) fees, if applicable, and other fund expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in a Portfolio and to compare these costs with the ongoing costs of investing in other mutual funds.

The example below is based on an investment of $1,000 invested at the beginning of the six-month period starting July 1, 2017 and ending December 31, 2017.

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, 2017	Ending Account Value December 31, 2017	Expenses Paid During the Six Months Ended December 31, 2017[a]	Annualized Expense Ratio For the Six Months Ended December 31, 2017[b]
Alger Balanced Portfolio					
Class I-2	Actual	$ 1,000.00	$ 1,073.80	$ 5.02	0.96%
	Hypothetical[c]	1,000.00	1,020.37	4.89	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 184/365 (to reflect the one-half year period).

(b) Annualized.

(c) 5% annual return before expenses.

Trustees and Officers of the Fund

Information about the trustees and officers of the Fund is set forth below. In the table the term "Alger Fund Complex" refers to the Fund, Alger Global Growth Fund, The Alger Institutional Funds, The Alger Funds 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 (56)	Director of Development, Pennsylvania Ballet 2004-2013; Associate Director of Development, College of Arts and Science and Graduate School, University of Virginia 1999-2003.	2003	24
NON-INTERESTED TRUSTEE			
Charles F. Baird, Jr. (64)	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	24
Roger P. Cheever (72)	Associate Vice President for Principal Gifts and Senior Associate Dean for Development in the Faculty of Arts and Sciences at Harvard University; Formerly Deputy Director of the Harvard College Fund.	2000	24
Stephen E. O'Neil (84)	Attorney. Private Investor since 1981. Formerly of Counsel to the law firm of Kohler & Barnes.	1986	24
David Rosenberg (55)	Associate Professor of Law since January 2006 (Assistant Professor 2000-2005), Zicklin School of Business, Baruch College, City University of New York.	2007	24
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	24

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 (53) President	Executive Vice President, Chief Operating Officer and Secretary of Alger Management and Alger Inc.; Director since 2006 of Alger Management, Alger Inc. and Analyst Resources, Inc.	2005	N/A
Tina Payne (43) Secretary, Chief Compliance Officer	Senior Vice President, General Counsel and Chief Compliance Officer of Alger Management since 2017. Formerly, Senior Vice President and Associate General Counsel, Cohen & Steers Capital Management, from 2007 to 2017.	2017	N/A
Lisa A. Moss (52) Assistant Secretary	Senior Vice President and Assistant General Counsel of Alger Management.	2006	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
Michael D. Martins (52) Treasurer	Senior Vice President of Alger Management.	2005	N/A
Anthony S. Caputo (62) Assistant Treasurer	Vice President of Alger Management.	2007	N/A
Sergio M. Pavone (56) Assistant Treasurer	Vice President of Alger Management.	2007	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 12, 2017, 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. 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 considered the strengthened legal, control and compliance environment at Alger Management and within the Fund and Alger Management's ongoing implementation of a firm-wide cybersecurity facility, including software and hardware installations, extensive security procedures and intensive personnel training.

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 June 30, 2017), second-quarter of 2017, 1-, 3-, and 5-year and longer periods to the extent available (and its year-by-year returns), and compared them with benchmark and peer-group data for the same periods. They also consulted supplemental performance data through July 31, 2017. They noted that the Portfolio's performance had surpassed the medians of its peers for all stated periods ending June 30, 2017 from the latest quarter to three years while falling short of its benchmark for all but the 1-year period. Representatives of Alger Management discussed with the Trustees the 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 fourth (top) quartile. 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 $74 million at July 31, 2017 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 five other types of clients, specifically mutual funds for which Alger Management was sub-adviser, other pooled investment vehicles (including UCITS and hedge funds), separately managed institutional accounts, "wrap programs," and collective investment trusts. The Trustees determined that in all five 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, 2017. After discussing with representatives of 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, 2017, 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 Alger chooses to share; and whether you can limit this sharing.

Reasons we can share your personal information	Does Alger share?	Can you limit this sharing?
For our everyday business purposes — such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus	**Yes**	**No**
For our marketing purposes — 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 your account or • 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, Secretary or Assistant 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, maximum drawdown, 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

DST Asset Manager Solutions, 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 Portfolio, which contains information concerning the Portfolio's investment policies, fees and expenses as well as other pertinent information.

ALGER

Inspired by Change, Driven by Growth.

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THE ALGER PORTFOLIOS

Alger Capital Appreciation Portfolio

ANNUAL REPORT

DECEMBER 31, 2017

Table of Contents

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,

After a Noteworthy Year, Equities Are Poised for Additional Gains

Calendar year 2017 was remarkable on three fronts. First, the strong bull market continued, with equities in the U.S. and many countries generating impressive gains. Second, a rare convergence of developments, including a strong pro-business climate in Washington, D.C., that resulted in dramatic tax cuts for businesses and many individuals, supported expectations of corporate earnings growth. Third, a variety of factors created what we believe is a virtuous cycle that is likely to support additional equity gains.

The Bull Market Advances

From the market low of 2009 to the start of 2017, the S&P 500 Index produced an impressive 290.73% cumulative return. The S&P 500's considerable 21.83% return in 2017 brought the index's post-Great Recession gain to 376.04% as of the end of the reporting period. In 2017 growth equities led with the S&P 500 Growth Index advancing 27.44% compared to the 15.36% return of the S&P 500 Value Index. The outperformance was equally spectacular for the 10-year period ended December 31, 2017, with the 159% gain of the S&P 500 Growth Index outpacing the 93.13% return of its value-focused counterpart. We have explored this trend in considerable depth in our Market Update "A New Perspective on Growth Versus Value", which is available on Alger.com.

Looking beyond the U.S., emerging markets in 2017 advanced 37.76%, as measured by the MSCI Emerging Markets Index. In addition to outperforming U.S. equities, emerging markets trounced international developed markets as illustrated by the 25.62% return of the MSCI World Index.

The Economic Recovery Continues

Investors reacted favorably to the following economic data during the year:

- The U.S. Consumer Confidence Index strengthened and hit a 17-year high of 128.6 in November.
- Unemployment declined to 4.1%, the lowest level since 2000 as the labor market continued to create jobs. Jobs have been created during 86 consecutive months, an all-time record.
- The Conference Board's Leading Economic Index (LEI) hit a record high of 130.9 in November, the most recent month for which data is available. The LEI is based on a variety of economic data and is part of the Conference Board's analytic system that seeks to signal peaks and troughs in the business cycle.

Investor sentiment was also supported by anticipation that economic expansion in 2017 would reach 184 out of 197 countries, a feat that hasn't occurred since at least 1980, according to the International Monetary Fund. The organization estimates that the number of countries experiencing growth will increase to 192 over the next two years. Widespread economic growth coupled with a recovery in commodity prices, a relatively weak U.S. dollar, and growing currency reserves helped drive the strong returns of emerging markets.

The Far Reach of Tax Reform and Corporate Fundamentals

In late December, U.S. legislation was signed into law that slashed the corporate tax rate from 35% to 21% while accelerating depreciation schedules and providing incentives for businesses to repatriate profits. The anticipation of tax reform and the eventual adoption of the legislation resulted in investors increasing their expectations of corporate earnings. This was particularly noticeable in the Consumer Discretionary sector, which typically faces relatively high effective tax rates. We maintain that tax reform combined with a strengthening consumer supported the Consumer Discretionary sector, which was the third-strongest performer within the S&P 500. While tax reform and economic growth supported the overall outlook for equities, other factors, such as strengthening corporate fundamentals, provided a boost to the top performing Information Technology sector as well as the Health Care, Materials, and Financials sectors.

Regarding corporate fundamentals, it appears that the fourth quarter will be the sixth consecutive quarter of S&P 500 earnings growth. In addition, as of the end of the third quarter, S&P 500 companies held $1.63 trillion in cash, another all-time record.

Investors' increased emphasis on corporate fundamentals also resulted in a substantial rotation out of equities that offer high dividend yields, with the Telecommunication Services sector performing worst. Price competition in wireless services also adversely impacted the sector. The Real Estate and Utilities sectors, which are also characterized as having high dividend yielding companies, also fared poorly and produced the third- and fourth-worst results, respectively.

The Legacy of 2017: A Virtuous Cycle Surfaces

The Conference Board Measure of CEO Confidence ended 2017 at a fairly high level of 63, a result, we believe, of certainty about tax reform and optimism that Washington will further its pro-growth agenda by rolling back regulations. We strongly believe that high levels of innovation, widespread global economic growth, economic stimulus resulting from tax reform and the positive impact of lower statutory business tax rates will result in S&P 500 earnings increasing 15% to 20% in 2018.

High levels of business optimism combined with stronger after-tax earnings and robust balance sheets are likely to sustain an ongoing acceleration in capital expenditures and investment in research and development as corporations seek to boost productivity. In the process, business investment may potentially become the primary driver of U.S. GDP growth acceleration. The resulting increase in productivity among corporations is also likely to support the U.S. economy. As a result, we believe nominal 2018 GDP growth could reach 5%, which would be the highest level for at least the past 10 years and substantially above the nominal annualized growth rate of 4% for the first three quarters of 2017. The virtuous cycle of earnings growth, a strong economy, and an increased level of corporate investments, we believe, will support equity gains this year.

Additional Reasons for Optimism

The LEI is also encouraging. The index, which hit a record high in the fourth quarter of 2017, typically leads earnings growth by six to 18 months. We believe that the index implies that the bull market has considerable room to run.[i] Some observers have opined that equity returns may struggle as the Federal Reserve raises the benchmark Fed Funds rate to prevent the economy from overheating. We note that equities have historically produced positive returns during Fed Fund rate increases and that bear markets typically do not manifest until after the Fed stops raising rates. We believe that the Fed is in the early stages of rate increases, which implies that central bank policies are unlikely to trigger a bear market in the foreseeable future. The Fed can also take a very measured approach to raising rates because labor dynamics are helping to minimize wage pressure—retiring baby boomers are being replaced by younger, lower income employees and globalization is providing a pool of low-cost workers. Price transparency resulting from online shopping is also dampening inflation.

Finally, we believe historically high levels of innovation will continue to allow leading companies to grow their earnings by creating new products and services that can capture market share from businesses that fail to embrace change. The internet, for example, has resulted in explosive growth in online retailing, social media, and digital marketing. Yet that is only a small component of the technology story, which is permeating virtually every industry. In just a few examples, artificial intelligence has made nurses 30% to 50% more efficient while autonomous vehicles have cut time required to stock warehouses by 30%. In the Utilities sector, machine learning has increased energy production through existing assets by 20%.

We also have optimism about emerging markets, which are likely to continue to benefit from synchronized global economic growth. We continue to believe a 10% to 12% price-to-earnings multiple discount is appropriate for an emerging markets to developed markets comparison. At year-end, the discount was approximately 25%. We also believe that a potential increase in interest rates could spell the end of the bull market for bonds and trigger a large rotation from fixed income and cash assets into equities.

Managing Expectations

December was the 14th consecutive month to produce market gains, which is highly unusual, and could indicate that investor enthusiasm may be strengthening faster than corporate fundamentals. We believe investors should have realistic expectations and anticipate that equities may experience a temporary dip this year. Strong corporate fundamentals, we believe, are likely to cause a market decline to be only temporary and potentially support further equity gains over the long term. A potential market decline could therefore provide an attractive opportunity for buying equities at lower valuations.

A Closing Statement

We believe that expectations for many equities already reflect improved after-tax earnings as many companies with higher tax rates outperformed in 2017. In our view, some of the most compelling opportunities being created by tax reform are companies that provide technology and other equipment to corporations. Such companies can potentially benefit from increased business investment. At Alger, our analysts are experienced sector specialists and some have worked within the industries that they cover. Their sector expertise, we believe, allows them to conduct in-depth research to find companies that are well positioned to benefit from increased corporate investing, innovation, and the other large-scale changes that are quickly transpiring across the globe.

Portfolio Matters

Alger Capital Appreciation Portfolio

The Alger Capital Appreciation Portfolio generated a 31.08% return for the fiscal 12-month period ended December 31, 2017, compared to the 30.21% return of its benchmark, the Russell 1000 Growth Index.

During the reporting period, the largest sector weightings were Information Technology and Consumer Discretionary. The largest sector overweight was Information Technology and the largest underweight was Industrials. The Information Technology and Financials sectors provided the greatest contributions to relative performance while Industrials and Health Care were among sectors that detracted from results.

Amazon.com, Inc.; Apple, Inc.; Facebook, Inc., Cl. A; Microsoft Corp.; and Alphabet, Inc., Cl. C. were the top contributors to performance. Apple is a leading technology provider in telecommunications, computing, and related services. Apple's iOS operating system drives extremely close engagement with consumers and enterprises. Apple shares contributed to performance as a result of healthy growth in the company's customers as individuals and businesses have continued to embrace the iOS ecosystem. Investor excitement about the company's introduction of the new iPhone X also supported performance of Apple stock.

Conversely, Anadarko Petroleum Corp.; CBS Corp. Cl. B; HD Supply Holdings, Inc.; Celgene Corp.; and Newell Brands, Inc. were the top detractors from results. HD Supply Holdings is an industrial distributor in North America. Investors started 2017 with enthusiasm about the potential for the company to benefit directly from President Trump's proposals to provide infrastructure-oriented fiscal spending. However, as the year progressed, implementation of that legislative agenda appeared challenging, which hurt the performance of HD Supply shares.

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

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[i] *Alger "Winter 2018 Capital Markets: Observations and Insights." Productivity Picks Up.*

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 a Portfolio will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted. For performance data current to the most recent month-end, visit us at www.alger.com, or call us at (800) 992-3863.

The views and opinions of the Portfolio's management in this report are as of the date of the Shareholders' Letter and are subject to change at any time subsequent to this date. There is no guarantee that any of the assumptions that formed the basis for the opinions stated herein are accurate or that they will materialize. Moreover, the information forming the basis for such assumptions is from sources believed to be reliable; however, there is no guarantee that such information is accurate. Any securities mentioned, whether owned in a Portfolio or otherwise, are considered in the context of the construction of an overall portfolio of securities and therefore reference to them should not be construed as a recommendation or offer to purchase or sell any such security. Inclusion of such securities in a Portfolio and transactions in such securities, if any, may be for a variety of reasons, including without limitation, in response to cash flows, inclusion in a benchmark, and risk control. The reference to a specific security should also be understood in such context and not viewed as a statement that the security is a significant holding in a Portfolio. Please refer to the Schedule of Investments for the Portfolio which is included in this report for a complete list of Portfolio holdings as of December 31, 2017. 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 a Portfolio had not borrowed. For a more detailed discussion of the risks associated with the Portfolio, please see the Portfolio's Prospectus.

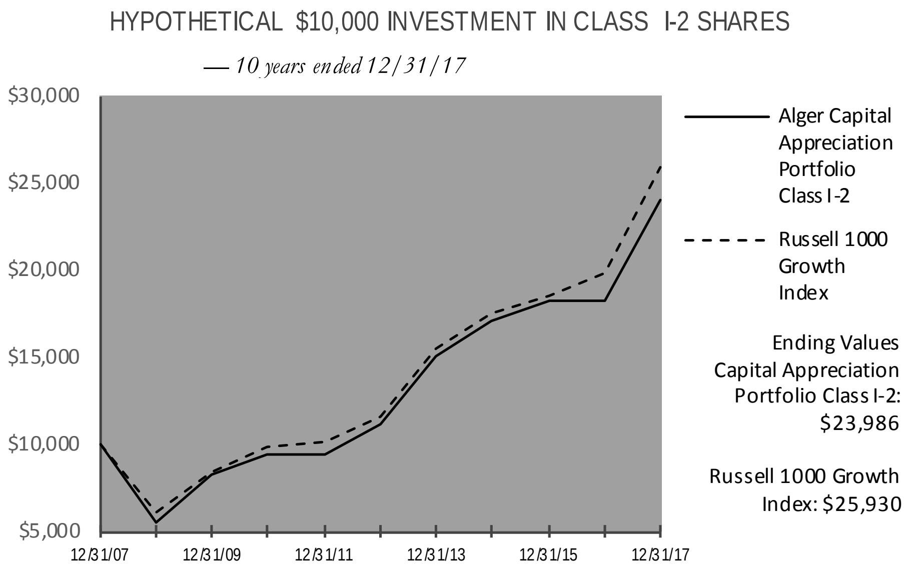
Before investing, carefully consider a Portfolio's investment objective, risks, charges, and expenses. For a prospectus containing this and other information about the Alger Portfolios, call us at (800) 992-3863 or visit us at www.alger.com. Read it carefully before investing.

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

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

Definitions:

- The S&P 500 Index is an unmanaged index generally representative of the U.S. stock market without regard to company size.
- The S&P 500 Growth Index is an index consisting of stocks within the S&P 500 Index that exhibit strong growth characteristics.
- The S&P 500 Value Index is an index consisting of stocks within the S&P 500 Index that exhibit strong value characteristics.
- The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.
- The MSCI World Index is a broad global equity benchmark that represents large and mid-cap equity performance across 23 developed markets countries.
- The U.S. Consumer Confidence Index is an indicator designed to measure consumer confidence, which is defined as the degree of optimism about the state of the economy that consumers are expressing through savings and spending.
- The Conference Board's Leading Economic Index is based on a variety of economic data and is part of the Conference Board's analytic system that seeks to signal peaks and troughs in the business cycle.
- The Conference Board Measure of CEO Confidence is based on a survey of approximately 100 CEOs in a wide variety of industries. It details Chief Executives' attitudes and expectations regarding the overall state of the economy as well as their own industry.
- 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 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 (an unmanaged index of common stocks) for the ten years ended December 31, 2017. 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 12/31/17

AVERAGE ANNUAL TOTAL RETURNS

	1 YEAR	5 YEARS	10 YEARS	Since 1/25/1995
Class I-2 (Inception 1/25/95)	31.08%	16.56%	9.14%	13.29%
Class S (Inception 5/1/02)(i)	30.74%	16.24%	8.83%	13.01%
Russell 1000 Growth Index	30.21%	17.33%	10.00%	9.63%

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, 2017 (Unaudited)

SECTORS/SECURITY TYPES	Alger Capital Appreciation Portfolio
Consumer Discretionary	17.8%
Consumer Staples	1.7
Energy	1.8
Financials	9.0
Health Care	12.1
Industrials	7.8
Information Technology	41.9
Materials	5.1
Real Estate	2.3
Telecommunication Services	0.4
Total Equity Securities	99.9
Short-Term Investments and Net Other Assets	0.1
	100.0%

† *Based on net assets for the Portfolio.*

COMMON STOCKS—96.5%	SHARES	VALUE
AEROSPACE & DEFENSE—0.8%		
General Dynamics Corp.	10,079	$ 2,050,573
The Boeing Co.	7,967	2,349,548
		4,400,121
AIR FREIGHT & LOGISTICS—0.6%		
FedEx Corp.	13,250	**3,306,405**
APPAREL ACCESSORIES & LUXURY GOODS—0.9%		
adidas AG	8,835	1,766,836
PVH Corp.	19,421	2,664,755
		4,431,591
APPLICATION SOFTWARE—3.7%		
Adobe Systems, Inc.*	25,907	4,539,943
Autodesk, Inc.*	44,645	4,680,135
salesforce.com, Inc.*	99,573	10,179,348
		19,399,426
ASSET MANAGEMENT & CUSTODY BANKS—0.9%		
BlackRock, Inc., Cl. A	4,882	2,507,932
WisdomTree Investments, Inc.	154,008	1,932,801
		4,440,733
AUTO PARTS & EQUIPMENT—0.5%		
Aptiv PLC.	28,662	**2,431,397**
BIOTECHNOLOGY—4.6%		
AbbVie, Inc.	34,632	3,349,261
ACADIA Pharmaceuticals, Inc.*	35,709	1,075,198
BioMarin Pharmaceutical, Inc.*	22,344	1,992,415
Celgene Corp.*	43,686	4,559,071
Clovis Oncology, Inc.*	12,669	861,492
Exact Sciences Corp.*	36,730	1,929,794
Sarepta Therapeutics, Inc.*	37,075	2,062,853
Vertex Pharmaceuticals, Inc.*	51,495	7,717,041
		23,547,125
BROADCASTING—0.9%		
CBS Corp., Cl. B	81,836	**4,828,324**
CABLE & SATELLITE—1.5%		
Charter Communications, Inc., Cl. A*	3,973	1,334,769
Comcast Corp., Cl. A	160,164	6,414,568
		7,749,337
COMMUNICATIONS EQUIPMENT—0.1%		
Palo Alto Networks, Inc.*	3,650	**529,031**
CONSTRUCTION MACHINERY & HEAVY TRUCKS—0.6%		
Caterpillar, Inc.	19,966	**3,146,242**
CONSTRUCTION MATERIALS—1.2%		
Vulcan Materials Co.	48,262	**6,195,393**
CONSUMER FINANCE—0.2%		
LendingClub Corp.*	250,518	**1,034,639**

COMMON STOCKS—96.5% (CONT.)	SHARES	VALUE
DATA PROCESSING & OUTSOURCED SERVICES—3.9%		
Visa, Inc., Cl. A	175,270	$ **19,984,285**
DIVERSIFIED BANKS—3.8%		
Bank of America Corp.	418,047	12,340,747
Citigroup, Inc.	41,781	3,108,924
JPMorgan Chase & Co.	36,616	3,915,715
		19,365,386
DIVERSIFIED CHEMICALS—0.6%		
DowDuPont, Inc.*	42,661	**3,038,316**
DIVERSIFIED SUPPORT SERVICES—0.5%		
Cintas Corp.	16,475	**2,567,299**
FINANCIAL EXCHANGES & DATA—2.1%		
Intercontinental Exchange, Inc.	107,385	7,577,086
S&P Global, Inc.	19,031	3,223,851
		10,800,937
FOOD DISTRIBUTORS—0.3%		
US Foods Holding Corp.*	42,322	**1,351,341**
HEALTH CARE EQUIPMENT—2.6%		
Boston Scientific Corp.*	109,386	2,711,679
Danaher Corp.	67,053	6,223,859
Intuitive Surgical, Inc.	5,703	2,081,253
Medtronic PLC.	32,721	2,642,221
		13,659,012
HOME ENTERTAINMENT SOFTWARE—0.5%		
Electronic Arts, Inc.*	24,741	**2,599,290**
HOME IMPROVEMENT RETAIL—2.3%		
The Home Depot, Inc.	62,333	**11,813,974**
HOTELS RESORTS & CRUISE LINES—0.5%		
Norwegian Cruise Line Holdings Ltd.*	46,628	**2,482,941**
HOUSEWARES & SPECIALTIES—0.4%		
Newell Brands, Inc.	69,343	**2,142,699**
HYPERMARKETS & SUPER CENTERS—0.9%		
Wal-Mart Stores, Inc.	48,543	**4,793,621**
INDUSTRIAL CONGLOMERATES—2.6%		
Honeywell International, Inc.	87,951	**13,488,165**
INDUSTRIAL GASES—1.4%		
Air Products & Chemicals, Inc.	43,479	**7,134,034**
INDUSTRIAL MACHINERY—1.5%		
Stanley Black & Decker, Inc.	45,589	**7,735,997**
INTERNET & DIRECT MARKETING RETAIL—9.3%		
Amazon.com, Inc.*	36,900	43,153,443
Netflix, Inc.*	19,507	3,744,564
The Priceline Group, Inc.*	892	1,550,064
		48,448,071

COMMON STOCKS—96.5% (CONT.)	SHARES		VALUE
INTERNET SOFTWARE & SERVICES—13.6%			
Alibaba Group Holding Ltd.#*	78,493	$	13,534,548
Alphabet, Inc., Cl. C*	24,968		26,126,515
Altaba, Inc.*	50,222		3,508,007
Facebook, Inc., Cl. A*	154,880		27,330,125
Palantir Technologies, Inc., Cl. A*,@,(a)	41,286		237,394
			70,736,589
INVESTMENT BANKING & BROKERAGE—1.1%			
Morgan Stanley	112,699		**5,913,317**
IT CONSULTING & OTHER SERVICES—0.4%			
Cognizant Technology Solutions Corp., Cl. A	30,910		**2,195,228**
LEISURE FACILITIES—0.4%			
Vail Resorts, Inc.	9,526		**2,023,989**
LIFE SCIENCES TOOLS & SERVICES—0.7%			
Illumina, Inc.*	12,931		2,825,294
Thermo Fisher Scientific, Inc.	4,091		776,799
			3,602,093
MANAGED HEALTH CARE—3.6%			
Aetna, Inc.	20,345		3,670,035
UnitedHealth Group, Inc.	69,176		15,250,541
			18,920,576
OIL & GAS EQUIPMENT & SERVICES—0.7%			
Halliburton Co.	79,219		**3,871,433**
OIL & GAS EXPLORATION & PRODUCTION—1.1%			
Pioneer Natural Resources Co.	33,371		**5,768,177**
PAPER PACKAGING—0.5%			
International Paper Co.	46,640		**2,702,322**
PHARMACEUTICALS—0.4%			
Bristol-Myers Squibb Co.	33,487		**2,052,083**
PROPERTY & CASUALTY INSURANCE—0.2%			
The Progressive Corp.	22,717		**1,279,421**
RAILROADS—0.9%			
Union Pacific Corp.	36,215		**4,856,432**
RESTAURANTS—1.2%			
McDonald's Corp.	36,040		**6,203,205**
SEMICONDUCTOR EQUIPMENT—1.3%			
Applied Materials, Inc.	131,421		**6,718,242**
SEMICONDUCTORS—5.4%			
Broadcom Ltd.	54,591		14,024,428
Cavium, Inc.*	17,982		1,507,431
Microchip Technology, Inc.	80,107		7,039,803
Micron Technology, Inc.*	74,586		3,066,977
NVIDIA Corp.	11,488		2,222,928
			27,861,567
SPECIALTY CHEMICALS—1.4%			
The Sherwin-Williams Co.	17,690		**7,253,608**

COMMON STOCKS—96.5% (CONT.)	SHARES	VALUE
SYSTEMS SOFTWARE—7.8%		
Microsoft Corp.	402,000	$ 34,387,080
Red Hat, Inc.*	20,875	2,507,087
ServiceNow, Inc.*	26,612	3,469,939
		40,364,106
TECHNOLOGY HARDWARE STORAGE & PERIPHERALS—5.0%		
Apple, Inc.	153,120	**25,912,498**
TOBACCO—0.5%		
Philip Morris International, Inc.	25,003	**2,641,567**
TRADING COMPANIES & DISTRIBUTORS—0.2%		
HD Supply Holdings, Inc.*	26,382	**1,056,071**
WIRELESS TELECOMMUNICATION SERVICES—0.4%		
T-Mobile US, Inc.*	29,461	**1,871,068**
TOTAL COMMON STOCKS		
(Cost $356,409,407)		**500,648,724**
PREFERRED STOCKS—0.4%	SHARES	VALUE
INTERNET SOFTWARE & SERVICES—0.2%		
Palantir Technologies, Inc., Cl. B*,@,(a)	168,373	968,145
Palantir Technologies, Inc., Cl. D*,@,(a)	21,936	126,132
		1,094,277
PHARMACEUTICALS—0.2%		
Intarcia Therapeutics, Inc., Series DD*,@,(a)	20,889	**1,199,655**
TOTAL PREFERRED STOCKS		
(Cost $1,933,273)		**2,293,932**
MASTER LIMITED PARTNERSHIP—0.7%	SHARES	VALUE
ASSET MANAGEMENT & CUSTODY BANKS—0.7%		
The Blackstone Group LP.	118,241	**3,786,077**
(Cost $3,344,928)		**3,786,077**
REAL ESTATE INVESTMENT TRUST—2.3%	SHARES	VALUE
SPECIALIZED—2.3%		
Crown Castle International Corp.	35,561	3,947,627
Equinix, Inc.	17,059	7,731,480
		11,679,107
TOTAL REAL ESTATE INVESTMENT TRUST		
(Cost $10,338,499)		**11,679,107**
Total Investments		
(Cost $372,026,107)	99.9%	**$ 518,407,840**
Unaffiliated Securities (Cost $372,026,107)		518,407,840
Other Assets in Excess of Liabilities	0.1%	572,714
NET ASSETS	100.0%	**$ 518,980,554**

American Depositary Receipts.
(a) *Security is valued in good faith at fair value determined using significant unobservable inputs pursuant to procedures established by the Board.*
* *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 12/31/2017
Intarcia Therapeutics, Inc., Series DD	*03/27/14*	*$676,595*	*0.14%*	*$1,199,655*	*0.23%*
Palantir Technologies, Inc., Cl. A	*10/07/14*	*268,648*	*0.05%*	*237,394*	*0.05%*
Palantir Technologies, Inc., Cl. B	*10/07/14*	*1,111,840*	*0.22%*	*968,145*	*0.19%*
Palantir Technologies, Inc., Cl. D	*10/14/14*	*144,839*	*0.03%*	*126,132*	*0.02%*
Total				$2,531,326	0.49%

Industry classifications are unaudited.
See Notes to Financial Statements.

		Alger Capital Appreciation Portfolio
ASSETS:		
Investments in unaffiliated securities, at value (Identified cost below)* see accompanying schedule of investments	$	518,407,840
Cash and cash equivalents		1,277,326
Receivable for investment securities sold		3,343,088
Receivable for shares of beneficial interest sold		149,198
Dividends and interest receivable		158,653
Prepaid expenses		61,378
Total Assets		523,397,483
LIABILITIES:		
Payable for investment securities purchased		1,614,653
Payable for shares of beneficial interest redeemed		2,310,059
Accrued investment advisory fees		360,017
Accrued transfer agent fees		14,494
Accrued distribution fees		10,574
Accrued administrative fees		12,223
Accrued shareholder administrative fees		4,445
Accrued other expenses		90,464
Total Liabilities		4,416,929
NET ASSETS	**$**	**518,980,554**
NET ASSETS CONSIST OF:		
Paid in capital (par value of $.001 per share)		356,452,965
Undistributed net investment income		215,605
Undistributed net realized gain		15,948,022
Net unrealized appreciation on investments		146,363,962
NET ASSETS	**$**	**518,980,554**
* Identified cost	$	372,026,107[a]

See Notes to Financial Statements.

(a) *At December 31, 2017, the net unrealized appreciation on investments, based on cost for federal income tax purposes of $376,994,581, amounted to $141,413,259 which consisted of aggregate gross unrealized appreciation of $149,391,741 and aggregate gross unrealized depreciation of $7,978,482.*

		Alger Capital Appreciation Portfolio
NET ASSETS BY CLASS:		
Class I-2	$	468,883,411
Class S	$	50,097,143
SHARES OF BENEFICIAL INTEREST OUTSTANDING — NOTE 6:		
Class I-2		5,673,644
Class S		633,076
NET ASSET VALUE PER SHARE:		
Class I-2 — Net Asset Value Per Share Class I-2	$	82.64
Class S — Net Asset Value Per Share Class S	$	79.13

See Notes to Financial Statements.

		Alger Capital Appreciation Portfolio
INCOME:		
Dividends	$	5,899,413
Interest from unaffiliated securities		32,581
Interest from affiliated securities – Note 11		107
Total Income		5,932,101
EXPENSES:		
Advisory fees — Note 3(a)		4,455,772
Distribution fees — Note 3(c)		
Class S		115,724
Shareholder administrative fees — Note 3(f)		55,009
Administration fees — Note 3(b)		151,276
Custodian fees		67,452
Interest expenses		10,634
Transfer agent fees and expenses — Note 3(f)		97,045
Printing fees		94,755
Professional fees		112,210
Registration fees		11,199
Trustee fees — Note 3(g)		23,264
Fund accounting fees		75,050
Miscellaneous		44,688
Total Expenses		5,314,078
NET INVESTMENT INCOME		618,023
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY:		
Net realized gain on unaffiliated investments		59,569,970
Net realized (loss) on affiliated investments		(520,803)
Net realized (loss) on foreign currency transactions		(1,280)
Net change in unrealized appreciation on unaffiliated investments		88,432,308
Net change in unrealized appreciation on affiliated investments		85,513
Net realized and unrealized gain on investments and foreign currency		147,565,708
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$**	**148,183,731**

See Notes to Financial Statements.

	Alger Capital Appreciation Portfolio	
	For the Year Ended December 31, 2017	For the Year Ended December 31, 2016
Net investment income	$ 618,023	$ 1,683,833
Net realized gain (loss) on investments and foreign currency	59,047,887	(1,059,292)
Net change in unrealized appreciation (depreciation) on investments and foreign currency	88,517,821	(454,271)
Net increase in net assets resulting from operations	148,183,731	170,270
Dividends and distributions to shareholders from:		
Net investment income:		
Class I-2	(731,262)	(928,459)
Net realized gains:		
Class I-2	(28,434,116)	(3,848,649)
Class S	(3,100,713)	(321,992)
Total dividends and distributions to shareholders	(32,266,091)	(5,099,100)
Increase (decrease) from shares of beneficial interest transactions:		
Class I-2	(115,794,419)	(76,834,423)
Class S	1,516,510	125,342
Net decrease from shares of beneficial interest transactions — Note 6	(114,277,909)	(76,709,081)
Total increase (decrease)	1,639,731	(81,637,911)
Net Assets:		
Beginning of period	517,340,823	598,978,734
END OF PERIOD	**$ 518,980,554**	**$ 517,340,823**
Undistributed net investment income	$ 215,605	$ 554,233

See Notes to Financial Statements.

Alger Capital Appreciation Portfolio

	Class I-2				
	Year ended 12/31/2017	Year ended 12/31/2016	Year ended 12/31/2015	Year ended 12/31/2014	Year ended 12/31/2013
Net asset value, beginning of period	$ 67.11	$ 67.42	$ 71.35	$ 73.41	$ 60.81
INCOME FROM INVESTMENT OPERATIONS:					
Net investment income[(i)]	0.11	0.22	0.13	0.12	0.24
Net realized and unrealized gain on investments	20.76	0.13	4.37	10.04	20.99
Total from investment operations	20.87	0.35	4.50	10.16	21.23
Dividends from net investment income	(0.13)	(0.13)	(0.06)	(0.08)	(0.27)
Distributions from net realized gains	(5.21)	(0.53)	(8.37)	(12.14)	(8.36)
Net asset value, end of period	$ 82.64	$ 67.11	$ 67.42	$ 71.35	$ 73.41
Total return	31.08%	0.50%	6.19%	13.75%	35.19%
RATIOS/SUPPLEMENTAL DATA:					
Net assets, end of period (000's omitted)	$ 468,883	$ 477,771	$ 559,298	$ 499,123	$ 464,465
Ratio of net expenses to average net assets	0.94%	0.94%	0.93%	0.94%	0.96%
Ratio of net investment income to average net assets	0.13%	0.33%	0.18%	0.16%	0.34%
Portfolio turnover rate	61.90%	89.78%	142.01%	143.20%	117.15%

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 12/31/2017	Year ended 12/31/2016	Year ended 12/31/2015	Year ended 12/31/2014	Year ended 12/31/2013
Net asset value, beginning of period	$ 64.50	$ 64.87	$ 69.08	$ 71.54	$ 59.46
INCOME FROM INVESTMENT OPERATIONS:					
Net investment income (loss)(i)	(0.09)	0.04	(0.06)	(0.08)	0.03
Net realized and unrealized gain on investments	19.93	0.12	4.22	9.76	20.49
Total from investment operations	19.84	0.16	4.16	9.68	20.52
Dividends from net investment income	–	–	–	–	(0.08)
Distributions from net realized gains	(5.21)	(0.53)	(8.37)	(12.14)	(8.36)
Net asset value, end of period	$ 79.13	$ 64.50	$ 64.87	$ 69.08	$ 71.54
Total return	30.74%	0.22%	5.91%	13.45%	34.79%
RATIOS/SUPPLEMENTAL DATA:					
Net assets, end of period (000's omitted)	$ 50,097	$ 39,570	$ 39,681	$ 27,987	$ 19,750
Ratio of net expenses to average net assets	1.21%	1.21%	1.20%	1.21%	1.26%
Ratio of net investment income (loss) to average net assets	(0.13)%	0.06%	(0.09)%	(0.11)%	0.04%
Portfolio turnover rate	61.90%	89.78%	142.01%	143.20%	117.15%

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 an 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 Focus Portfolio (formerly 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, including traded rights, warrants and option contracts for which valuation information is readily available are valued at the last quoted sales price or official closing price as reported by an independent pricing service on the primary market or exchange on which they are traded. In the absence of quoted sales, such securities are valued at the bid price or, in the absence of a recent bid price, the equivalent as obtained from one or more of the major market makers for the securities to be valued.

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

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

Securities in which the Portfolio invests may be traded in foreign markets that close before the close of the NYSE. Developments that occur between the close of the foreign markets and the close of the NYSE may result in adjustments to the closing foreign prices to reflect what the investment adviser, 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 the 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, but are not limited to, 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 indexes. 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 adviser. 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 meets at least 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, foreign cash 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. There were no securities loaned as of December 31, 2017.

(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, if available, 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 ("ASC 740") requires the Portfolio to measure and recognize in its financial statements the benefit of a tax position taken (or expected to be taken) on an income tax return if such position will more likely than not be sustained upon examination based on the technical merits of the position. No tax years are currently under investigation. The Portfolio files income tax returns in the U.S. Federal jurisdiction, as well as the New York State and New York City jurisdictions. The statute of limitations on the Portfolio's tax returns remains open for the tax years 2015-2017. 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, 2017, 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%	0.810 %

[a] *Tier 1 rate is paid on assets up to $2 billion, Tier 2 rate is paid on assets between $2 billion to $3 billion, Tier 3 rate is paid on assets in between $3 billion to $4 billion, Tier 4 rate is paid on assets between $4 billion 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 0.25% 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, 2017, the Portfolio paid Alger Inc. $54,808, in connection with securities transactions.

(e) Interfund Loans: The Portfolio and other funds advised by Alger Management may borrow money from and lend money to each other for temporary or emergency purposes. To the extent permitted under its investment restrictions, the Portfolio may lend uninvested cash in an amount up to 15% of its net assets to other funds. If the Portfolio has borrowed from other funds and has aggregate borrowings from all sources that exceed 10% of the Portfolio's total assets, the Portfolio will secure all of its loans from other funds. The interest rate charged on interfund loans is equal to the average of the overnight time deposit rate and bank loan rate available to the Portfolio. There were no interfund loans outstanding as of December 31, 2017.

During the year ended December 31, 2017, the Portfolio incurred interest expense of $10,319 and earned interfund interest income of $915 in connection with interfund loans which are included respectively in the interest expenses and interest income in the accompanying Statement of Operations.

(f) Shareholder Administrative Fees: The Fund has entered into a shareholder administrative services agreement with Alger Management to compensate Alger Management for its liaison and administrative oversight of DST Asset Manager Solutions, 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: 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 term "Alger Fund Complex" refers to the Fund, The Alger Funds, The Alger Institutional Funds, The Alger Funds II and Alger Global Growth Fund, each of which is a registered investment company managed by Fred Alger Management, Inc. 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.

On December 12, 2017, the Board of Trustees approved the following increase in Trustee compensation. Effective January 1, 2018, each Independent Trustee receives a fee of $28,000 for each board meeting attended, to a maximum of $112,000 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 $30,000 per annum paid pro rata by each fund in the Alger Fund Complex. Additionally, each member of the Audit Committee receives a fee of $2,750 for each Audit Committee meeting attended to a maximum of $11,000 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 other funds advised by Alger Management. For the year ended December 31, 2017, the Portfolio had no such purchases or sales.

(i) Other Transactions with Affiliates: Certain officers of the Fund are directors and officers of Alger Management, the Distributor, or their affiliates.

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, 2017, were as follows:

	PURCHASES	SALES
Alger Capital Appreciation Portfolio	$ 333,893,056	$ 467,228,052

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, 2017, the Portfolio had the following borrowings from its custodian and other funds.

	AVERAGE DAILY BORROWING	WEIGHTED AVERAGE INTEREST RATE
Alger Capital Appreciation Portfolio	$ 583,765	1.85%

The highest amount borrowed from its custodian and other funds during the year ended December 31, 2017, for the Portfolio was as follows:

	HIGHEST BORROWING
Alger Capital Appreciation Portfolio	$ 39,645,000

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, 2017 and the year ended December 31, 2016, transactions of shares of beneficial interest were as follows:

	FOR THE YEAR ENDED DECEMBER 31, 2017		FOR THE YEAR ENDED DECEMBER 31, 2016	
	SHARES	AMOUNT	SHARES	AMOUNT
Alger Capital Appreciation Portfolio				
Class I-2:				
Shares sold	789,951	$ 61,835,176	1,155,883	$ 75,361,544
Dividends reinvested	345,242	28,613,610	67,178	4,576,134
Shares redeemed	(2,581,109)	(206,243,205)	(2,399,340)	(156,772,101)
Net decrease	**(1,445,916)**	**$(115,794,419)**	**(1,176,279)**	**$ (76,834,423)**
Class S:				
Shares sold	69,536	$ 5,219,421	92,431	$ 5,817,385
Dividends reinvested	39,066	3,100,714	4,917	321,992
Shares redeemed	(89,041)	(6,803,625)	(95,484)	(6,014,035)
Net increase	**19,561**	**$ 1,516,510**	**1,864**	**$ 125,342**

NOTE 7 — Income Tax Information:

The tax character of distributions paid during the year ended December 31, 2017 and the year ended December 31, 2016 were as follows:

	FOR THE YEAR ENDED DECEMBER 31, 2017	FOR THE YEAR ENDED DECEMBER 31, 2016
Alger Capital Appreciation Portfolio		
Distributions paid from:		
Ordinary Income	$ 4,070,913	$ 928,459
Long-term capital gain	28,195,178	4,170,641
Total distributions paid	**$ 32,266,091**	**$ 5,099,100**

As of December 31, 2017 the components of accumulated gains (losses) on tax basis were as follows:

Alger Capital Appreciation Portfolio	
Undistributed ordinary income	$ 4,210,075
Undistributed long-term gains	16,922,026
Net accumulated earnings	21,132,101
Capital loss carryforwards	—
Net unrealized appreciation	141,395,488
Total accumulated earnings	$ 162,527,589

At December 31, 2017, the Portfolio, for federal income tax purposes, had no capital loss carryforwards and no capital loss carryforwards were utilized in 2017.

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 operation 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, 2017:

Alger Capital Appreciation Portfolio	
Accumulated undistributed net investment income (accumulated loss)	$ (225,389)
Accumulated net realized gain (accumulated realized loss)	$ 225,390
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, 2017, the Portfolio has determined that presenting them by security type and sector is appropriate.

Alger Capital Appreciation Portfolio	**TOTAL**	**LEVEL 1**	**LEVEL 2**	**LEVEL 3**
COMMON STOCKS				
Consumer Discretionary	$ 92,555,528	$ 90,788,692	$ 1,766,836	—
Consumer Staples	8,786,530	8,786,530	—	—
Energy	9,639,610	9,639,610	—	—
Financials	42,834,434	42,834,434	—	—
Health Care	61,780,887	61,780,887	—	—
Industrials	40,556,733	40,556,733	—	—
Information Technology	216,300,261	216,062,867	—	$ 237,394
Materials	26,323,673	26,323,673	—	—
Telecommunication Services	1,871,068	1,871,068	—	—
TOTAL COMMON STOCKS	**$ 500,648,724**	**$ 498,644,494**	**$ 1,766,836**	**$ 237,394**
MASTER LIMITED PARTNERSHIP				
Financials	3,786,077	3,786,077	—	—
PREFERRED STOCKS				
Health Care	1,199,655	—	—	1,199,655
Information Technology	1,094,277	—	—	1,094,277
TOTAL PREFERRED STOCKS	**$ 2,293,932**	**—**	**—**	**$ 2,293,932**
REAL ESTATE INVESTMENT TRUST				
Real Estate	11,679,107	11,679,107	—	—
TOTAL INVESTMENTS IN SECURITIES	**$ 518,407,840**	**$ 514,109,678**	**$ 1,766,836**	**$ 2,531,326**

	FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Alger Capital Appreciation Portfolio	**Common Stocks**
Opening balance at January 1, 2017	$ 251,019*
Transfers into Level 3	—
Transfers out of Level 3	—
Total gains or losses	
Included in net realized gain (loss) on investments	(6,718)
Included in net change in unrealized appreciation (depreciation) on investments	(6,907)
Purchases and sales	
Purchases	—
Sales	—
Closing balance at December 31, 2017	237,394
Net change in unrealized appreciation (depreciation) attributable to investments still held at December 31, 2017	$ (13,625)

	FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Alger Capital Appreciation Portfolio	**Corporate Bonds**
Opening balance at January 1, 2017	$ 87,152
Transfers into Level 3	—
Transfers out of Level 3	—
Total gains or losses	
Included in net realized gain (loss) on investments	(87)
Included in net change in unrealized appreciation (depreciation) on investments	(87,065)
Purchases and sales	
Purchases	—
Sales	—
Closing balance at December 31, 2017	—
Net change in unrealized appreciation (depreciation) attributable to investments still held at December 31, 2017	$ —

Alger Capital Appreciation Portfolio	**Preferred Stocks**
Opening balance at January 1, 2017	$ 2,606,720*
Transfers into Level 3	—
Transfers out of Level 3	—
Total gains or losses	
Included in net realized gain (loss) on investments	(426,933)
Included in net change in unrealized appreciation (depreciation) on investments	114,145
Purchases and sales	
Purchases	—
Sales	—
Closing balance at December 31, 2017	2,293,932
Net change in unrealized appreciation (depreciation) attributable to investments still held at December 31, 2017	$ (50,059)

Alger Capital Appreciation Portfolio	**Warrants**
Opening balance at January 1, 2017	$ 85,409
Transfers into Level 3	—
Transfers out of Level 3	—
Total gains or losses	
Included in net realized gain (loss) on investments	(87,065)
Included in net change in unrealized appreciation (depreciation) on investments	1,656
Purchases and sales	
Purchases	—
Sales	—
Closing balance at December 31, 2017	—
Net change in unrealized appreciation (depreciation) attributable to investments still held at December 31, 2017	$ —

* Includes securities that are fair valued at $0.

The following table provides quantitative information about our Level 3 fair value measurements of our investments as of December 31, 2017. 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, 2017	Valuation Methodology	Unobservable Input	Input/ Range	Weighted Average
Alger Capital Appreciation Portfolio					
Common Stocks	$ 237,394	Market Approach	Market Quotation	N/A*	N/A
Preferred Stocks	2,293,932	Market Approach	Time to Exit	2 years	N/A
			Volatility	77.9%	N/A
			Market Quotation	N/A	N/A

* The Portfolio utilized a market approach to fair value this security. The significant unobservable input used in the valuation model was a market quotation available to the Portfolio at December 31, 2017.

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. Generally, increases in revenue and EBITDA multiples, decreases in discount rates, and increases in the probabilities of success results in higher fair value measurements, whereas decreases in revenues and EBITDA multiples, increases in discount rates, and decreases in the probabilities of success results in lower fair value measurements.

On December 31, 2017, 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, 2017, such assets are categorized within the ASC 820 disclosure hierarchy as follows:

	TOTAL	LEVEL 1	LEVEL 2	LEVEL 3
Cash and Cash equivalents:				
Alger Capital Appreciation Portfolio	$ 1,277,326	—	$ 1,277,326	—

NOTE 9 — Derivatives:

Financial Accounting Standards Board Accounting Standards Codification 815 – Derivatives and Hedging ("ASC 815") requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements.

Options—The Portfolio seeks to capture the majority of the returns associated with equity market investments. To meet this investment goal, the Portfolio invests in a broadly diversified portfolio of common stocks and may also buy and sell call and put options on equities and equity indexes. 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 throughout the period or as of December 31, 2017.

NOTE 10 — Risks:

As of December 31, 2017, the Portfolio invested a significant portion of its assets in securities in the Information Technology, Consumer Discretionary and Health Care sectors. Changes in economic conditions affecting any of these sectors 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 may invest 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 may 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, 2017. Purchase and sale transactions during the period were as follows:

Security	Shares/ Par at December 31, 2016	Purchases/ Conversion	Sales/ Conversion	Shares/ Par at December 31, 2017	Interest Income	Realized Gain (Loss)	Net Increase (Decrease) in Unrealized App(Dep)	Value at December 31, 2017
Alger Capital Appreciation Portfolio								
Common Stocks								
Choicestream, Inc.*	23,166	–	(23,166)*	–	–	$ (6,718)	$ 6,718	–
Preferred Stocks								
Choicestream, Inc., Series A*	199,768	–	(199,768)*	–	–	(159,751)	159,751	–
Choicestream, Inc., Series B*	445,303	–	(445,303)*	–	–	(267,182)	4,453	–
Warrants								
Choicestream, Inc., 6/22/26*	87,152	–	(87,152)*	–	–	(87,065)	1,656	–
Corporate Bonds								
Choicestream, Inc., 11.00%, 8/5/18*	87,152	–	(87,152)*	–	$ 107	(87)	(87,065)	–
Total					**$ 107**	**$ (520,803)**	**$ 85,513**	**–**

* The company was dissolved on December 20, 2017.

NOTE 12 — Subsequent Events:

Management of the Portfolio has evaluated events that have occurred subsequent to December 31, 2017 through the issuance date of the financial statements. No such events have been identified which require recognition and/or disclosure.

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

Opinion on the Financial Statements and Financial Highlights

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of the Alger Capital Appreciation Portfolio, one of the portfolios constituting The Alger Portfolios (the "Fund"), as of December 31, 2017, 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, the financial highlights for each of the five years in the period then ended, and the related notes. In our opinion, the financial statements and financial highlights present fairly, in all material respects, the financial position of the Alger Capital Appreciation Portfolio of the Fund as of December 31, 2017, 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.

Basis for Opinion

These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on the Fund's financial statements and financial highlights based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Fund in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. 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, whether due to error or fraud. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting 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.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements and financial highlights, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements and financial highlights. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and financial highlights. Our procedures included confirmation of securities owned as of December 31, 2017, by correspondence with the custodian and brokers; when replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

Deloitte & Touche LLP
New York, New York
February 23, 2018

We have served as the auditor of one or more investment companies within the group of investment companies since 2009.

Shareholder Expense Example

As a shareholder of a Portfolio, you incur two types of costs: transaction costs, if applicable; and ongoing costs, including management fees, distribution (12b-1) fees, if applicable, and other fund expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in a Portfolio and to compare these costs with the ongoing costs of investing in other mutual funds.

The example below is based on an investment of $1,000 invested at the beginning of the six-month period starting July 1, 2017 and ending December 31, 2017.

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, 2017	Ending Account Value December 31, 2017	Expenses Paid During the Six Months Ended December 31, 2017[(a)]	Annualized Expense Ratio For the Six Months Ended December 31, 2017[(b)]
Alger Capital Appreciation Portfolio					
Class I-2	Actual	$ 1,000.00	$ 1,124.80	$ 5.03	0.94%
	Hypothetical[(c)]	1,000.00	1,020.47	4.79	0.94
Class S	Actual	1,000.00	1,123.10	6.48	1.21
	Hypothetical[(c)]	1,000.00	1,019.11	6.16	1.21

(a) *Expenses are equal to the annualized expense ratio of the respective share class, multiplied by the average account value over the period, multiple by 184/365 (to reflect the one-half year period).*

(b) *Annualized.*

(c) *5% annual return before expenses.*

Trustees and Officers of the Fund

Information about the trustees and officers of the Fund is set forth below. In the table the term "Alger Fund Complex" refers to the Fund, Alger Global Growth Fund, The Alger Institutional Funds, The Alger Funds 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 (56)	Director of Development, Pennsylvania Ballet 2004-2013; Associate Director of Development, College of Arts and Science and Graduate School, University of Virginia 1999-2003.	2003	24
NON-INTERESTED TRUSTEE			
Charles F. Baird, Jr. (64)	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	24
Roger P. Cheever (72)	Associate Vice President for Principal Gifts and Senior Associate Dean for Development in the Faculty of Arts and Sciences at Harvard University; Formerly Deputy Director of the Harvard College Fund.	2000	24
Stephen E. O'Neil (84)	Attorney. Private Investor since 1981. Formerly of Counsel to the law firm of Kohler & Barnes.	1986	24
David Rosenberg (55)	Associate Professor of Law since January 2006 (Assistant Professor 2000-2005), Zicklin School of Business, Baruch College, City University of New York.	2007	24
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	24

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 (53) President	Executive Vice President, Chief Operating Officer and Secretary of Alger Management and Alger Inc.; Director since 2006 of Alger Management, Alger Inc. and Analyst Resources, Inc.	2005	N/A
Tina Payne (43) Secretary, Chief Compliance Officer	Senior Vice President, General Counsel and Chief Compliance Officer of Alger Management since 2017. Formerly, Senior Vice President and Associate General Counsel, Cohen & Steers Capital Management, from 2007 to 2017.	2017	N/A
Lisa A. Moss (52) Assistant Secretary	Senior Vice President and Assistant General Counsel of Alger Management.	2006	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
Michael D. Martins (52) Treasurer	Senior Vice President of Alger Management.	2005	N/A
Anthony S. Caputo (62) Assistant Treasurer	Vice President of Alger Management.	2007	N/A
Sergio M. Pavone (56) Assistant Treasurer	Vice President of Alger Management.	2007	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 12, 2017, 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. 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 considered the strengthened legal, control and compliance environment at Alger Management and within the Fund and Alger Management's ongoing implementation of a firm-wide cybersecurity facility, including software and hardware installations, extensive security procedures and intensive personnel training.

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 June 30, 2017), second-quarter of 2017, 1-, 3-, and 5-year and longer periods to the extent available (and its year-by-year returns) , and compared them with benchmark and peer-group data for the same periods. They also consulted supplemental performance data through July 31, 2017. They noted that while the Portfolio's returns for the year to date ended June 30, 2017 were above or just at (depending upon share class) the median for its peers and surpassed the Portfolio's benchmark for that period as well as one year and the quarter ended June 30, 2017, they had fallen into the quartile below the peer median for the quarter and the full year, indicating recent strength against the benchmark but mixed recent results against the Portfolio's peers. Representatives of Alger Management discussed with the Trustees the recent performance of the Portfolio. Throughout, the Trustees were mindful of conditions and trends in the current market in equity securities, including growth stocks, and their impact on the performance and assets of the Fund. 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. Similarly, the expense ratios for the Portfolio's two share classes placed 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 five other types of clients, specifically mutual funds for which Alger Management was sub-adviser, other pooled investment vehicles (including UCITS and hedge funds), separately managed institutional accounts, "wrap programs," and collective investment trusts. The Trustees determined that in all five 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, 2017. After discussing with representatives of 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"); 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, 2017, 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 determined 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 Alger chooses to share; and whether you can limit this sharing.

Reasons we can share your personal information	**Does Alger share?**	**Can you limit this sharing?**
For our everyday business purposes — such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus	**Yes**	**No**
For our marketing purposes — 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 your account or • 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, Secretary or Assistant 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 provides 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, maximum drawdown, 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

DST Asset Manager Solutions, 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 Portfolio, which contains information concerning the Portfolio's investment policies, fees and expenses as well as other pertinent information.

ALGER

Inspired by Change, Driven by Growth.

CapAppAR

Deutsche
Asset Management

December 31, 2017

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. Please read the prospectus for details.

Performance Summary

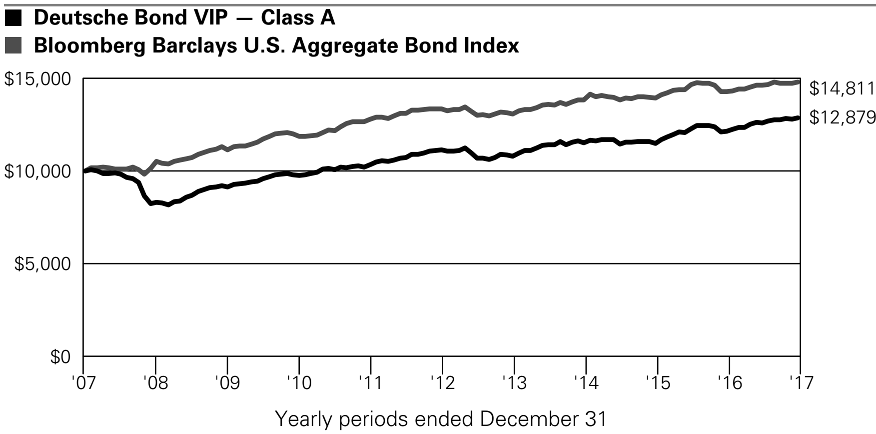
December 31, 2017 (Unaudited)

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, 2017 is 0.80% 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	$10,583	$11,178	$11,558	$12,879
	Average annual total return	5.83%	3.78%	2.94%	2.56%
Bloomberg Barclays U.S. Aggregate Bond Index	Growth of $10,000	$10,354	$10,687	$11,095	$14,811
	Average annual total return	3.54%	2.24%	2.10%	4.01%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2017 (Unaudited)

Entering 2017, credit sentiment was supported by optimism over the prospects for higher growth with Republicans holding the White House and both houses of Congress. Economically sensitive, credit-oriented segments of the bond market outperformed more interest rate-sensitive, higher-quality issues for much of the year. October of 2017 saw the U.S. Federal Reserve (the Fed) begin the gradual tapering of its mortgage-backed security and Treasury holdings. The plan to reduce the Fed's balance sheet had been extensively foreshadowed, and the actual launch of tapering had a muted impact on longer-term bond yields. As 2017 drew to a close, against a backdrop of strengthened employment conditions and robust corporate profits, passage of a tax reform bill that included a significant reduction in corporate tax rates led to stepped up expectations for Fed rate hikes. In December, the Fed implemented its third quarter point rate hike of 2017, increasing the upper band of its benchmark short-term lending rate from 1.25% to 1.50%.

For the 12 months ended December 31, 2017, the U.S. Treasury yield curve flattened as front-end yields rose and the long end saw declines. To illustrate, the two-year Treasury yield went from 1.19% to 1.88%, the five-year from 1.93% to 2.21%, the 10-year from 2.44% to 2.41%, the 20-year from 2.79% to 2.55% and the 30-year from 3.07% to 2.74%.

During the 12-month period ended December 31, 2017, the Fund provided a total return of 5.83% (Class A shares, unadjusted for contract charges) compared with the 3.54% return of its benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index.

The Fund's positive performance versus the benchmark was driven principally by exposure to more credit-sensitive fixed-income sectors. In particular, an overweighting of investment-grade corporate bonds at the expense of U.S. Treasury securities was a positive contributor to returns during the year. In addition, out-of-benchmark exposure to U.S. high yield corporate bonds worked well in an environment of narrowing credit spreads. Finally, exposure to structured securities in the commercial mortgage backed and asset-backed sectors was a modest contributor to relative performance, 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. We continue to be constructive on credit overall. Concerns over the Fed's resumption of tightening credit conditions remain muted, and demand for yield assets continues against a backdrop of moderating supply. Credit fundamentals are stable and defaults have remained low. The recent rebound in oil prices has eased concerns around energy related issues. Outside of the U.S. market, we see positive fundamentals in some emerging markets, and also see opportunities to benefit from diverging policies among leading global central banks. At the same time, there are reasons to closely monitor investor risk sentiment and its impact on credit markets.

Thomas M. Farina, CFA, Managing Director
Gregory M. Staples, CFA, Managing Director
Kelly L. Beam, CFA, Director
Portfolio Managers

Prior to February 12, 2018, the portfolio management team was as follows:

Gary Russell, CFA, Managing Director
Thomas M. Farina, CFA, Managing Director
Gregory M. Staples, CFA, Managing Director
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

Terms to Know

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.

The **Bloomberg Barclays US Aggregate 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.

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.

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.

Credit spread is the additional yield provided by bonds rated AA and below vs. comparable maturity bonds rated AAA.

Portfolio Summary (Unaudited)

Asset Allocation (As a % of Total Net Assets)	12/31/17	12/31/16
Corporate Bonds	64%	49%
Mortgage-Backed Securities Pass-Throughs	20%	19%
Short-Term U.S. Treasury Obligations	7%	1%
Government & Agency Obligations	5%	23%
Asset-Backed	5%	5%
Collateralized Mortgage Obligations	4%	3%
Commercial Mortgage-Backed Securities	2%	2%
Cash Equivalents, Securities Lending Collateral and other Assets and Liabilities, net	–7%	–2%
	100%	100%

Quality (Excludes Cash Equivalents and Securities Lending Collateral)	12/31/17	12/31/16
AAA	29%	47%
AA	5%	5%
A	14%	10%
BBB	32%	22%
BB	13%	14%
B	5%	1%
Not Rated	2%	1%
	100%	100%

Interest Rate Sensitivity	12/31/17	12/31/16
Effective Maturity	11.1 years	8.7 years
Effective Duration	5.9 years	5.9 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, 2017

	Principal Amount ($)(a)	Value ($)
Corporate Bonds 63.9%		
Consumer Discretionary 9.2%		
AMC Networks, Inc., 5.0%, 4/1/2024	110,000	111,375
Beacon Escrow Corp., 144A, 4.875%, 11/1/2025	160,000	160,600
CalAtlantic Group, Inc., 5.0%, 6/15/2027	90,000	93,375
CCO Holdings LLC, 144A, 5.125%, 5/1/2027	180,000	177,300
Charter Communications Operating LLC:		
3.579%, 7/23/2020	90,000	91,678
3.75%, 2/15/2028	220,000	210,806
4.908%, 7/23/2025	100,000	106,318
5.375%, 5/1/2047	35,000	35,887
CVS Health Corp., 5.125%, 7/20/2045	50,000	57,305
Discovery Communications LLC:		
5.0%, 9/20/2037	170,000	176,136
5.2%, 9/20/2047	105,000	109,591
Expedia, Inc., 3.8%, 2/15/2028	100,000	96,631
General Motors Co.:		
5.4%, 4/1/2048	100,000	109,073
6.6%, 4/1/2036	55,000	67,011
General Motors Financial Co., Inc., 3.15%, 6/30/2022	450,000	449,650
Hilton Domestic Operating Co., Inc., 4.25%, 9/1/2024	130,000	131,300
Hilton Worldwide Finance LLC, 4.875%, 4/1/2027	220,000	230,175
KFC Holding Co., 144A, 4.75%, 6/1/2027	110,000	112,475
NCL Corp., Ltd., 144A, 4.75%, 12/15/2021	110,000	113,850
Nordstrom, Inc.:		
4.0%, 3/15/2027	85,000	84,681
5.0%, 1/15/2044	135,000	130,149
PetSmart, Inc., 144A, 5.875%, 6/1/2025	135,000	103,612
PulteGroup, Inc., 5.0%, 1/15/2027	100,000	104,500
Sabre GLBL, Inc., 144A, 5.375%, 4/15/2023	130,000	133,900
Tata Motors Ltd., REG S, 5.75%, 10/30/2024	300,000	327,750
Tesla, Inc., 144A, 5.3%, 8/15/2025 (b)	460,000	439,300
Toll Brothers Finance Corp., 4.875%, 11/15/2025	130,000	135,850
Viacom, Inc.:		
5.875%, 2/28/2057 (b)	80,000	78,700
6.25%, 2/28/2057	85,000	82,981
Viking Cruises Ltd., 144A, 5.875%, 9/15/2027	450,000	457,875
Walgreens Boots Alliance, Inc., 4.8%, 11/18/2044	40,000	43,066
		4,762,900
Consumer Staples 1.8%		
Anheuser-Busch InBev Finance, Inc., 4.9%, 2/1/2046	140,000	162,259
Kraft Heinz Foods Co., 4.375%, 6/1/2046	130,000	128,771
Molson Coors Brewing Co., 4.2%, 7/15/2046	120,000	122,283
Pilgrim's Pride Corp., 144A, 5.875%, 9/30/2027	90,000	92,700
Simmons Foods, Inc., 144A, 5.75%, 11/1/2024	310,000	308,063
Smithfield Foods, Inc., 144A, 2.65%, 10/3/2021	100,000	98,673
		912,749
Energy 11.1%		
Andeavor:		
3.8%, 4/1/2028	105,000	105,251
4.5%, 4/1/2048	40,000	40,453
Andeavor Logistics LP:		
3.5%, 12/1/2022	105,000	104,801
4.25%, 12/1/2027	100,000	100,858
5.2%, 12/1/2047	60,000	62,577
Baker Hughes a GE Co., LLC:		
144A, 2.773%, 12/15/2022	85,000	84,893
144A, 3.337%, 12/15/2027	105,000	104,824
144A, 4.08%, 12/15/2047	105,000	106,792
BP Capital Markets PLC, 3.279%, 9/19/2027	170,000	172,089
Buckeye Partners LP, 4.125%, 12/1/2027	150,000	148,325
Canadian Natural Resources Ltd.:		
3.85%, 6/1/2027	105,000	107,170
4.95%, 6/1/2047	80,000	89,531
Cenovus Energy, Inc., 5.4%, 6/15/2047	120,000	126,280
Continental Resources, Inc.:		
144A, 4.375%, 1/15/2028	40,000	39,488
4.9%, 6/1/2044	250,000	238,750
5.0%, 9/15/2022	60,000	60,900
Enbridge, Inc., 2.9%, 7/15/2022	110,000	109,334
Energy Transfer Equity LP, 4.25%, 3/15/2023	190,000	188,575
Energy Transfer LP:		
4.5%, 11/1/2023	130,000	134,412
5.95%, 10/1/2043	90,000	95,691
Energy Transfer Partners LP:		
Series A, 6.25%, 2/15/2023	190,000	184,538
Series B, 6.625%, 2/15/2028	190,000	184,538
EnLink Midstream Partners LP, 5.45%, 6/1/2047	120,000	126,803
EQT Corp., 3.9%, 10/1/2027	190,000	188,885
Halliburton Co., 4.85%, 11/15/2035	75,000	84,138
Hess Corp., 5.8%, 4/1/2047	90,000	100,151
Kinder Morgan Energy Partners LP, 4.7%, 11/1/2042	110,000	106,489
Kinder Morgan, Inc., 3.15%, 1/15/2023	150,000	149,086
Newfield Exploration Co., 5.75%, 1/30/2022	60,000	64,050

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

	Principal Amount ($)(a)	Value ($)
Noble Energy, Inc., 3.85%, 1/15/2028	190,000	190,581
Noble Holding International Ltd.:		
5.75%, 3/16/2018	30,000	30,075
7.75%, 1/15/2024 (b)	280,000	240,800
Parsley Energy LLC, 144A, 5.625%, 10/15/2027	80,000	81,800
Petrobras Global Finance BV:		
6.125%, 1/17/2022	131,000	139,024
8.375%, 5/23/2021	150,000	171,075
Petroleos Mexicanos:		
144A, 5.375%, 3/13/2022	190,000	201,400
6.75%, 9/21/2047	146,000	152,402
Plains All American Pipeline LP:		
2.85%, 1/31/2023	165,000	157,885
4.3%, 1/31/2043	95,000	83,897
Rosneft Finance SA, 144A, 7.25%, 2/2/2020	250,000	269,375
Sabine Pass Liquefaction LLC, 5.0%, 3/15/2027	190,000	203,885
Sunoco Logistics Partners Operations LP, 5.3%, 4/1/2044	45,000	44,410
YPF SA, 144A, 7.0%, 12/15/2047	350,000	346,850
		5,723,131

Financials 16.5%

	Principal Amount ($)(a)	Value ($)
Ares Capital Corp.:		
3.625%, 1/19/2022	130,000	130,537
3.875%, 1/15/2020	200,000	203,533
Banco de Credito e Inversiones, 144A, 3.5%, 10/12/2027	225,000	219,375
Banco Santander SA, 3.8%, 2/23/2028	200,000	200,028
Bank of America Corp., 3.824%, 1/20/2028	270,000	279,280
Barclays PLC, 4.836%, 5/9/2028	450,000	468,378
Blackstone Holdings Finance Co., LLC, 144A, 5.0%, 6/15/2044	50,000	57,820
BNP Paribas SA, 144A, 4.625%, 3/13/2027	300,000	320,035
BNZ International Funding Ltd., 144A, 2.9%, 2/21/2022	250,000	251,252
Citigroup, Inc., 3.2%, 10/21/2026	100,000	99,219
Credit Suisse Group AG, 144A, 4.282%, 1/9/2028	250,000	260,650
Credit Suisse Group Funding Guernsey Ltd., 3.8%, 6/9/2023	250,000	257,824
Everest Reinsurance Holdings, Inc., 4.868%, 6/1/2044	100,000	106,407
FS Investment Corp., 4.75%, 5/15/2022	150,000	154,424
HSBC Holdings PLC:		
3.033%, 11/22/2023	200,000	200,403
4.375%, 11/23/2026	200,000	208,804
6.0%, 5/22/2027	225,000	236,531
Intesa Sanpaolo SpA, 144A, 3.125%, 7/14/2022	270,000	268,053
JPMorgan Chase & Co., 2.95%, 10/1/2026	280,000	275,027
KKR Group Finance Co. III LLC, 144A, 5.125%, 6/1/2044	70,000	77,595
Kookmin Bank, 144A, 2.875%, 3/25/2023	200,000	196,401
Legg Mason, Inc., 5.625%, 1/15/2044	100,000	111,488
Loews Corp., 4.125%, 5/15/2043	80,000	82,549
Macquarie Bank Ltd., 144A, 6.125%, 3/8/2027	295,000	306,431
Macquarie Group Ltd.:		
144A, 3.189%, 11/28/2023	220,000	218,469
144A, 3.763%, 11/28/2028	220,000	218,669
Manulife Financial Corp., 4.061%, 2/24/2032	200,000	201,509
Massachusetts Mutual Life Insurance Co., 144A, 4.5%, 4/15/2065	30,000	31,881
Nationwide Financial Services, Inc., 144A, 5.3%, 11/18/2044	90,000	106,765
Royal Bank of Scotland Group PLC, 3.498%, 5/15/2023	200,000	200,436
Santander Holdings U.S.A., Inc., 144A, 3.7%, 3/28/2022	270,000	273,249
Societe Generale SA, 144A, 7.375%, 12/29/2049	476,000	515,889
Suncorp-Metway Ltd.:		
144A, 2.1%, 5/3/2019	95,000	94,661
144A, 2.8%, 5/4/2022	150,000	149,337
Swiss Re Treasury U.S. Corp., 144A, 4.25%, 12/6/2042	70,000	72,788
The Goldman Sachs Group, Inc.:		
3.75%, 2/25/2026	290,000	297,566
4.017%, 10/31/2038	70,000	71,987
Unifin Financiera SAB de CV SOFOM ENR, 144A, 7.0%, 1/15/2025	215,000	219,837
Voya Financial, Inc., 4.8%, 6/15/2046	120,000	133,669
Wells Fargo & Co., 3.0%, 10/23/2026	280,000	274,444
Westpac Banking Corp., 5.0%, 9/21/2027	185,000	184,527
Woori Bank, 144A, 4.5%, 12/29/2049	250,000	247,986
		8,485,713

Health Care 2.8%

	Principal Amount ($)(a)	Value ($)
AbbVie, Inc., 4.45%, 5/14/2046	120,000	130,440
Allergan Funding SCS, 4.75%, 3/15/2045	170,000	180,975
HCA, Inc., 5.25%, 6/15/2026	130,000	137,800
Shire Acquisitions Investments Ireland DAC, 3.2%, 9/23/2026	190,000	185,773
Stryker Corp.:		
3.375%, 11/1/2025	80,000	81,909

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

	Principal Amount ($)(a)	Value ($)
4.625%, 3/15/2046	40,000	45,425
Teleflex, Inc., 4.625%, 11/15/2027	130,000	131,111
Teva Pharmaceutical Finance Netherlands III BV:		
3.15%, 10/1/2026 (b)	360,000	297,233
4.1%, 10/1/2046 (b)	350,000	266,526
		1,457,192
Industrials 3.4%		
Acwa Power Management & Investments One Ltd., 144A, 5.95%, 12/15/2039	250,000	255,925
Bombardier, Inc., 144A, 7.5%, 12/1/2024	250,000	253,750
CSX Corp., 4.25%, 11/1/2066	130,000	129,894
Jeld-Wen, Inc., 144A, 4.625%, 12/15/2025	85,000	85,638
Mexico City Airport Trust, 144A, 5.5%, 7/31/2047	285,000	281,437
RBS Global, Inc., 144A, 4.875%, 12/15/2025	90,000	90,900
Rockwell Collins, Inc., 4.35%, 4/15/2047	120,000	130,328
The Brink's Co., 144A, 4.625%, 10/15/2027	160,000	156,800
United Rentals North America, Inc., 5.5%, 5/15/2027	330,000	347,325
		1,731,997
Information Technology 4.0%		
Amazon.com, Inc., 144A, 4.25%, 8/22/2057	135,000	147,271
Apple, Inc., 3.45%, 2/9/2045	60,000	58,556
Broadcom Corp.:		
144A, 3.5%, 1/15/2028	115,000	109,631
144A, 3.625%, 1/15/2024	125,000	124,298
CA, Inc., 3.6%, 8/15/2022	90,000	91,247
Dell International LLC:		
144A, 4.42%, 6/15/2021	120,000	125,042
144A, 5.875%, 6/15/2021	240,000	249,000
144A, 8.1%, 7/15/2036	100,000	126,279
DXC Technology Co., 4.75%, 4/15/2027	190,000	202,048
Hewlett Packard Enterprise Co., 3.6%, 10/15/2020	90,000	91,890
Oracle Corp., 4.0%, 11/15/2047	100,000	106,488
Pitney Bowes, Inc., 3.625%, 9/15/2020	60,000	59,400
Seagate HDD Cayman, 144A, 4.25%, 3/1/2022	90,000	91,098
Tencent Holdings Ltd., 144A, 3.8%, 2/11/2025	250,000	259,316
The Priceline Group, Inc.:		
2.75%, 3/15/2023	105,000	104,620
3.55%, 3/15/2028	115,000	113,914
		2,060,098
Materials 4.7%		
Anglo American Capital PLC, 144A, 4.75%, 4/10/2027	230,000	240,723
AngloGold Ashanti Holdings PLC, 5.125%, 8/1/2022 (b)	110,000	114,903
Celulosa Arauco y Constitucion SA, 144A, 5.5%, 11/2/2047	200,000	208,000
Cemex SAB de CV, 144A, 7.75%, 4/16/2026	200,000	226,500
Fibria Overseas Finance Ltd., 4.0%, 1/14/2025	250,000	247,500
Freeport-McMoRan, Inc., 2.375%, 3/15/2018	60,000	59,925
Glencore Funding LLC, 144A, 4.625%, 4/29/2024	40,000	42,232
LYB International Finance II BV, 3.5%, 3/2/2027	230,000	231,164
Mexichem SAB de CV, 144A, 5.875%, 9/17/2044	300,000	310,500
St. Marys Cement, Inc., 144A, 5.75%, 1/28/2027	230,000	242,650
The Mosaic Co., 4.05%, 11/15/2027	125,000	125,328
Vale Overseas Ltd., 6.25%, 8/10/2026	242,000	280,357
Yamana Gold, Inc., 4.95%, 7/15/2024	110,000	115,075
		2,444,857
Real Estate 3.8%		
CBL & Associates LP:		
(REIT), 5.25%, 12/1/2023	95,000	89,713
(REIT), 5.95%, 12/15/2026 (b)	130,000	120,936
Crown Castle International Corp., (REIT), 5.25%, 1/15/2023	135,000	147,818
Equinix, Inc., (REIT), 5.375%, 4/1/2023	130,000	134,420
Government Properties Income Trust:		
(REIT), 3.75%, 8/15/2019	60,000	60,504
(REIT), 4.0%, 7/15/2022	160,000	160,967
Hospitality Properties Trust:		
(REIT), 3.95%, 1/15/2028	70,000	67,905
(REIT), 5.0%, 8/15/2022	150,000	160,068
Host Hotels & Resorts LP, (REIT), 3.875%, 4/1/2024	135,000	137,350
MGM Growth Properties Operating Partnership LP, (REIT), 4.5%, 9/1/2026	120,000	119,400
Omega Healthcare Investors, Inc., (REIT), 4.95%, 4/1/2024	130,000	135,809
SBA Communications Corp., 144A, (REIT), 4.0%, 10/1/2022	190,000	190,238
Select Income REIT:		
(REIT), 4.15%, 2/1/2022	80,000	80,898
(REIT), 4.25%, 5/15/2024	80,000	79,348
VEREIT Operating Partnership LP:		
(REIT), 3.95%, 8/15/2027	130,000	128,514
(REIT), 4.125%, 6/1/2021	120,000	124,569
		1,938,457
Telecommunication Services 2.9%		
AT&T, Inc.:		
3.4%, 5/15/2025	140,000	137,641
3.9%, 8/14/2027	200,000	201,336
4.5%, 5/15/2035	120,000	119,288
5.15%, 2/14/2050	120,000	121,496

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

	Principal Amount ($)(a)	Value ($)
Empresa Nacional de Telecomunicaciones SA, REG S, 4.75%, 8/1/2026	250,000	260,902
Sprint Spectrum Co., LLC, 144A, 3.36%, 3/20/2023	187,500	188,672
Telefonica Emisiones SAU, 5.213%, 3/8/2047	150,000	170,228
Verizon Communications, Inc.:		
2.625%, 8/15/2026	210,000	197,797
4.272%, 1/15/2036	120,000	119,376
		1,516,736
Utilities 3.7%		
AmeriGas Partners LP, 5.5%, 5/20/2025	110,000	111,100
Calpine Corp., 144A, 5.25%, 6/1/2026	235,000	230,302
EDP Finance BV, 144A, 3.625%, 7/15/2024	200,000	201,425
Electricite de France SA, 144A, 4.75%, 10/13/2035	150,000	165,637
Enel Finance International NV:		
144A, 3.5%, 4/6/2028	245,000	239,641
144A, 4.75%, 5/25/2047	200,000	216,554
Israel Electric Corp., Ltd., Series 6, 144A, REG S, 5.0%, 11/12/2024	300,000	319,041
NRG Energy, Inc.:		
144A, 5.75%, 1/15/2028	105,000	106,050
6.625%, 1/15/2027	120,000	126,900
Southern Co., 3.25%, 7/1/2026	80,000	78,458
Southern Power Co., Series F, 4.95%, 12/15/2046	87,000	95,430
		1,890,538
Total Corporate Bonds (Cost $32,405,369)		**32,924,368**

Mortgage-Backed Securities Pass-Throughs 20.3%

	Principal Amount ($)(a)	Value ($)
Federal Home Loan Mortgage Corp.:		
4.0%, 8/1/2039	406,307	429,200
5.5%, with various maturities from 10/1/2023 until 6/1/2035	711,943	791,426
6.5%, 3/1/2026	91,037	98,533
Federal National Mortgage Association: 12-month USD-LIBOR + 1.750%, 3.5% * , 9/1/2038	27,754	29,034
3.5%, with various maturities from 12/1/2045 until 1/1/2048 (c)	6,501,888	6,687,946
5.0%, 10/1/2033	34,902	38,101
5.5%, with various maturities from 12/1/2032 until 8/1/2037	677,765	751,314
6.0%, with various maturities from 4/1/2024 until 3/1/2025	199,883	223,294
6.5%, with various maturities from 11/1/2024 until 1/1/2036	65,820	72,959
Government National Mortgage Association:		
3.5%, 1/1/2048 (c)	1,100,000	1,137,125
4.0%, 5/15/2047	187,449	198,573
Total Mortgage-Backed Securities Pass-Throughs (Cost $10,345,194)		**10,457,505**

Asset-Backed 4.9%

	Principal Amount ($)(a)	Value ($)
Automobile Receivables 0.9%		
Avis Budget Rental Car Funding AESOP LLC, “C”, Series 2015-1A, 144A, 3.96%, 7/20/2021	500,000	**494,579**
Credit Card Receivables 1.9%		
World Financial Network Credit Card Master Trust, “M”, Series 2016-A, 2.33%, 4/15/2025	1,000,000	**980,416**
Miscellaneous 2.1%		
Hilton Grand Vacations Trust, “B”, Series 2014-AA, 144A, 2.07%, 11/25/2026	127,531	125,437
Taco Bell Funding LLC, “A2I”, Series 2016-1A, 144A, 3.832%, 5/25/2046	735,688	745,671
Wendys Funding LLC, “A2I”, Series 2018-1A, 144A, 3.573%, 3/15/2048 (c)	200,000	199,937
		1,071,045
Total Asset-Backed (Cost $2,565,100)		**2,546,040**

Commercial Mortgage-Backed Securities 1.5%

	Principal Amount ($)(a)	Value ($)
BXP Trust, “B”, Series 2017-CQHP, 144A, 1-month USD-LIBOR + 1.100%, 2.577% *, 11/15/2034	280,000	280,000
FHLMC Multifamily Structured Pass-Through Certificates:		
“X1”, Series K043, Interest Only, 0.546% *, 12/25/2024	4,955,820	163,213
“X1”, Series K054, Interest Only, 1.179% *, 1/25/2026	1,840,658	145,604
JPMBB Commercial Mortgage Securities Trust, “A3”, Series 2014-C19, 3.669%, 4/15/2047	150,000	155,292
Total Commercial Mortgage-Backed Securities (Cost $740,140)		**744,109**

Collateralized Mortgage Obligations 4.1%

	Principal Amount ($)(a)	Value ($)
Countrywide Home Loans, “A2”, Series 2006-1, 6.0%, 3/25/2036	192,205	165,502
CSFB Mortgage-Backed Pass-Through Certificates, “10A3”, Series 2005-10, 6.0%, 11/25/2035	87,736	52,991
Federal Home Loan Mortgage Corp.:		
“PI”, Series 4485, Interest Only, 3.5%, 6/15/2045	1,797,062	299,947
“PI”, Series 3940, Interest Only, 4.0%, 2/15/2041	289,976	42,897
“C31”, Series 303, Interest Only, 4.5%, 12/15/2042	1,358,499	272,370
Federal National Mortgage Association, “ZL” , Series 2017-55, 3.0%, 10/25/2046	507,547	465,443

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

	Principal Amount ($)(a)	Value ($)
Government National Mortgage Association:		
"PL", Series 2013-19, 2.5%, 2/20/2043	684,500	647,298
"PI", Series 2015-40, Interest Only, 4.0%, 4/20/2044	312,577	36,116
"PI", Series 2014-108, Interest Only, 4.5%, 12/20/2039	238,773	41,381
"EI", Series 2011-162, Interest Only, 4.5%, 5/20/2040	320,489	15,684
"DI", Series 2011-40, Interest Only, 4.5%, 12/20/2040	131,724	416
"IN", Series 2009-69, Interest Only, 5.5%, 8/20/2039	69,776	12,759
"IV", Series 2009-69, Interest Only, 5.5%, 8/20/2039	136,320	23,077
"IJ", Series 2009-75, Interest Only, 6.0%, 8/16/2039	55,280	9,665
MASTR Alternative Loans Trust:		
"5A1", Series 2005-1, 5.5%, 1/25/2020	21,694	22,085
"8A1", Series 2004-3, 7.0%, 4/25/2034	6,396	6,751
Total Collateralized Mortgage Obligations (Cost $2,408,510)		**2,114,382**

Government & Agency Obligations 5.2%

Other Government Related (d) 0.6%

	Principal Amount ($)(a)	Value ($)
Novatek OAO, 144A, 6.604%, 2/3/2021	300,000	**329,250**

Sovereign Bonds 3.3%

	Principal Amount ($)(a)	Value ($)
French Republic Government Bond OAT, 144A, REG S, 1.75%, 5/25/2066	EUR 555,287	630,735
Kingdom of Sweden, Series 1053, 3.5%, 3/30/2039	SEK 4,620,000	772,803
Saudi Government International Bond, 144A, 3.625%, 3/4/2028	295,000	292,345
		1,695,883

U.S. Treasury Obligations 1.3%

	Principal Amount ($)(a)	Value ($)
U.S. Treasury Bond, 2.75%, 8/15/2047	55,000	55,069
U.S. Treasury Inflation-Indexed Bond, 0.875%, 2/15/2047	578,367	601,008
		656,077
Total Government & Agency Obligations (Cost $2,598,372)		**2,681,210**

Short-Term U.S. Treasury Obligations 7.3%

	Principal Amount ($)(a)	Value ($)
U.S. Treasury Bills:		
1.18% **, 8/16/2018 (e)	804,000	796,025
1.381% **, 10/11/2018 (e) (f)	3,000,000	2,960,873
Total Short-Term U.S. Treasury Obligations (Cost $3,765,461)		**3,756,898**

Securities Lending Collateral 2.7%

	Shares	Value ($)
Deutsche Government & Agency Securities Portfolio "Deutsche Government Cash Institutional Shares", 1.21% (g) (h) (Cost $1,394,433)	1,394,433	**1,394,433**

Cash Equivalents 2.1%

	Shares	Value ($)
Deutsche Central Cash Management Government Fund, 1.30% (g) (Cost $1,055,489)	1,055,489	**1,055,489**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $57,278,068)	112.0	**57,674,434**
Other Assets and Liabilities, Net	(12.0)	**(6,179,493)**
Net Assets	100.0	**51,494,941**

* Variable or floating rate security. These securities are shown at their current rate as of December 31, 2017. For securities based on a published reference rate and spread, the reference rate and spread are indicated within the description above. Certain variable rate securities are not based on a published reference rate and spread but adjust periodically based on current market conditions, prepayment of underlying positions and/or other variables.

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

(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, 2017 amounted to $1,334,679, which is 2.6% of net assets.

(c) When-issued, delayed delivery or forward commitment securities included.

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

(e) At December 31, 2017, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

(f) At December 31, 2017, 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.

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.

Interest Only: Interest Only (IO) bonds represent the "interest only" portion of payments on a pool of underlying mortgages or mortgage-backed securities. IO securities are subject to prepayment risk of the pool of underlying mortgages.

LIBOR: London Interbank Offered Rate

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

REIT: Real Estate Investment Trust

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

At December 31, 2017, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Amount ($)	Notional Value ($)	Unrealized Depreciation ($)
10 Year U.S. Treasury Note	USD	3/20/2018	16	1,988,736	1,984,750	(3,986)
Ultra 10 Year U.S. Treasury Note	USD	3/20/2018	16	2,145,912	2,137,000	(8,912)
Total unrealized depreciation						**(12,898)**

At December 31, 2017, open futures contracts sold were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Amount ($)	Notional Value ($)	Unrealized Appreciation (Depreciation) ($)
5 Year U.S. Treasury Note	USD	3/29/2018	13	1,518,229	1,510,133	8,096
Euro-OAT French Government Bond	EUR	3/8/2018	14	2,637,217	2,606,697	30,520
Ultra Long U.S. Treasury Bond	USD	3/20/2018	16	2,666,092	2,682,500	(16,408)
Total net unrealized appreciation						**22,208**

At December 31, 2017, open interest rate swap contracts were as follows:

Centrally Cleared Swaps

Cash Flows Paid by the Fund/Frequency	Cash Flows Received by the Fund/Frequency	Effective/ Expiration Date	Notional Amount	Currency	Upfront Payments Paid ($)	Value ($)	Unrealized Depreciation ($)
Fixed — 0.228% Annually	Floating — 3-Month STIBOR Quarterly	7/18/2017 7/18/2021	24,900,000	SEK	—	(10,504)	(10,504)

STIBOR: Stockholm Interbank Offered Rate; 3-Month STIBOR rate at December 31, 2017 is -0.47%.

As of December 31, 2017, the Fund had the following open forward foreign currency contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
USD	1,530,630	EUR	1,298,000	1/4/2018	27,145	Citigroup, Inc.
SEK	6,257,000	USD	775,139	1/18/2018	11,506	Danske Bank AS
Total unrealized appreciation					**38,651**	

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
EUR	1,298,000	USD	1,532,802	1/4/2018	(24,973)	Citigroup, Inc.
EUR	522,000	USD	618,764	1/24/2018	(8,505)	HSBC Holdings PLC
Total unrealized depreciation					**(33,478)**	

Currency Abbreviations

EUR	Euro	USD	United States Dollar
SEK	Swedish Krona		

For information on the Fund's policy and additional disclosures regarding futures contracts, interest rate swap contracts and forward foreign currency contracts, please refer to the Derivatives section of Note A 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, 2017 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	$ —	$ 32,924,368	$ —	$ 32,924,368
Mortgage-Backed Securities Pass-Throughs	—	10,457,505	—	10,457,505
Asset-Backed	—	2,546,040	—	2,546,040
Commercial Mortgage-Backed Securities	—	744,109	—	744,109
Collateralized Mortgage Obligations	—	2,114,382	—	2,114,382
Government & Agency Obligations	—	2,681,210	—	2,681,210
Short-Term U.S. Treasury Obligations	—	3,756,898	—	3,756,898
Short-Term Investments (i)	2,449,922	—	—	2,449,922
Derivatives (j)				
Futures Contracts	38,616	—	—	38,616
Forward Foreign Currency Contracts	—	38,651	—	38,651
Total	**$ 2,488,538**	**$ 55,263,163**	**$ —**	**$ 57,751,701**

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Level 2**
Derivatives (j)				
Futures Contracts	$ (29,306)	$ —	$ —	$ (29,306)
Interest Rate Swap Contracts	—	(10,504)	—	(10,504)
Forward Foreign Currency Contracts	—	(33,478)	—	(33,478)
Total	**$ (29,306)**	**$ (43,982)**	**$ —**	**$ (73,288)**

There have been no transfers between fair value measurement levels during the year ended December 31, 2017.

(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 contracts.

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

Statement of Assets and Liabilities

as of December 31, 2017

Assets	
Investments in non-affiliated securities, at value (cost $54,828,146) — including $1,334,679 of securities loaned	$55,224,512
Investment in Government & Agency Securities Portfolio (cost $1,394,433)*	1,394,433
Investment in Deutsche Central Cash Management Government Fund (cost $1,055,489)	1,055,489
Cash	10,446
Foreign currency, at value (cost $492,423)	503,865
Receivable for Fund shares sold	21,922
Interest receivable	467,729
Receivable for variation margin on futures contracts	9,310
Receivable for variation margin on centrally cleared swaps	7,763
Unrealized appreciation on forward foreign currency contracts	38,651
Foreign taxes recoverable	1,046
Other assets	1,997
Total assets	58,737,163
Liabilities	
Payable upon return of securities loaned	1,394,433
Payable for investments purchased — when-issued/delayed delivery securities	5,658,313
Payable for Fund shares redeemed	13,479
Unrealized depreciation on forward foreign currency contracts	33,478
Accrued management fee	10,735
Accrued Trustees' fees	1,460
Other accrued expenses and payables	130,324
Total liabilities	7,242,222
Net assets, at value	**$51,494,941**
Net Assets Consist of	
Undistributed net investment income	2,119,833
Net unrealized appreciation (depreciation) on:	
Investments	396,366
Swap contracts	(10,504)
Futures	9,310
Foreign currency	11,555
Forward foreign currency contracts	5,173
Accumulated net realized gain (loss)	(1,794,989)
Paid-in capital	50,758,197
Net assets, at value	**$51,494,941**
Class A	
Net Asset Value, offering and redemption price per share ($51,494,941 ÷ 9,030,036 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 5.70**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2017

Investment Income	
Income: Interest (net of foreign taxes withheld of $382)	$2,566,653
Income distributions — Deutsche Central Cash Management Government Fund	10,863
Securities lending income, net of borrower rebates	13,846
Total income	2,591,362
Expenses: Management fee	277,513
Administration fee	71,157
Services to shareholders	1,509
Custodian fee	14,406
Professional fees	97,348
Reports to shareholders	25,216
Trustees' fees and expenses	6,013
Interest expense	319
Other	31,409
Total expenses before expense reductions	524,890
Expense reductions	(59,604)
Total expenses after expense reductions	465,286
Net investment income	**2,126,076**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from: Investments	1,470,325
Swap contracts	461,583
Futures	(275,706)
Forward foreign currency contracts	(67,545)
Foreign currency	(80,735)
	1,507,922
Change in net unrealized appreciation (depreciation) on: Investments	818,923
Swap contracts	(260,322)
Futures	(59,514)
Forward foreign currency contracts	5,877
Foreign currency	76,232
	581,196
Net gain (loss)	**2,089,118**
Net increase (decrease) in net assets resulting from operations	**$4,215,194**

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, 2017	2016
Operations:		
Net investment income	$ 2,126,076	$ 2,156,650
Net realized gain (loss)	1,507,922	1,349,873
Change in net unrealized appreciation (depreciation)	581,196	1,028,989
Net increase (decrease) in net assets resulting from operations	4,215,194	4,535,512
Distributions to shareholders from:		
Net investment income:		
Class A	(1,811,823)	(4,037,321)
Fund share transactions:		
Class A		
Proceeds from shares sold	5,538,840	10,928,699
Reinvestment of distributions	1,811,823	4,037,321
Payments for shares redeemed	(35,229,871)	(18,293,243)
Net increase (decrease) in net assets from Class A share transactions	(27,879,208)	(3,327,223)
Increase (decrease) in net assets	(25,475,837)	(2,829,032)
Net assets at beginning of period	76,970,778	79,799,810
Net assets at end of period (including undistributed net investment income of $2,119,833 and $1,699,560, respectively)	**$ 51,494,941**	**$ 76,970,778**

Other Information

Class A		
Shares outstanding at beginning of period	13,944,103	14,528,974
Shares sold	986,189	1,951,337
Shares issued to shareholders in reinvestment of distributions	328,229	739,436
Shares redeemed	(6,228,485)	(3,275,644)
Net increase (decrease) in Class A shares	(4,914,067)	(584,871)
Shares outstanding at end of period	**9,030,036**	**13,944,103**

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

Financial Highlights

Class A	2017	Years Ended December 31, 2016	2015	2014	2013
Selected Per Share Data					
Net asset value, beginning of period	**$5.52**	**$5.49**	**$5.67**	**$5.51**	**$5.89**
Income (loss) from investment operations:					
Net investment income[a]	.17	.15	.14	.17	.16
Net realized and unrealized gain (loss)	.15	.17	(.15)	.19	(.33)
Total from investment operations	.32	.32	(.01)	.36	(.17)
Less distributions from:					
Net investment income	(.14)	(.29)	(.17)	(.20)	(.21)
Net asset value, end of period	**$5.70**	**$5.52**	**$5.49**	**$5.67**	**$5.51**
Total Return (%)[b]	5.83	5.93	(.29)	6.63	(3.03)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	51	77	80	101	105
Ratio of expenses before expense reductions (%)[c]	.74	.78	.69	.69	.65
Ratio of expenses after expense reductions (%)[c]	.65	.64	.64	.61	.56
Ratio of net investment income (%)	2.99	2.68	2.54	2.99	2.88
Portfolio turnover rate (%)	205	236	197	273	418

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

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

[c] Expense ratio does not reflect charges and 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.

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.

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, 2017, 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, 2017, the Fund invested the cash collateral in Deutsche Government & Agency Securities Portfolio. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.13% annualized effective rate as of December 31, 2017) on the cash collateral invested in Deutsche 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, 2017, 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 was 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.

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.

At December 31, 2017, the Fund had net tax basis capital loss carryforwards of approximately $1,791,000 of long-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, 2017 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, 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, 2017, the Fund's components of distributable earnings (accumulated losses) on a tax basis are as follows:

Undistributed ordinary income*	$ 2,125,005
Capital loss carryforwards	$ (1,791,000)
Net unrealized appreciation (depreciation) on investments	$ 390,796

At December 31, 2017, the aggregate cost of investments for federal income tax purposes was $57,278,314. The net unrealized appreciation for all investments based on tax cost was $390,796. This consisted of aggregate gross unrealized appreciation for all investments in which there was an excess of value over tax cost of $1,071,463 and aggregate gross unrealized depreciation for all investments in which there was an excess of tax cost over value of $680,667.

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

	Years Ended December 31, 2017	2016
Distributions from ordinary income*	$ 1,811,823	$ 4,037,321

* 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, 2017, 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, 2017, is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2017, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $1,367,000 to $12,020,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from approximately $6,821,000 to $23,463,000.

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.

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, 2017, the Fund entered into interest rate swap agreements 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.

A summary of the open interest rate swap contracts as of December 31, 2017 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2017, the investment in interest rate swap contracts had a total USD equivalent notional amount generally indicative of a range from approximately $2,997,000 to $46,521,000.

Forward Foreign Currency Contracts. A forward foreign currency 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, 2017, 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, 2017, is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2017, the investment in forward currency contracts U.S. dollars purchased had a total contract value generally indicative of a range from $796,000 to approximately $10,899,000, 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 $7,021,000.

The investment in forward currency contracts long vs. other foreign currencies sold had a total contract value generally indicative of a range from $0 to approximately $12,896,000.

The following tables summarize the value of the Fund's derivative instruments held as of December 31, 2017 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)	$ —	$ 38,616	$ 38,616
Foreign Exchange Contracts (b)	38,651	—	38,651
	$ 38,651	**$ 38,616**	**$ 77,267**

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 currency contracts

Liability Derivatives	**Forward Contracts**	**Swap Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (c)	$ —	$ (10,504)	$ (29,306)	$ (39,810)
Foreign Exchange Contracts (d)	(33,478)	—	—	(33,478)
	$ (33,478)	**$ (10,504)**	**$ (29,306)**	**$ (73,288)**

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

(c) 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.

(d) Unrealized depreciation on forward foreign currency contracts

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the year ended December 31, 2017 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	**Forward Contracts**	**Swap Contracts**	**Futures Contracts**	**Total**
Interest Rate Contract (e)	$ —	$ 461,583	$ (275,706)	$ 185,877
Foreign Exchange Contracts (f)	(67,545)	—	—	(67,545)
	$ (67,545)	**$ 461,583**	**$ (275,706)**	**$ 118,332**

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

(e) Net realized gain (loss) from swap contracts and futures, respectively

(f) Net realized gain (loss) from foreign currency contracts

Change in Net Unrealized Appreciation (Depreciation)	**Forward Contracts**	**Swap Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (g)	$ —	$ (260,322)	$ (59,514)	$ (319,836)
Foreign Exchange Contracts (h)	5,877	—	—	5,877
	$ 5,877	**$ (260,322)**	**$ (59,514)**	**$ (313,959)**

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

(g) Change in net unrealized appreciation (depreciation) on swap contracts and futures, respectively

(h) Change in net unrealized appreciation (depreciation) on foreign currency contracts

As of December 31, 2017, the Fund has transactions subject to enforceable master netting agreements which govern the terms of certain transactions, and reduce the counterparty risk associated with such transactions. Master netting agreements allow a Fund to close out and net total exposure to a counterparty in the event of a deterioration in the credit quality or contractual default with respect to all of the transactions with a counterparty. As defined by the master netting agreement, the Fund may have collateral agreements with certain counterparties to mitigate risk. For financial reporting purposes the Statement of Assets and Liabilities generally shows derivatives assets and liabilities on a gross basis, which reflects the full risks and exposures prior to netting. A reconciliation of the gross amounts on the Statement of Assets and Liabilities to the net amounts by a 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**
Citigroup, Inc.	$ 27,145	$ (24,973)	$ —	$ 2,172
Danske Bank AS	11,506	—	—	11,506
	$ 38,651	**$ (24,973)**	**$ —**	**$ 13,678**

Counterparty	**Gross Amounts of Liabilities Presented in the Statement of Assets and Liabilities**	**Financial Instruments and Derivatives Available for Offset**	**Collateral Pledged**	**Net Amount of Derivative Liabilities**
Citigroup, Inc.	$ 24,973	$ (24,973)	$ —	$ —
HSBC Holdings PLC	8,505	—	—	8,505
	$ 33,478	**$ (24,973)**	**$ —**	**$ 8,505**

C. Purchases and Sales of Securities

During the year ended December 31, 2017, purchases and sales of investment securities (excluding short-term investments and U.S. Treasury obligations) aggregated $120,433,178 and $134,901,551, respectively. Purchases and sales of U.S. Treasury obligations aggregated $24,908,972 and $38,308,988, respectively.

D. Related Parties

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

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

First $250 million of average daily net assets	.390%
Next $750 million of average daily net assets	.365%
Over $1 billion of average daily net assets	.340%

Accordingly, for the year ended December 31, 2017, 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, 2017 through April 30, 2017, 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 0.64%.

Effective May 1, 2017 through April 30, 2018, 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 0.66%.

For the year ended December 31, 2017, fees waived and/or expenses reimbursed were $59,604.

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, 2017, the Administration Fee was $71,157, of which $4,376 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, 2017, the amounts charged to the Fund by DSC aggregated $568, of which $141 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing certain pre-press and regulatory filing services to the Fund. For the year ended December 31, 2017, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $11,408, of which $4,774 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, 2017, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $1,042.

E. Ownership of the Fund

At December 31, 2017, three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 43%, 24% and 15%, 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, 2017.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Deutsche Variable Series I and Shareholders of Deutsche Bond VIP

Opinion on the Financial Statements

We have audited the accompanying statement of assets and liabilities, including the investment portfolio, of Deutsche Bond VIP (one of the funds constituting Deutsche Variable Series I, referred to hereafter as the "Fund") as of December 31, 2017, the related statement of operations for the year ended December 31, 2017, the statement of changes in net assets for each of the two years in the period ended December 31, 2017, including the related notes, and the financial highlights for each of the five years in the period ended December 31, 2017 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2017, 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 ended December 31, 2017 and the financial highlights for each of the five years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on the Fund's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Fund in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our procedures included confirmation of securities owned as of December 31, 2017 by correspondence with the custodian, transfer agent and brokers; when replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Boston, Massachusetts
February 14, 2018

We have served as the auditor of one or more investment companies in the Deutsche family of funds since 1930.

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, 2017 to December 31, 2017).

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, 2017

Actual Fund Return	**Class A**
Beginning Account Value 7/1/17	$ 1,000.00
Ending Account Value 12/31/17	$ 1,023.30
Expenses Paid per $1,000*	$ 3.37

Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 7/1/17	$ 1,000.00
Ending Account Value 12/31/17	$ 1,021.88
Expenses Paid per $1,000*	$ 3.36

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

Annualized Expense Ratio	**Class A**
Deutsche Variable Series I — Deutsche Bond VIP	.66%

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 2017.

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"). 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.

— The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly met 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.

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.

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 administrative support services provided by DIMA, such 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 "Funds in Review" (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, 2016, 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, 2016.

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, 2016). 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, 2016, 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 to DIMA, 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 transfer agency 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. In addition, the Board considered 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, 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)	89	—
Kenneth C. Froewiss (1945) Vice Chairperson since 2017, and Board Member since 2001	Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); Member, Finance Committee, Association for Asian Studies (2002–present); Director, Mitsui Sumitomo Insurance Group (US) (2004–present); prior thereto, Managing Director, J.P. Morgan (investment banking firm) (until 1996)	92	—
John W. Ballantine (1946) Board Member since 1999	Retired; formerly, Executive Vice President and Chief Risk Management Officer, First Chicago NBD Corporation/The First National Bank of Chicago (1996–1998); Executive Vice President and Head of International Banking (1995–1996); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (population well-being and wellness services) (2003–2014); Stockwell Capital Investments PLC (private equity); Enron Corporation; FNB Corporation; Tokheim Corporation; First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International. Not-for-Profit Director, Trustee: Palm Beach Civic Association; Public Radio International; Window to the World Communications (public media); Harris Theater for Music and Dance (Chicago)	89	Portland General Electric[2] (utility company) (2003–present)
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); The Pew Charitable Trusts (charitable organization); former Directorships: Becton Dickinson and Company[2] (medical technology company); Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College; North Bennett Street School (Boston)	89	—
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)	89	—

Name, Year of Birth, Position with the Fund and Length of Time Served[1]	Business Experience and Directorships During the Past Five Years	Number of Funds in Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Paul K. Freeman (1950) Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Independent Directors Council (former chair); 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); Knoebel Institute for Healthy Aging, University of Denver (2017–present); former Directorships: Prisma Energy International	89	—
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)	89	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004	Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	89	—
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[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	89	Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc[2] (health care) (2009–present)
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	89	—
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)	89	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Hepsen Uzcan[6,9] (1974) President and Chief Executive Officer, 2017–present Assistant Secretary, 2013–present	Director,[3] Deutsche Asset Management; formerly: Vice President for the Deutsche funds (2016–2017)
John Millette[8] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset Management; Chief Legal Officer, Deutsche Investment Management Americas Inc. (2015–present); and Director and Vice President, Deutsche AM Trust Company (since 2016); formerly: Secretary, Deutsche Investment Management Americas Inc. (2015–2017)
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset Management, and Chairman, Director and President, Deutsche AM Trust Company (since 2013); Vice President, Deutsche AM Distributors, Inc. (since 2016); Director, Deutsche AM Service Company (since 2017); Director and President, DB Investment Managers, Inc. (since 2017); formerly: Director, Deutsche AM Trust Company (2004–2013)
Caroline Pearson[8] (1962) Chief Legal Officer, 2010–present	Managing Director,[3] Deutsche Asset Management; formerly: Secretary, Deutsche AM Distributors, Inc.; and Secretary, Deutsche AM Service Company
Scott D. Hogan[8] (1970) Chief Compliance Officer, 2016–present	Director,[3] Deutsche Asset Management
Wayne Salit[7] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Sheila Cadogan[8] (1966) Assistant Treasurer, since July 12, 2017	Director,[3] Deutsche Asset Management
Paul Antosca[8] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management
Diane Kenneally[8] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

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

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

3 Executive title, not a board directorship.

4 As a result of their respective positions held with the Advisor, these individuals are considered "interested persons" of the Advisor within the meaning of the 1940 Act. Interested persons receive no compensation from the Fund.

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

6 Address: 345 Park Avenue, New York, NY 10154.

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

8 Address: One International Place, Boston, MA 02110.

9 Appointed President and Chief Executive Officer effective December 1, 2017.

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-025819-7 2/18)

Deutsche
Asset Management

December 31, 2017

Annual Report

Deutsche Variable Series I

Deutsche Capital Growth VIP

Contents

Performance Summary

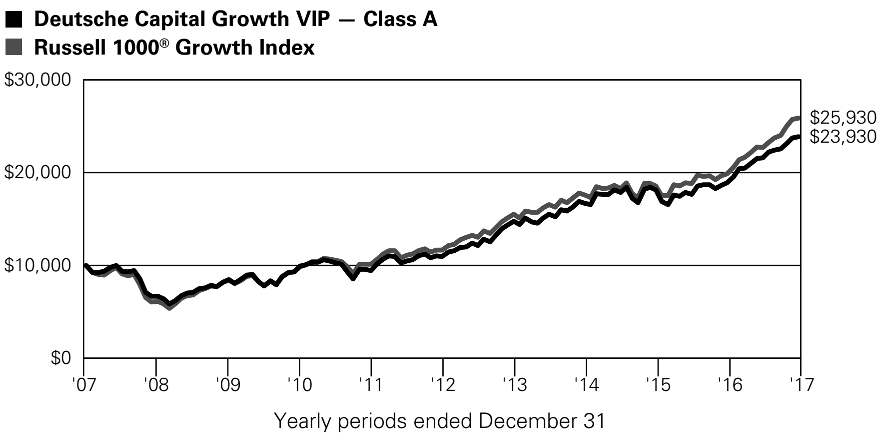
December 31, 2017 (Unaudited)

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, 2017 are 0.50% 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	$12,630	$14,301	$21,753	$23,930
	Average annual total return	26.30%	12.66%	16.82%	9.12%
Russell 1000 Growth Index	Growth of $10,000	$13,021	$14,733	$22,233	$25,930
	Average annual total return	30.21%	13.79%	17.33%	10.00%
Deutsche Capital Growth VIP		**1-Year**	**3-Year**	**5-Year**	**10-Year**
Class B	Growth of $10,000	$12,596	$14,197	$21,456	$23,220
	Average annual total return	25.96%	12.38%	16.50%	8.79%
Russell 1000 Growth Index	Growth of $10,000	$13,021	$14,733	$22,233	$25,930
	Average annual total return	30.21%	13.79%	17.33%	10.00%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2017 (Unaudited)

The Fund generated a strong return of 26.30% (Class A shares, unadjusted for contract charges) during 2017, but it fell short of the 30.21% gain for its benchmark, the Russell 1000® Growth Index.

Growth stocks performed very well in the past year, as investors responded favorably to the backdrop of synchronized global growth, better-than-expected corporate earnings, continuing accommodative financial conditions and, late in the year, a reduction in the U.S. corporate tax rate. Although the Fund largely participated in the rally, it trailed the benchmark due to a few specific factors related to stock selection. First, we lost some ground from the underperformance of a handful of holdings in health care. The pharmaceutical company Allergan PLC, which was affected by heightened generic competition for a medication used to treat dry eyes, was the largest detractor in the sector. Celgene Corp., which reduced its long-term earnings expectations after a failed drug trial, and Shire PLC, which came under pressure from rising competition and concerns about a weaker pipeline of new products, also weighed on performance. Despite these company-specific challenges, we continue to view the sector as being home to an abundance of the fast-growing companies in which we seek to invest. Health care was the Fund's largest overweight position at the close of the year.

The consumer discretionary sector proved to be a challenging area, as well. Shares of Newell Brands, Inc.,* a maker of container products including those sold under the Rubbermaid name, declined due to issues with its supply chain and an earnings miss in early November. O'Reilly Automotive, Inc.* also experienced weak returns, as Amazon.com's possible entry into the auto-parts space raised the specter of declining profit margins for the related retailers. We sold both positions, as our original investment thesis no longer held. L Brands, which owns the Victoria's Secret and Bath & Body Works brands, suffered heavy selling pressure through mid-August due to the combination of slower-than-expected sales and falling profit margins. Our decision to hold on to the position enabled the Fund to benefit from L Brands' subsequent recovery, but the stock nonetheless finished as a leading detractor due to its earlier weakness.

The Fund's cash weighting, though small on an absolute basis, was a meaningful detractor from relative performance. We typically maintain a modest cash position to provide liquidity, and it usually has a minimal impact on results. However, cash acted as a headwind at a time of strong returns for the broader market.

As would be expected at a time of robust absolute performance, the Fund had numerous winners for the year. We generated the largest margin of outperformance in the industrials sector, where the aerospace giant Boeing Company was the most notable contributor. The company reported rising profits and solid trends from the ramp-up in production of its 787 line, which led to better-than-expected free cash flow and a boost in forward guidance. The electronic instruments producer AMETEK, Inc., which was helped by the recovery in its cyclical end markets, also made a sizable contribution after beating analysts' revenue expectations in each of its four earnings reports in 2017. Outside of industrials, the insurance company Progressive Corp. was an important contributor. The Fund was also boosted by its positions in the strong-performing semiconductor stocks NVIDIA Corp. and Broadcom Ltd.

The U.S. economy remains in an extended cycle of moderate growth with contained inflation and low interest rates. Believing the foundation is in place for these trends to persist, we retain a positive view on growth stocks. It is true that valuations of the overall growth category have become less attractive, but the numbers appear biased to the upside given the strength in a few specific areas of the market. We remain mindful of the role valuation can play in performance even though it is not the key driver of our investment decisions.

Looking ahead to 2018, our key concerns are the potential for a slower rate of earnings expansion, the possibility that rising unit labor costs could affect corporate profit margins, and/or weaker business sentiment, any of which could lead to higher market volatility. We therefore focused our most recent purchases in high-quality, innovative companies that feature strong and improving fundamentals, distinct competitive advantages and attractive valuations. In particular, we like the prospects for businesses whose exposure to important secular themes may provide a path for above-average long-term earnings growth.

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.

Terms to Know

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.

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

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.

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, 2017.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/17**	**12/31/16**
Common Stocks	98%	99%
Cash Equivalents	2%	1%
Convertible Preferred Stocks	0%	0%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/17**	**12/31/16**
Information Technology	36%	31%
Health Care	17%	17%
Consumer Discretionary	16%	18%
Industrials	11%	10%
Financials	6%	5%
Consumer Staples	5%	10%
Materials	3%	4%
Telecommunication Services	3%	2%
Real Estate	2%	2%
Energy	1%	1%
	100%	100%

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 7.

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, 2017

	Shares	Value ($)
Common Stocks 98.5%		
Consumer Discretionary 15.7%		
Hotels, Restaurants & Leisure 0.7%		
Las Vegas Sands Corp.	78,820	**5,477,202**
Internet & Direct Marketing Retail 4.7%		
Amazon.com, Inc.*	24,599	28,767,793
The Priceline Group, Inc.*	4,903	8,520,139
		37,287,932
Media 5.2%		
Comcast Corp. "A"	327,983	13,135,719
Live Nation Entertainment, Inc.*	90,871	3,868,378
Time Warner, Inc.	97,211	8,891,890
Walt Disney Co.	139,131	14,957,974
		40,853,961
Multiline Retail 0.6%		
Dollar General Corp.	48,013	**4,465,689**
Specialty Retail 4.5%		
Burlington Stores, Inc.*	62,293	7,663,908
Home Depot, Inc.	119,835	22,712,328
L Brands, Inc. (a)	78,229	4,710,950
		35,087,186
Consumer Staples 5.1%		
Beverages 1.7%		
PepsiCo, Inc.	107,223	**12,858,182**
Food & Staples Retailing 1.0%		
Costco Wholesale Corp.	42,857	**7,976,545**
Food Products 1.2%		
Pinnacle Foods, Inc.	152,074	**9,043,841**
Personal Products 1.2%		
Estee Lauder Companies, Inc. "A"	75,681	**9,629,650**
Energy 0.9%		
Oil, Gas & Consumable Fuels		
Concho Resources, Inc.*	44,483	**6,682,236**
Financials 5.5%		
Banks 1.1%		
SVB Financial Group*	38,402	**8,977,236**
Capital Markets 2.2%		
Intercontinental Exchange, Inc.	115,289	8,134,792
The Charles Schwab Corp.	181,407	9,318,877
		17,453,669
Insurance 2.2%		
Progressive Corp.	298,337	**16,802,340**
Health Care 16.8%		
Biotechnology 5.9%		
Alexion Pharmaceuticals, Inc.*	27,087	3,239,334
Biogen, Inc.*	21,180	6,747,313
BioMarin Pharmaceutical, Inc.*	50,507	4,503,709
Celgene Corp.*	142,633	14,885,180
Gilead Sciences, Inc.	152,386	10,916,933
Shire PLC (ADR)	36,957	5,732,770
		46,025,239
Health Care Equipment & Supplies 4.8%		
Becton, Dickinson & Co.	82,570	17,674,934
Danaher Corp.	107,364	9,965,527
Hologic, Inc.*	153,416	6,558,534
The Cooper Companies, Inc.	16,730	3,645,132
		37,844,127
Health Care Providers & Services 1.9%		
Cigna Corp.	73,222	**14,870,656**
Life Sciences Tools & Services 2.3%		
Thermo Fisher Scientific, Inc.	94,804	**18,001,383**
Pharmaceuticals 1.9%		
Allergan PLC	41,300	6,755,854
Bristol-Myers Squibb Co.	64,291	3,939,753
Zoetis, Inc.	54,805	3,948,152
		14,643,759
Industrials 10.9%		
Aerospace & Defense 3.8%		
Boeing Co.	77,887	22,969,655
TransDigm Group, Inc.	24,657	6,771,305
		29,740,960
Electrical Equipment 2.0%		
Acuity Brands, Inc.	18,908	3,327,808
AMETEK, Inc.	175,353	12,707,832
		16,035,640
Industrial Conglomerates 1.4%		
Roper Technologies, Inc.	40,849	**10,579,891**
Machinery 1.1%		
Parker-Hannifin Corp.	42,367	**8,455,606**
Professional Services 1.3%		
Verisk Analytics, Inc.*	105,787	**10,155,552**
Road & Rail 1.3%		
Norfolk Southern Corp.	68,323	**9,900,003**
Information Technology 35.9%		
Communications Equipment 0.5%		
Palo Alto Networks, Inc.*	26,780	**3,881,493**
Internet Software & Services 7.2%		
Alphabet, Inc. "A"*	19,035	20,051,469
Alphabet, Inc. "C"*	17,494	18,305,721
Facebook, Inc. "A"*	102,760	18,133,030
		56,490,220
IT Services 7.6%		
Cognizant Technology Solutions Corp. "A"	159,225	11,308,160
Fidelity National Information Services, Inc.	99,308	9,343,890
Fiserv, Inc.*	61,893	8,116,029
Global Payments, Inc.	59,273	5,941,526
Visa, Inc. "A"	215,772	24,602,323
		59,311,928
Semiconductors & Semiconductor Equipment 4.4%		
Analog Devices, Inc.	90,402	8,048,490
Broadcom Ltd.	63,569	16,330,876
NVIDIA Corp.	50,448	9,761,688
		34,141,054

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

	Shares	Value ($)
Software 9.0%		
Adobe Systems, Inc.*	69,310	12,145,884
Intuit, Inc.	51,155	8,071,236
Microsoft Corp.	481,065	41,150,300
Oracle Corp.	189,323	8,951,192
		70,318,612
Technology Hardware, Storage & Peripherals 7.2%		
Apple, Inc.	335,075	**56,704,742**
Materials 2.8%		
Chemicals 1.2%		
Albemarle Corp.	71,911	**9,196,698**
Construction Materials 0.8%		
Vulcan Materials Co.	50,384	**6,467,794**
Containers & Packaging 0.8%		
Sealed Air Corp.	132,488	**6,531,658**
Real Estate 2.2%		
Equity Real Estate Investment Trusts (REITs)		
Digital Realty Trust, Inc.	81,400	9,271,460
Prologis, Inc.	122,962	7,932,279
		17,203,739
Telecommunication Services 2.7%		
Diversified Telecommunication Services 1.2%		
Zayo Group Holdings, Inc.*	246,904	**9,086,067**
Wireless Telecommunication Services 1.5%		
T-Mobile U.S., Inc.*	186,581	**11,849,760**
Total Common Stocks (Cost $384,362,288)		**770,032,250**

	Shares	Value ($)
Convertible Preferred Stocks 0.1%		
Health Care 0.1%		
Allergan PLC, Series A, 5.5%	990	**580,387**
Industrials 0.0%		
Stericycle, Inc. Series A, 5.25%	2,701	**142,991**
Total Convertible Preferred Stocks (Cost $1,260,100)		**723,378**
Securities Lending Collateral 0.6%		
Deutsche Government & Agency Securities Portfolio "Deutsche Government Cash Institutional Shares", 1.21% (b) (c) (Cost $4,867,950)	4,867,950	**4,867,950**
Cash Equivalents 1.5%		
Deutsche Central Cash Management Government Fund, 1.30% (b) (Cost $11,650,299)	11,650,299	**11,650,299**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $402,140,637)	100.7	**787,273,877**
Other Assets and Liabilities, Net	(0.7)	**(5,164,189)**
Net Assets	100.0	**782,109,688**

* Non-income producing security.

(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, 2017 amounted to $4,709,204, which is 0.6% of net assets.

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

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

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, 2017 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)	$770,032,250	$ —	$ —	$770,032,250
Convertible Preferred Stocks (d)	723,378	—	—	723,378
Short-Term Investments (d)	16,518,249	—	—	16,518,249
Total	**$787,273,877**	**$ —**	**$ —**	**$787,273,877**

There have been no transfers between fair value measurement levels during the year ended December 31, 2017.

(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, 2017

Assets	
Investments in non-affiliated securities, at value (cost $385,622,388) — including $4,709,204 of securities loaned	$770,755,628
Investment in Deutsche Government & Agency Securities Portfolio (cost $4,867,950)*	4,867,950
Investment in Deutsche Central Cash Management Government Fund (cost $11,650,299)	11,650,299
Receivable for Fund shares sold	26,124
Dividends receivable	394,829
Interest receivable	12,573
Other assets	14,457
Total assets	787,721,860

Liabilities	
Payable upon return of securities loaned	4,867,950
Payable for Fund shares redeemed	301,074
Accrued management fee	247,637
Accrued Trustees' fees	10,251
Other accrued expenses and payables	185,260
Total liabilities	5,612,172
Net assets, at value	**$782,109,688**

Net Assets Consist of	
Undistributed net investment income	5,662,467
Net unrealized appreciation (depreciation) on Investments	385,133,240
Accumulated net realized gain (loss)	72,413,289
Paid-in capital	318,900,692
Net assets, at value	**$782,109,688**

Net Asset Value	
Class A	
Net Asset Value, offering and redemption price per share ($776,215,002 ÷ 25,154,197 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 30.86**
Class B	
Net Asset Value, offering and redemption price per share ($5,894,686 ÷ 191,717 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 30.75**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2017

Investment Income	
Income:	
Dividends	$ 9,702,529
Income distributions — Deutsche Central Cash Management Government Fund	154,926
Securities lending income, net of borrower rebates	1,638
Total income	9,859,093
Expenses:	
Management fee	3,067,228
Administration fee	823,213
Services to Shareholders	2,094
Record keeping fee (Class B)	107
Distribution and service fees (Class B)	14,521
Custodian fee	2,332
Professional fees	92,625
Reports to shareholders	40,311
Trustees' fees and expenses	42,814
Other	41,497
Total expenses	4,126,742
Net investment income	**5,732,351**

Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	73,154,379
Payments by affiliates (see Note F)	34,034
	73,188,413
Change in net unrealized appreciation (depreciation) on investments	111,635,895
Net gain (loss)	**184,824,308**
Net increase (decrease) in net assets resulting from operations	**$190,556,659**

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, 2017	2016
Operations:		
Net investment income (loss)	$ 5,732,351	$ 6,308,105
Net realized gain (loss)	73,188,413	70,814,016
Change in net unrealized appreciation (depreciation)	111,635,895	(49,459,182)
Net increase (decrease) in net assets resulting from operations	190,556,659	27,662,939
Distributions to shareholders from:		
Net investment income:		
Class A	(6,004,257)	(6,231,720)
Class B	(28,374)	(20,032)
Net realized gains:		
Class A	(63,517,984)	(66,067,535)
Class B	(466,086)	(322,737)
Total distributions	(70,016,701)	(72,642,024)
Fund share transactions:		
Class A		
Proceeds from shares sold	60,007,049	15,616,714
Reinvestment of distributions	69,522,241	72,299,255
Cost of shares redeemed	(217,855,027)	(147,165,346)
Net increase (decrease) in net assets from Class A share transactions	(88,325,737)	(59,249,377)
Class B		
Proceeds from shares sold	1,092,096	2,848,370
Reinvestment of distributions	494,460	342,769
Cost of shares redeemed	(1,795,865)	(1,421,396)
Net increase (decrease) in net assets from Class B share transactions	(209,309)	1,769,743
Increase (decrease) in net assets	32,004,912	(102,458,719)
Net assets at beginning of year	750,104,776	852,563,495
Net assets at end of year (including undistributed net investment income of $5,662,467 and $6,098,298, respectively)	**$ 782,109,688**	**$ 750,104,776**
Other Information		
Class A		
Shares outstanding at beginning of period	27,895,381	30,084,968
Shares sold	2,126,577	591,265
Shares issued to shareholders in reinvestment of distributions	2,573,944	2,877,010
Shares redeemed	(7,441,705)	(5,657,862)
Net increase (decrease) in Class A shares	(2,741,184)	(2,189,587)
Shares outstanding at end of period	**25,154,197**	**27,895,381**
Class B		
Shares outstanding at beginning of period	197,662	127,214
Shares sold	39,266	111,807
Shares issued to shareholders in reinvestment of distributions	18,341	13,667
Shares redeemed	(63,552)	(55,026)
Net increase (decrease) in Class B shares	(5,945)	70,448
Shares outstanding at end of period	**191,717**	**197,662**

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

Financial Highlights

Class A	2017	Years Ended December 31, 2016	2015	2014	2013
Selected Per Share Data					
Net asset value, beginning of period	**$26.70**	**$28.22**	**$29.95**	**$28.41**	**$21.38**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.20	.21	.20	.21	.21
Net realized and unrealized gain (loss)	6.47	.83	2.34	3.18	7.12
Total from investment operations	6.67	1.04	2.54	3.39	7.33
Less distributions from:					
Net investment income	(.22)	(.22)	(.22)	(.18)	(.30)
Net realized gains	(2.29)	(2.34)	(4.05)	(1.67)	—
Total distributions	(2.51)	(2.56)	(4.27)	(1.85)	(.30)
Net asset value, end of period	**$30.86**	**$26.70**	**$28.22**	**$29.95**	**$28.41**
Total Return (%)	26.30	4.25	8.62	12.97	34.65
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	776	745	849	890	837
Ratio of expenses (%)[b]	.50	.50	.49	.50	.50
Ratio of net investment income (loss) (%)	.70	.82	.70	.76	.85
Portfolio turnover rate (%)	15	35	35	47	37

a Based on average shares outstanding during the period.

b Expense ratio does not reflect charges and 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.

Class B	2017	Years Ended December 31, 2016	2015	2014	2013
Selected Per Share Data					
Net asset value, beginning of period	**$26.61**	**$28.12**	**$29.84**	**$28.29**	**$21.29**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.13	.15	.13	.09	.13
Net realized and unrealized gain (loss)	6.44	.83	2.32	3.22	7.10
Total from investment operations	6.57	.98	2.45	3.31	7.23
Less distributions from:					
Net investment income	(.14)	(.15)	(.12)	(.09)	(.23)
Net realized gains	(2.29)	(2.34)	(4.05)	(1.67)	—
Total distributions	(2.43)	(2.49)	(4.17)	(1.76)	(.23)
Net asset value, end of period	**$30.75**	**$26.61**	**$28.12**	**$29.84**	**$28.29**
Total Return (%)	25.96	4.00	8.33	12.67	34.19
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	6	5	4	3	14
Ratio of expenses (%)[b]	.75	.76	.76	.80	.83
Ratio of net investment income (loss) (%)	.45	.58	.44	.33	.52
Portfolio turnover rate (%)	15	35	35	47	37

a Based on average shares outstanding during the period.

b Expense ratio does not reflect charges and 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.

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

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.

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, 2017, the Fund invested the cash collateral into a joint trading account in affiliated money market funds including Deutsche Government & Agency Securities Portfolio managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.13% annualized effective rate as of December 31, 2017) on the cash collateral invested in Deutsche 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, 2017, 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, 2017 and has determined that no provision for income tax and/or uncertain tax positions 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, 2017, the Fund's components of distributable earnings (accumulated losses) on a tax basis are as follows:

Undistributed ordinary income*	$ 9,248,231
Undistributed net long-term capital gains	$ 69,283,718
Net unrealized appreciation (depreciation) on investments	$ 384,640,938

At December 31, 2017, the aggregate cost of investments for federal income tax purposes was $402,632,939. The net unrealized appreciation for all investments based on tax cost was $384,640,938. This consisted of aggregate gross unrealized appreciation for all investments in which there was an excess of value over tax cost of $395,623,726 and aggregate gross unrealized depreciation for all investments in which there was an excess of tax cost over value of $10,982,788.

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

	Years Ended December 31,	
	2017	**2016**
Distributions from ordinary income*	$ 6,032,631	$ 6,765,789
Distributions from long-term capital gains	$ 63,984,070	$ 65,876,235

* 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 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 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, 2017, purchases and sales of investment securities (excluding short-term investments) aggregated $122,095,048 and $280,832,186, 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, 2017, 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, 2017 through September 30, 2017, the Advisor had contractually agreed to waive all or a portion of its fees and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of each class as follows:

Class A	.80%
Class B	1.05%

For the period from October 1, 2017 through September 30, 2018, 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	.82%
Class B	1.07%

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, 2017, the Administration Fee was $823,213, of which $66,391 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, 2017, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	**Total Aggregated**	**Unpaid at December 31, 2017**
Class A	$ 759	$ 192
Class B	320	53
	$ 1,079	**$** 245

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, 2017, the Distribution Service Fee aggregated $14,521, of which $1,252 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing certain pre-press and regulatory filing services to the Fund. For the year ended December 31, 2017, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $10,840, of which $4,791 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, 2017, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $123.

D. Ownership of the Fund

At December 31, 2017, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 56% and 30%, 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 59% and 33%, 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, 2017.

F. Payment by Affiliates

During the year ended December 31, 2017, the Advisor agreed to reimburse the Fund $34,034 for commission paid on certain trades executed by the Fund. The amount reimbursed was less than 0.01% of the Fund's average net assets, thus having no impact on the Fund's total return.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Deutsche Variable Series I and Shareholders of Deutsche Capital Growth VIP

Opinion on the Financial Statements

We have audited the accompanying statement of assets and liabilities, including the investment portfolio, of Deutsche Capital Growth VIP (one of the funds constituting Deutsche Variable Series I, referred to hereafter as the "Fund") as of December 31, 2017, the related statement of operations for the year ended December 31, 2017, the statement of changes in net assets for each of the two years in the period ended December 31, 2017, including the related notes, and the financial highlights for each of the five years in the period ended December 31, 2017 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2017, 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 ended December 31, 2017 and the financial highlights for each of the five years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on the Fund's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Fund in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our procedures included confirmation of securities owned as of December 31, 2017 by correspondence with the custodian and transfer agent. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Boston, Massachusetts
February 14, 2018

We have served as the auditor of one or more investment companies in the Deutsche family of funds since 1930.

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, 2017 to December 31, 2017).

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, 2017

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/17	$ 1,000.00	$ 1,000.00
Ending Account Value 12/31/17	$ 1,107.30	$ 1,105.70
Expenses Paid per $1,000*	$ 2.66	$ 3.98

Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/17	$ 1,000.00	$ 1,000.00
Ending Account Value 12/31/17	$ 1,022.68	$ 1,021.42
Expenses Paid per $1,000*	$ 2.55	$ 3.82

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

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

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

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

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

Tax Information

(Unaudited)

The Fund paid distributions of $2.29 per share from net long-term capital gains during its year ended December 31, 2017.

Pursuant to Section 852 of the Internal Revenue Code, the Fund designates $76,329,000 as capital gain dividends for its year ended December 31, 2017.

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, 2017 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 2017.

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"). 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.

— The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly met 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.

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.

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 administrative support services provided by DIMA, such 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 "Funds in Review" (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, 2016, the Fund's performance (Class A shares) was in the 2nd quartile, 1st quartile and 1st quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in the five-year period, has underperformed its benchmark in the one-year period and has performed equal to its benchmark in the three-year period ended December 31, 2016.

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, 2016). 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, 2016, 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 to DIMA, 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, any fees received by an affiliate of DIMA for transfer agency 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. In addition, the Board considered 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, 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)	89	—
Kenneth C. Froewiss (1945) Vice Chairperson since 2017, and Board Member since 2001	Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); Member, Finance Committee, Association for Asian Studies (2002–present); Director, Mitsui Sumitomo Insurance Group (US) (2004–present); prior thereto, Managing Director, J.P. Morgan (investment banking firm) (until 1996)	92	—
John W. Ballantine (1946) Board Member since 1999	Retired; formerly, Executive Vice President and Chief Risk Management Officer, First Chicago NBD Corporation/The First National Bank of Chicago (1996–1998); Executive Vice President and Head of International Banking (1995–1996); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (population well-being and wellness services) (2003–2014); Stockwell Capital Investments PLC (private equity); Enron Corporation; FNB Corporation; Tokheim Corporation; First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International. Not-for-Profit Director, Trustee: Palm Beach Civic Association; Public Radio International; Window to the World Communications (public media); Harris Theater for Music and Dance (Chicago)	89	Portland General Electric[2] (utility company) (2003–present)
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); The Pew Charitable Trusts (charitable organization); former Directorships: Becton Dickinson and Company[2] (medical technology company); Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College; North Bennett Street School (Boston)	89	—
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)	89	—

Name, Year of Birth, Position with the Fund and Length of Time Served[1]	Business Experience and Directorships During the Past Five Years	Number of Funds in Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Paul K. Freeman (1950) Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Independent Directors Council (former chair); 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); Knoebel Institute for Healthy Aging, University of Denver (2017–present); former Directorships: Prisma Energy International	89	—
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)	89	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004	Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	89	—
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[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	89	Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc[2] (health care) (2009–present)
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	89	—
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)	89	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Hepsen Uzcan[6,9] (1974) President and Chief Executive Officer, 2017–present Assistant Secretary, 2013–present	Director,[3] Deutsche Asset Management; formerly: Vice President for the Deutsche funds (2016–2017)
John Millette[8] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset Management; Chief Legal Officer, Deutsche Investment Management Americas Inc. (2015–present); and Director and Vice President, Deutsche AM Trust Company (since 2016); formerly: Secretary, Deutsche Investment Management Americas Inc. (2015–2017)
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset Management, and Chairman, Director and President, Deutsche AM Trust Company (since 2013); Vice President, Deutsche AM Distributors, Inc. (since 2016); Director, Deutsche AM Service Company (since 2017); Director and President, DB Investment Managers, Inc. (since 2017); formerly: Director, Deutsche AM Trust Company (2004–2013)
Caroline Pearson[8] (1962) Chief Legal Officer, 2010–present	Managing Director,[3] Deutsche Asset Management; formerly: Secretary, Deutsche AM Distributors, Inc.; and Secretary, Deutsche AM Service Company
Scott D. Hogan[8] (1970) Chief Compliance Officer, 2016–present	Director,[3] Deutsche Asset Management
Wayne Salit[7] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Sheila Cadogan[8] (1966) Assistant Treasurer, since July 12, 2017	Director,[3] Deutsche Asset Management
Paul Antosca[8] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management
Diane Kenneally[8] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

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

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

3 Executive title, not a board directorship.

4 As a result of their respective positions held with the Advisor, these individuals are considered "interested persons" of the Advisor within the meaning of the 1940 Act. Interested persons receive no compensation from the Fund.

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

6 Address: 345 Park Avenue, New York, NY 10154.

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

8 Address: One International Place, Boston, MA 02110.

9 Appointed President and Chief Executive Officer effective December 1, 2017.

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-025820-7 2/18)

Deutsche
Asset Management

December 31, 2017

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. Please read 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

Performance Summary

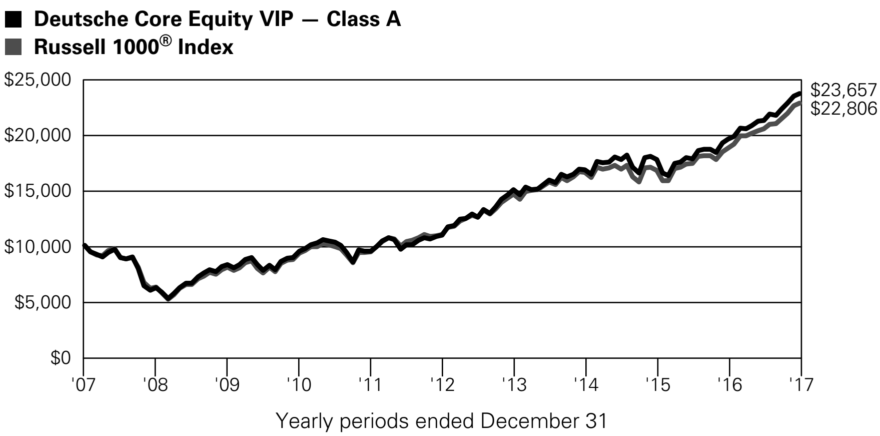
December 31, 2017 (Unaudited)

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, 2017 are 0.57% and 0.86% 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	$12,102	$14,072	$21,609	$23,657
	Average annual total return	21.02%	12.06%	16.66%	8.99%
Russell 1000® Index	Growth of $10,000	$12,169	$13,761	$20,742	$22,806
	Average annual total return	21.69%	11.23%	15.71%	8.59%
Deutsche Core Equity VIP		**1-Year**	**3-Year**	**5-Year**	**10-Year**
Class B	Growth of $10,000	$12,068	$13,959	$21,342	$23,088
	Average annual total return	20.68%	11.76%	16.37%	8.73%
Russell 1000® Index	Growth of $10,000	$12,169	$13,761	$20,742	$22,806
	Average annual total return	21.69%	11.23%	15.71%	8.59%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2017 (Unaudited)

Large-cap U.S. equities staged a strong rally in 2017, as evidenced by the 21.69% return of the Fund's benchmark, the Russell 1000 Index. The Fund returned 21.02% (Class A shares, unadjusted for contract charges), slightly behind the index.

Consistent with the Fund's bottom-up approach, stock selection was the key driver of relative performance. We produced the best results in the industrials sector, where shares of Boeing Co. surged behind robust earnings and solid trends in its 787 line, together with better-than-expected free cash flow and forward guidance. Positions in AMETEK Inc., Roper Technologies, Inc. and Norfolk Southern Corp., were additional contributors of note.

We also posted solid results in the information technology sector. Our positioning in the semiconductor industry was boosted by the gains for NVIDIA Corp., which finished as one of the top performing stocks in the sector due to the steady improvement in its earnings outlook, and Intel Corp., which capitalized on a positive industry demand cycle. Visa, Inc. and Microsoft Corp. were further contributors.

Outside of technology, Ameriprise Financial Inc. had the largest positive impact on Fund returns. The company continued to report strong cash flows while buying back shares and maintaining an above-average dividend, which aided the stock's performance at a time of strength for the financial sector as a whole. Freeport-McMoRan, Inc. also added value, particularly in the latter part of the year, as rising global demand fueled hearty gains in the prices of industrial metals. Our position in Albermarle Corp. was a further plus. As a producer of the batteries used in electric cars, Albermarle benefited from expectations for continued growth in this market segment.

The consumer discretionary sector was the only area in which we suffered a meaningful shortfall relative to the benchmark. However, we lagged by a wide enough margin that it proved to be the key factor in the Fund's underperformance for the full year. L Brands, Inc.* which owns a stable of retail brands that includes Bath & Body Works and Victoria's Secret, came under heavy selling pressure due to the combination of weaker-than-expected sales and falling profit margins. Shares of the restaurant operator Brinker International, Inc.* slid due to slower sales compared to its competitors in the fast-casual restaurant industry, while Advanced Auto Parts, Inc.* lagged on the prospect of increased competition from online retailers. Additionally, Newell Brands, Inc. — a maker of container products including those sold under the Rubbermaid name — lost ground due to issues with its supply chain and an earnings miss in early November.

Outside of consumer discretionary, the telecommunications services provider Frontier Communications Corp.* — which reported weaker revenue and profitability following an acquisition — was a key detractor of note.

The fundamental drivers of the stock-market rally remained in place at the close of 2017, with economic growth and corporate earnings in solid uptrends and the U.S. Federal Reserve pursuing a deliberate pace of monetary tightening. At the same time, however, valuations had reached a level that indicated an increased potential for unforeseen risks to disrupt the markets. We believe the Fund, through its disciplined and bottom-up strategy, is well positioned for this set of circumstances. We seek to optimize the portfolio by emphasizing stocks that have the most favorable combination of individual factors, rather than relying on a specific factor — such as value or growth — to drive performance. We believe this approach has enabled us to build an "all-weather" portfolio designed to outperform in both up and down markets, a trait that may prove valuable if market conditions become more volatile in the year ahead.

Pankaj Bhatnagar, PhD, Managing Director
Di Kumble, CFA, Managing Director
Arno V. Puskar, Director
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.

Terms to Know

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.

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

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, 2017

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/17**	**12/31/16**
Common Stocks	99%	99%
Cash Equivalents	1%	1%
Exchange-Traded Fund	0%	—
Convertible Preferred Stock	—	0%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Exchange-Traded Fund, Cash Equivalents and Securities Lending Collateral)	**12/31/17**	**12/31/16**
Information Technology	23%	21%
Financials	15%	17%
Health Care	14%	12%
Consumer Discretionary	11%	11%
Industrials	10%	11%
Consumer Staples	8%	9%
Energy	6%	8%
Real Estate	4%	3%
Materials	4%	3%
Utilities	3%	3%
Telecommunication Services	2%	2%
	100%	100%

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 7.

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

as of December 31, 2017

	Shares	Value ($)
Common Stocks 98.9%		
Consumer Discretionary 11.3%		
Auto Components 1.2%		
BorgWarner, Inc.	15,043	768,547
Goodyear Tire & Rubber Co.	15,717	507,816
		1,276,363
Hotels, Restaurants & Leisure 0.5%		
Yum! Brands, Inc.	6,935	**565,965**
Household Durables 0.5%		
Newell Brands, Inc.	18,855	**582,620**
Internet & Direct Marketing Retail 2.3%		
Amazon.com, Inc.*	2,080	**2,432,498**
Media 4.0%		
Comcast Corp. "A"	21,303	853,185
Live Nation Entertainment, Inc.*	26,558	1,130,574
Omnicom Group, Inc.	23,811	1,734,155
Regal Entertainment Group "A"	25,020	575,711
		4,293,625
Multiline Retail 0.5%		
Macy's, Inc.	21,191	**533,801**
Specialty Retail 1.3%		
Best Buy Co., Inc.	13,935	954,129
Ulta Salon, Cosmetics & Fragrance, Inc.*	2,103	470,357
		1,424,486
Textiles, Apparel & Luxury Goods 1.0%		
NIKE, Inc. "B"	17,517	**1,095,688**
Consumer Staples 8.2%		
Beverages 2.5%		
PepsiCo, Inc.	22,838	**2,738,733**
Food & Staples Retailing 3.2%		
CVS Health Corp.	6,232	451,820
Sysco Corp.	37,016	2,247,982
Wal-Mart Stores, Inc.	7,902	780,322
		3,480,124
Food Products 2.3%		
Conagra Brands, Inc.	20,236	762,290
Pinnacle Foods, Inc.	14,437	858,568
The JM Smucker Co.	6,774	841,602
		2,462,460
Personal Products 0.2%		
Coty, Inc. "A"	8,166	**162,422**
Energy 5.4%		
Energy Equipment & Services 0.5%		
Transocean Ltd.* (a)	24,064	257,004
Weatherford International PLC*	56,502	235,613
		492,617
Oil, Gas & Consumable Fuels 4.9%		
Concho Resources, Inc.*	10,220	1,535,248
Devon Energy Corp.	17,560	726,984
Laredo Petroleum, Inc.*	95,665	1,015,006
Newfield Exploration Co.*	42,690	1,346,016
ONEOK, Inc.	13,716	733,120
		5,356,374

	Shares	Value ($)
Financials 14.4%		
Banks 5.3%		
Bank of the Ozarks, Inc.	10,705	518,657
Citigroup, Inc.	19,931	1,483,066
PacWest Bancorp.	10,703	539,431
Popular, Inc.	21,426	760,409
U.S. Bancorp.	44,882	2,404,777
		5,706,340
Capital Markets 6.6%		
Ameriprise Financial, Inc.	14,865	2,519,171
Ares Capital Corp.	32,619	512,771
BlackRock, Inc.	1,449	744,366
E*TRADE Financial Corp.*	21,115	1,046,671
Lazard Ltd. "A"	17,561	921,952
Northern Trust Corp.	4,692	468,684
S&P Global, Inc.	5,503	932,208
		7,145,823
Insurance 2.5%		
Chubb Ltd.	8,745	1,277,907
MetLife, Inc.	29,021	1,467,302
		2,745,209
Health Care 14.0%		
Biotechnology 3.4%		
AbbVie, Inc.	7,551	730,257
Amgen, Inc.	3,663	636,996
Gilead Sciences, Inc.	32,910	2,357,672
		3,724,925
Health Care Equipment & Supplies 2.1%		
Becton, Dickinson & Co.	6,436	1,377,690
Boston Scientific Corp.*	22,904	567,790
Hill-Rom Holdings, Inc.	3,480	293,330
		2,238,810
Health Care Providers & Services 3.2%		
Cardinal Health, Inc.	2,960	181,359
Cigna Corp.	8,135	1,652,137
McKesson Corp.	10,324	1,610,028
		3,443,524
Life Sciences Tools & Services 1.3%		
Thermo Fisher Scientific, Inc.	7,495	**1,423,151**
Pharmaceuticals 4.0%		
Bristol-Myers Squibb Co.	6,870	420,994
Eli Lilly & Co.	6,463	545,865
Endo International PLC*	23,194	179,754
Merck & Co., Inc.	22,312	1,255,496
Pfizer, Inc.	53,179	1,926,143
		4,328,252
Industrials 10.1%		
Aerospace & Defense 1.2%		
Boeing Co.	4,239	**1,250,123**
Electrical Equipment 1.9%		
AMETEK, Inc.	19,486	1,412,151
Regal Beloit Corp.	8,847	677,680
		2,089,831

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

	Shares	Value ($)
Industrial Conglomerates 3.1%		
General Electric Co.	37,019	645,982
Honeywell International, Inc.	7,842	1,202,649
Roper Technologies, Inc.	5,666	1,467,494
		3,316,125
Machinery 1.8%		
Ingersoll-Rand PLC	8,968	799,856
Parker-Hannifin Corp.	5,926	1,182,711
		1,982,567
Road & Rail 1.6%		
Norfolk Southern Corp.	12,350	**1,789,515**
Trading Companies & Distributors 0.5%		
WESCO International, Inc.*	7,241	**493,474**
Information Technology 23.0%		
Communications Equipment 0.9%		
Cisco Systems, Inc.	24,422	**935,363**
Internet Software & Services 3.6%		
Alphabet, Inc. "A"*	1,958	2,062,557
Alphabet, Inc. "C"*	1,721	1,800,855
		3,863,412
IT Services 3.8%		
Leidos Holdings, Inc.	10,006	646,087
PayPal Holdings, Inc.*	5,784	425,818
Visa, Inc. "A"	26,833	3,059,499
		4,131,404
Semiconductors & Semiconductor Equipment 5.6%		
Intel Corp.	54,732	2,526,429
NVIDIA Corp.	10,229	1,979,312
Teradyne, Inc.	26,023	1,089,583
Texas Instruments, Inc.	4,019	419,744
		6,015,068
Software 4.5%		
Microsoft Corp.	57,423	**4,911,963**
Technology Hardware, Storage & Peripherals 4.6%		
Apple, Inc.	29,509	**4,993,808**
Materials 3.6%		
Chemicals 1.8%		
Albemarle Corp.	15,798	**2,020,406**
Metals & Mining 1.8%		
Freeport-McMoRan, Inc.*	102,025	**1,934,394**
Real Estate 3.8%		
Equity Real Estate Investment Trusts (REITs)		
AvalonBay Communities, Inc.	6,374	1,137,185
Digital Realty Trust, Inc.	14,543	1,656,448
Prologis, Inc.	16,057	1,035,837
STORE Capital Corp.	10,602	276,076
		4,105,546
Telecommunication Services 1.8%		
Diversified Telecommunication Services 0.3%		
Zayo Group Holdings, Inc.*	7,469	**274,859**
Wireless Telecommunication Services 1.5%		
T-Mobile U.S., Inc.*	26,100	**1,657,611**
Utilities 3.3%		
Electric Utilities 1.4%		
NextEra Energy, Inc.	9,333	**1,457,721**
Multi-Utilities 0.9%		
CenterPoint Energy, Inc.	35,529	**1,007,603**
Water Utilities 1.0%		
American Water Works Co., Inc.	12,010	**1,098,795**
Total Common Stocks (Cost $73,438,714)		**106,983,398**
Exchange-Traded Fund 0.3%		
Vanguard S&P 500 ETF (Cost $256,601)	1,108	**271,781**
Securities Lending Collateral 0.2%		
Deutsche Government & Agency Securities Portfolio "Deutsche Government Cash Institutional Shares", 1.21% (b) (c) (Cost $151,800)	151,800	**151,800**
Cash Equivalents 0.9%		
Deutsche Central Cash Management Government Fund, 1.30% (b) (Cost $1,008,753)	1,008,753	**1,008,753**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $74,855,868)	100.3	**108,415,732**
Other Assets and Liabilities, Net	(0.3)	**(282,548)**
Net Assets	100.0	**108,133,184**

* Non-income producing security.

(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, 2017 amounted to $147,384, which is 0.1% of net assets.

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

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

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, 2017 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)	$106,983,398	$ —	$ —	$106,983,398
Exchange-Traded Fund	271,781	—	—	271,781
Short-Term Investments (d)	1,160,553	—	—	1,160,553
Total	**$108,415,732**	**$ —**	**$ —**	**$108,415,732**

There have been no transfers between fair value measurement levels during the year ended December 31, 2017.

(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, 2017

Assets	
Investments in non-affiliated securities, at value (cost $73,695,315) — including $147,384 of securities loaned	$ 107,255,179
Investment in Deutsche Government & Agency Securities Portfolio (cost $151,800)*	151,800
Investment in Deutsche Central Cash Management Government Fund (cost $1,008,753)	1,008,753
Cash	10,000
Receivable for investments sold	1,478,651
Receivable for Fund shares sold	14,132
Dividends receivable	127,100
Interest receivable	896
Other assets	3,458
Total assets	110,049,969

Liabilities	
Payable upon return of securities loaned	151,800
Payable for investments purchased	1,577,125
Payable for Fund shares redeemed	45,916
Accrued management fee	35,745
Accrued Trustees' fees	2,570
Other accrued expenses and payables	103,629
Total liabilities	1,916,785
Net assets, at value	**$ 108,133,184**

Net Assets Consist of	
Undistributed net investment income	1,903,313
Net unrealized appreciation (depreciation) on investments	33,559,864
Accumulated net realized gain (loss)	28,200,232
Paid-in capital	44,469,775
Net assets, at value	**$ 108,133,184**

Net Asset Value	
Class A **Net Asset Value,** offering and redemption price per share ($104,985,527 ÷ 7,169,708 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 14.64**
Class B **Net Asset Value,** offering and redemption price per share ($3,147,657 ÷ 215,292 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 14.62**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2017

Investment Income	
Income: Dividends (net of foreign taxes withheld of $1,097)	$ 2,804,814
Income distributions — Deutsche Central Cash Management Government Fund	6,855
Securities lending income, net of borrower rebates	25,415
Total income	2,837,084
Expenses: Management fee	618,624
Administration fee	158,622
Services to shareholders	1,642
Record keeping fee (Class B)	663
Distribution service fee (Class B)	5,951
Custodian fee	4,873
Professional fees	77,181
Reports to shareholders	20,362
Trustees' fees and expenses	10,453
Other	11,729
Total expenses	910,100
Net investment income	**1,926,984**

Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from Investments	28,444,398
Change in net unrealized appreciation (depreciation) on investments	(233,266)
Net gain (loss)	**28,211,132**
Net increase (decrease) in net assets resulting from operations	**$ 30,138,116**

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, 2017	2016
Operations:		
Net investment income	$ 1,926,984	$ 2,159,171
Net realized gain (loss)	28,444,398	11,458,572
Change in net unrealized appreciation (depreciation)	(233,266)	1,593,775
Net increase (decrease) in net assets resulting from operations	30,138,116	15,211,518
Distributions to shareholders from:		
Net investment income:		
Class A	(2,009,714)	(2,276,718)
Class B	(19,752)	(23,854)
Net realized gains:		
Class A	(11,463,123)	(14,473,682)
Class B	(148,543)	(187,911)
Total distributions	(13,641,132)	(16,962,165)
Fund share transactions:		
Class A		
Proceeds from shares sold	5,272,674	5,821,528
Reinvestment of distributions	13,472,837	16,750,400
Payments for shares redeemed	(92,783,533)	(34,089,364)
Net increase (decrease) in net assets from Class A share transactions	(74,038,022)	(11,517,436)
Class B		
Proceeds from shares sold	902,144	189,791
Reinvestment of distributions	168,295	211,765
Payments for shares redeemed	(259,704)	(396,205)
Net increase (decrease) in net assets from Class B share transactions	810,735	5,351
Increase (decrease) in net assets	(56,730,303)	(13,262,732)
Net assets at beginning of period	164,863,487	178,126,219
Net assets at end of period (including undistributed net investment income of $1,903,313 and $2,050,752, respectively)	**$108,133,184**	**$164,863,487**
Other Information		
Class A		
Shares outstanding at beginning of period	12,373,665	13,252,114
Shares sold	384,902	461,980
Shares issued to shareholders in reinvestment of distributions	1,047,654	1,400,535
Shares redeemed	(6,636,513)	(2,740,964)
Net increase (decrease) in Class A shares	(5,203,957)	(878,449)
Shares outstanding at end of period	**7,169,708**	**12,373,665**
Class B		
Shares outstanding at beginning of period	155,615	154,548
Shares sold	65,736	15,369
Shares issued to shareholders in reinvestment of distributions	13,087	17,691
Shares redeemed	(19,146)	(31,993)
Net increase (decrease) in Class B shares	59,677	1,067
Shares outstanding at end of period	**215,292**	**155,615**

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

Financial Highlights

Class A	Years Ended December 31, 2017	2016	2015	2014	2013
Selected Per Share Data					
Net asset value, beginning of period	**$13.16**	**$13.29**	**$12.76**	**$11.54**	**$ 8.53**
Income (loss) from investment operations:					
Net investment income[a]	.17	.17	.15	.10	.12
Net realized and unrealized gain (loss)	2.44	1.09	.52	1.25	3.03
Total from investment operations	2.61	1.26	.67	1.35	3.15
Less distributions from:					
Net investment income	(.17)	(.19)	(.11)	(.13)	(.14)
Net realized gains	(.96)	(1.20)	(.03)	—	—
Total distributions	(1.13)	(1.39)	(.14)	(.13)	(.14)
Net asset value, end of period	**$14.64**	**$13.16**	**$13.29**	**$12.76**	**$11.54**
Total Return (%)	21.02	10.48	5.25	11.82	37.33
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	105	163	176	220	223
Ratio of expenses (%)	.57	.57	.56	.57	.56
Ratio of net investment income (%)[b]	1.22	1.34	1.11	.86	1.20
Portfolio turnover rate (%)	39	43	27	48	238

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

[b] Expense ratio does not reflect charges and 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.

Class B	Years Ended December 31, 2017	2016	2015	2014	2013
Selected Per Share Data					
Net asset value, beginning of period	**$13.14**	**$13.26**	**$12.74**	**$11.53**	**$ 8.51**
Income (loss) from investment operations:					
Net investment income[a]	.13	.13	.11	.07	.10
Net realized and unrealized gain (loss)	2.44	1.10	.52	1.24	3.03
Total from investment operations	2.57	1.23	.63	1.31	3.13
Less distributions from:					
Net investment income	(.13)	(.15)	(.08)	(.10)	(.11)
Net realized gains	(.96)	(1.20)	(.03)	—	—
Total distributions	(1.09)	(1.35)	(.11)	(.10)	(.11)
Net asset value, end of period	**$14.62**	**$13.14**	**$13.26**	**$12.74**	**$11.53**
Total Return (%)	20.68	10.25	4.91	11.52	37.10
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	3	2	2	2	2
Ratio of expenses (%)	.86	.86	.83	.82	.76
Ratio of net investment income (%)[b]	.94	1.06	.84	.60	1.00
Portfolio turnover rate (%)	39	43	27	48	238

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

[b] Expense ratio does not reflect charges and 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.

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

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 and exchange-traded funds ("ETF's") 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 ETF's 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. 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, 2017, 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, 2017, the Fund invested the cash collateral in Deutsche Government & Agency Securities Portfolio. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.13% annualized effective rate as of December 31, 2017) on the cash collateral invested in Deutsche 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, 2017, 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, 2017 and has determined that no provision for income tax and/or uncertain tax positions 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, 2017, the Fund's components of distributable earnings (accumulated losses) on a tax basis are as follows:

Undistributed ordinary income*	$ 2,060,568
Undistributed net long-term capital gains	$ 28,228,409
Net unrealized appreciation (depreciation) on investments	$ 33,364,632

At December 31, 2017, the aggregate cost of investments for federal income tax purposes was $75,051,100. The net unrealized appreciation for all investments based on tax cost was $33,364,632. This consisted of aggregate gross unrealized appreciation for all investments in which there was an excess of value over tax cost of $34,391,168 and aggregate gross unrealized depreciation for all investments in which there was an excess of tax cost over value of $1,026,536.

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

	Years Ended December 31, 2017	2016
Distributions from ordinary income*	$ 3,360,863	$ 4,942,798
Distributions from long-term capital gains	$ 10,280,269	$ 12,019,367

* 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, 2017, purchases and sales of investment securities (excluding short-term investments) aggregated $60,677,149 and $143,892,122, 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, 2017, 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, 2017 through September 30, 2018, 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, 2017, the Administration Fee was $158,622, of which $9,165 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, 2017, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at December 31, 2017
Class A	$ 654	$ 167
Class B	121	30
	$ 775	**$ 197**

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, 2017, the Distribution Service Fee aggregated $5,951, of which $657 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing certain pre-press and regulatory filing services to the Fund. For the year ended December 31, 2017, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $11,471, of which $4,695 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, 2017, the Fund incurred lending agent fees to Deutsche Bank AG for the amount of $1,913.

D. Ownership of the Fund

At December 31, 2017, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 49% and 17%, 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 47% and 29%, 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, 2017.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Deutsche Variable Series I and Shareholders of Deutsche Core Equity VIP

Opinion on the Financial Statements

We have audited the accompanying statement of assets and liabilities, including the investment portfolio, of Deutsche Core Equity VIP (one of the funds constituting Deutsche Variable Series I, referred to hereafter as the "Fund") as of December 31, 2017, the related statement of operations for the year ended December 31, 2017, the statement of changes in net assets for each of the two years in the period ended December 31, 2017, including the related notes, and the financial highlights for each of the five years in the period ended December 31, 2017 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2017, 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 ended December 31, 2017 and the financial highlights for each of the five years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on the Fund's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Fund in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our procedures included confirmation of securities owned as of December 31, 2017 by correspondence with the custodian, transfer agent and brokers; when replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Boston, Massachusetts
February 14, 2018

We have served as the auditor of one or more investment companies in the Deutsche family of funds since 1930.

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, 2017 to December 31, 2017).

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, 2017

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/17	$ 1,000.00	$ 1,000.00
Ending Account Value 12/31/17	$ 1,115.00	$ 1,113.50
Expenses Paid per $1,000*	$ 3.04	$ 4.58

Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/17	$ 1,000.00	$ 1,000.00
Ending Account Value 12/31/17	$ 1,022.33	$ 1,020.87
Expenses Paid per $1,000*	$ 2.91	$ 4.38

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

Annualized Expense Ratios	**Class A**	**Class B**
Deutsche Variable Series I — Deutsche Core Equity VIP	.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 $0.85 per share from net long-term capital gains during its year ended December 31, 2017.

Pursuant to Section 852 of the Internal Revenue Code, the Fund designates $31,070,000 as capital gain dividends for its year ended December 31, 2017.

For corporate shareholders, 76% of the ordinary dividends (i.e., income dividends plus short-term capital gains) paid during the Fund's fiscal year ended December 31, 2017 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 2017.

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"). 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.

— The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly met 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.

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.

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 administrative support services provided by DIMA, such 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 "Funds in Review" (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, 2016, the Fund's performance (Class A shares) was in the 3rd quartile, 1st quartile and 1st quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in the three- and five-year periods and has underperformed its benchmark in the one-year period ended December 31, 2016.

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, 2016). 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, 2016, 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 to DIMA, 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, any fees received by an affiliate of DIMA for transfer agency 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. In addition, the Board considered 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, 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)	89	—
Kenneth C. Froewiss (1945) Vice Chairperson since 2017, and Board Member since 2001	Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); Member, Finance Committee, Association for Asian Studies (2002–present); Director, Mitsui Sumitomo Insurance Group (US) (2004–present); prior thereto, Managing Director, J.P. Morgan (investment banking firm) (until 1996)	92	—
John W. Ballantine (1946) Board Member since 1999	Retired; formerly, Executive Vice President and Chief Risk Management Officer, First Chicago NBD Corporation/The First National Bank of Chicago (1996–1998); Executive Vice President and Head of International Banking (1995–1996); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (population well-being and wellness services) (2003–2014); Stockwell Capital Investments PLC (private equity); Enron Corporation; FNB Corporation; Tokheim Corporation; First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International. Not-for-Profit Director, Trustee: Palm Beach Civic Association; Public Radio International; Window to the World Communications (public media); Harris Theater for Music and Dance (Chicago)	89	Portland General Electric[2] (utility company) (2003–present)
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); The Pew Charitable Trusts (charitable organization); former Directorships: Becton Dickinson and Company[2] (medical technology company); Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College; North Bennett Street School (Boston)	89	—
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)	89	—

Name, Year of Birth, Position with the Fund and Length of Time Served[1]	Business Experience and Directorships During the Past Five Years	Number of Funds in Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Paul K. Freeman (1950) Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Independent Directors Council (former chair); 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); Knoebel Institute for Healthy Aging, University of Denver (2017–present); former Directorships: Prisma Energy International	89	—
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)	89	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004	Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	89	—
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[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	89	Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc[2] (health care) (2009–present)
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	89	—
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)	89	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Hepsen Uzcan[6,9] (1974) President and Chief Executive Officer, 2017–present Assistant Secretary, 2013–present	Director,[3] Deutsche Asset Management; formerly: Vice President for the Deutsche funds (2016–2017)
John Millette[8] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset Management; Chief Legal Officer, Deutsche Investment Management Americas Inc. (2015–present); and Director and Vice President, Deutsche AM Trust Company (since 2016); formerly: Secretary, Deutsche Investment Management Americas Inc. (2015–2017)
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset Management, and Chairman, Director and President, Deutsche AM Trust Company (since 2013); Vice President, Deutsche AM Distributors, Inc. (since 2016); Director, Deutsche AM Service Company (since 2017); Director and President, DB Investment Managers, Inc. (since 2017); formerly: Director, Deutsche AM Trust Company (2004–2013)
Caroline Pearson[8] (1962) Chief Legal Officer, 2010–present	Managing Director,[3] Deutsche Asset Management; formerly: Secretary, Deutsche AM Distributors, Inc.; and Secretary, Deutsche AM Service Company
Scott D. Hogan[8] (1970) Chief Compliance Officer, 2016–present	Director,[3] Deutsche Asset Management
Wayne Salit[7] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Sheila Cadogan[8] (1966) Assistant Treasurer, since July 12, 2017	Director,[3] Deutsche Asset Management
Paul Antosca[8] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management
Diane Kenneally[8] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

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

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

3 Executive title, not a board directorship.

4 As a result of their respective positions held with the Advisor, these individuals are considered “interested persons” of the Advisor within the meaning of the 1940 Act. Interested persons receive no compensation from the Fund.

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

6 Address: 345 Park Avenue, New York, NY 10154.

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

8 Address: One International Place, Boston, MA 02110.

9 Appointed President and Chief Executive Officer effective December 1, 2017.

The Fund’s Statement of Additional Information (“SAI”) includes additional information about the Board Members. The SAI is available, without charge, upon request. If you would like to request a copy of the SAI, you may do so by calling the following toll-free number: (800) 728-3337.

Deutsche
Asset Management

VS1coreq-2 (R-025822-8 2/18)

Deutsche
Asset Management

December 31, 2017

Annual Report

Deutsche Variable Series II

Deutsche CROCI® U.S. VIP

Contents

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

The fund will be managed 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. Stocks may decline in value. The fund may lend securities to approved institutions. Please read 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

Performance Summary

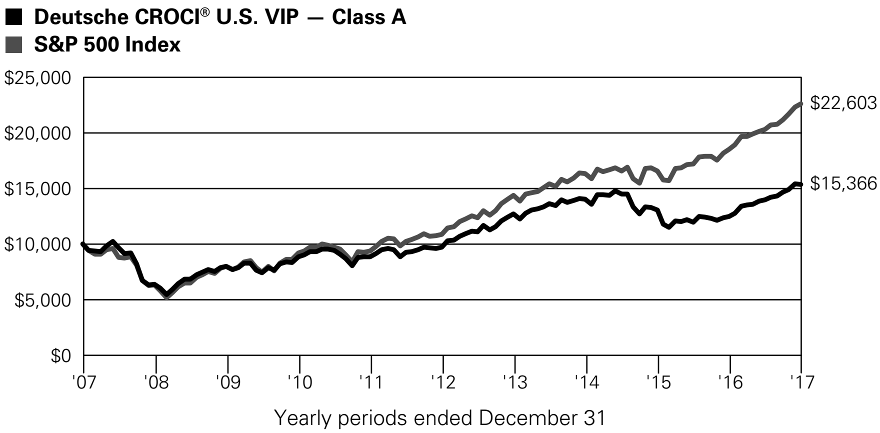
December 31, 2017 (Unaudited)

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, 2017 are 0.81% and 1.13% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

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 CROCI® U.S. VIP



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.

Prior to October 3, 2016, the Fund had a team that operated with a different investment strategy. Performance would have been different if the Fund's current strategy had been in effect.

Comparative Results

Deutsche CROCI® U.S. VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$12,288	$10,942	$15,857	$15,366
	Average annual total return	22.88%	3.05%	9.66%	4.39%
S&P 500® Index	Growth of $10,000	$12,183	$13,829	$20,814	$22,603
	Average annual total return	21.83%	11.41%	15.79%	8.50%

Deutsche CROCI® U.S. VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$12,245	$10,842	$15,619	$14,892
	Average annual total return	22.45%	2.73%	9.33%	4.06%
S&P 500® Index	Growth of $10,000	$12,183	$13,829	$20,814	$22,603
	Average annual total return	21.83%	11.41%	15.79%	8.50%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2017 (Unaudited)

The Fund returned 22.88% (Class A shares, unadjusted for contract charges) in 2017, outpacing the 21.83% return for its benchmark, the S&P 500 Index. Effective May 1, 2017, the fund's name changed from Deutsche Large Cap Value VIP to Deutsche CROCI® U.S. VIP.

U.S. equities produced unusually positive performance in the past year, with steady gains, low volatility and a remarkable lack of any significant sell-offs. This favorable backdrop was especially supportive for the growth style, but value stocks — though experiencing healthy, double-digit returns — trailed the overall market. While the underperformance of value stocks would ordinarily be expected to act as a headwind to the Fund due to the nature of our approach, we overcame this obstacle and posted competitive results relative to the S&P 500 Index. We believe a key reason for this positive outcome is that even though value as a whole lagged, many of the stocks identified by the CROCI® process in fact performed quite well.

We generated the widest margin of outperformance in the consumer staples sector, where the leading contributor was our overweight position in Wal-Mart Stores, Inc.* The stock registered market-beating returns despite the challenging environment for retailers, as investors gained confidence that the company could compete effectively with Amazon.com.* Kimberly-Clark Corp. and Estee Lauder Companies, Inc.* also contributed to our strong showing in the sector. Outside of consumer staples, the largest contribution came from a position in the homebuilder D.R. Horton, Inc.,* which produced returns well above the index behind rising housing prices and growing investor optimism regarding the industry outlook. Positions in the semiconductor stocks Lam Research Corp.,* KLA-Tencor Corp.,* Intel Corp.* also rallied amid an upturn in end-market demand.

Our security selection in utilities detracted from performance, due largely to the negative returns for our positions in PPL Corp. and Edison International. The financial sector was a further area of weakness for the Fund, primarily as a result of our position in U.S. Bancorp. Certain media stocks, including Discovery Communications, Inc. and Time Warner, Inc., were additional detractors of note. The retailer Target Corp.* — which suffered from a combination of weaker sales and rising costs — was our most notable individual detractor despite the stock's recovery in the second half of the year.

Sector allocations, while a residual effect of our bottom-up stock selection process, nonetheless contributed to the Fund's results in 2017. We gained a sizable advantage from having a zero-weighting in energy stocks, the only one of the 11 major sectors to post a negative return on the year. However, the benefit was offset to some extent by our overweight in the underperforming utilities sector. Although this aspect of our positioning was a detractor in the short term, we continue to find the sector home to a high representation of the undervalued stocks we seek. As of May 1, 2017, the fund's strategy broadened to include companies in the financial sector.

The fundamental picture for the stock market improved considerably in 2017, highlighted by stronger economic growth and rising corporate earnings. These developments were accompanied by higher valuations, however, indicating that investors need to be selective in order to find the most compelling opportunities at the individual stock level. We think the Fund, by virtue of its emphasis on "real value," is positioned to identify companies with the potential to outperform in a variety of market conditions. As of December 31, 2017, the Fund had a price-to-earnings ratio of 15.3 based on one-year forward earnings estimates, versus 19.0 for the S&P 500 Index. The portfolio also compared favorably to the benchmark in terms of its fundamentals, illustrated by its higher return on equity (22.11% vs. 19.2%). We believe the intrinsic value in the portfolio helps provide the Fund with a firm foundation for performance in the event that broader-market returns begin to slow from their unusually strong pace of the past year.

Di Kumble, CFA, Managing Director
John Moody, Vice President
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.

Terms to Know

The **Standard & Poor's 500 (S&P 500) Index** is an unmanaged, capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. Index returns do not reflect fees or expenses and it is not possible to invest directly into an index.

Cash Return On Capital Invested (CROCI®), an investment process based on a proprietary valuation technique, attempts to understand the real value of a company by converting financial-statement data into a set of economic inputs that are used to calculate a valuation metric called "Economic P/E ratio," which is comparable across markets, sectors and stocks. Economic value as calculated by the CROCI® process via the adjustments to and normalizations of reported financial statements, conducted by CROCI's team of company analysts. The management teams believes this process helps identify companies' **"real value."**

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

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.

Price-to-earnings ratio (P/E) ratio (or accounting P/E ratio) compares a company's current share price to its per-share earnings. The CROCI economic P/E ratio is a measure of valuation that incorporates all of the assets and liabilities of a company which are adjusted systematically by the CROCI team.

Return on equity is the amount of net income returned as a percentage of shareholders' equity.

* Not held in the portfolio as of December 31, 2017

Portfolio Summary (Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/17**	**12/31/16**
Common Stocks	99%	99%
Cash Equivalents	1%	1%
	100%	100%

Sector Diversification

(As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/17**	**12/31/16**
Financials	18%	—
Consumer Discretionary	15%	15%
Industrials	15%	12%
Health Care	15%	17%
Utilities	14%	21%
Consumer Staples	10%	17%
Information Technology	8%	12%
Materials	5%	3%
Telecommunication Services	—	3%
	100%	100%

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 7.

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, 2017

	Shares	Value ($)
Common Stocks 99.2%		
Consumer Discretionary 15.2%		
Automobiles 2.2%		
General Motors Co.	85,197	**3,492,225**
Household Durables 2.3%		
Garmin Ltd.	61,385	**3,656,704**
Media 10.7%		
CBS Corp. "B"	66,530	3,925,270
Discovery Communications, Inc. "A"* (a)	217,475	4,867,091
Time Warner, Inc.	42,809	3,915,739
Walt Disney Co.	36,702	3,945,832
		16,653,932
Consumer Staples 10.0%		
Beverages 4.9%		
Coca-Cola Co.	83,049	3,810,288
PepsiCo, Inc.	32,782	3,931,218
		7,741,506
Household Products 5.1%		
Kimberly-Clark Corp.	32,947	3,975,385
Procter & Gamble Co.	42,893	3,941,009
		7,916,394
Financials 18.2%		
Banks 10.4%		
Citigroup, Inc.	52,991	3,943,061
JPMorgan Chase & Co.	38,655	4,133,766
U.S. Bancorp.	73,078	3,915,519
Wells Fargo & Co.	70,090	4,252,360
		16,244,706
Capital Markets 2.5%		
Bank of New York Mellon Corp.	72,050	**3,880,613**
Consumer Finance 5.3%		
American Express Co.	40,203	3,992,560
Capital One Financial Corp.	43,178	4,299,665
		8,292,225
Health Care 14.8%		
Biotechnology 7.4%		
Amgen, Inc.	22,368	3,889,796
Biogen, Inc.*	12,095	3,853,104
Gilead Sciences, Inc.	52,547	3,764,467
		11,507,367
Pharmaceuticals 7.4%		
Johnson & Johnson	27,405	3,829,027
Merck & Co., Inc.	69,986	3,938,112
Pfizer, Inc.	107,061	3,877,749
		11,644,888
Industrials 15.2%		
Aerospace & Defense 7.6%		
Lockheed Martin Corp.	12,154	3,902,042
Raytheon Co.	20,592	3,868,207
United Technologies Corp.	32,431	4,137,223
		11,907,472
Electrical Equipment 2.5%		
Eaton Corp. PLC	50,077	**3,956,584**
Industrial Conglomerates 2.5%		
Honeywell International, Inc.	25,615	**3,928,316**
Machinery 2.6%		
Illinois Tool Works, Inc.	23,972	**3,999,728**
Information Technology 7.5%		
Communications Equipment 2.6%		
Cisco Systems, Inc.	103,860	**3,977,838**
IT Services 4.9%		
Amdocs Ltd.	59,058	3,867,118
International Business Machines Corp.	25,088	3,849,001
		7,716,119
Materials 5.0%		
Chemicals		
LyondellBasell Industries NV "A"	36,486	4,025,135
Monsanto Co.	32,005	3,737,544
		7,762,679
Utilities 13.3%		
Electric Utilities 8.8%		
American Electric Power Co., Inc.	49,687	3,655,472
Edison International	46,908	2,966,462
NextEra Energy, Inc.	24,305	3,796,198
PPL Corp.	105,217	3,256,466
		13,674,598
Multi-Utilities 4.5%		
DTE Energy Co.	33,722	3,691,210
Sempra Energy	31,780	3,397,918
		7,089,128
Total Common Stocks (Cost $142,979,705)		**155,043,022**
Securities Lending Collateral 3.2%		
Deutsche Government & Agency Securities Portfolio "Deutsche Government Cash Institutional Shares", 1.21% (b) (c) (Cost $4,968,641)	4,968,641	**4,968,641**
Cash Equivalents 0.9%		
Deutsche Central Cash Management Government Fund, 1.30% (b) (Cost $1,372,351)	1,372,351	**1,372,351**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $149,320,697)	103.3	**161,384,014**
Other Assets and Liabilities, Net	(3.3)	**(5,098,730)**
Net Assets	100.0	**156,285,284**

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

* Non-income producing security.

(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, 2017 amounted to $4,782,718, which is 3.1% of net assets.

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

(c) Represents collateral held in connection with securities lending. Income earned by the 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, 2017 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)	$ 155,043,022	$ —	$ —	$ 155,043,022
Short-Term Investment (d)	6,340,992	—	—	6,340,992
Total	**$ 161,384,014**	**$ —**	**$ —**	**$ 161,384,014**

There have been no transfers between fair value measurement levels during the year ended December 31, 2017.

(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, 2017

Assets	
Investments in non-affiliated securities, at value (cost $142,979,705) — including $4,782,718 of securities loaned	$155,043,022
Investment in Deutsche Government & Agency Securities Portfolio (cost $4,968,641)*	4,968,641
Investment in Deutsche Central Cash Management Government Fund (cost $1,372,351)	1,372,351
Cash	10,000
Dividends receivable	318,408
Interest receivable	2,097
Other assets	3,911
Total assets	161,718,430

Liabilities	
Payable upon return of securities loaned	4,968,641
Payable for Fund shares redeemed	279,976
Accrued management fee	72,501
Accrued Trustees' fees	3,453
Other accrued expenses and payables	108,575
Total liabilities	5,433,146
Net assets, at value	**$156,285,284**

Net Assets Consist of	
Undistributed net investment income	3,682,681
Net unrealized appreciation (depreciation) on investments	12,063,317
Accumulated net realized gain (loss)	9,589,585
Paid-in capital	130,949,701
Net assets, at value	**$156,285,284**

Net Asset Value	
Class A **Net Asset Value** and redemption price per share ($152,776,814 ÷ 9,181,648 shares of capital stock outstanding, no par value, unlimited shares authorized)	**$ 16.64**
Class B **Net Asset Value** offering and redemption price per share ($3,508,470 ÷ 210,410 shares of capital stock outstanding, no par value, unlimited shares authorized)	**$ 16.67**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2017

Investment Income	
Income: Dividends	$ 5,203,037
Income distributions — Deutsche Central Cash Management Government Fund	14,005
Securities lending income, net of borrower rebates	3,580
Total income	5,220,622
Expenses: Management fee	1,469,890
Administration fee	226,137
Services to Shareholders	4,086
Record keeping fee (Class B)	2,556
Distribution service fees (Class B)	8,870
Custodian fee	6,689
Professional fees	78,615
Reports to shareholders	32,480
Trustees' fees and expenses	13,177
Other	15,442
Total expenses before expense reductions	1,857,942
Expense reductions	(218,494)
Total expenses after expense reductions	1,639,448
Net investment income	**3,581,174**

Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from: Investments	32,400,819
Payments by affiliates (see Note F)	62,466
	32,463,285
Change in net unrealized appreciation (depreciation) on investments	10,347,153
Net gain (loss)	**42,810,438**
Net increase (decrease) in net assets resulting from operations	**$46,391,612**

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, 2017	2016
Operations:		
Net investment income	$ 3,581,174	$ 4,001,244
Net realized gain (loss)	32,463,285	(20,531,633)
Change in net unrealized appreciation (depreciation)	10,347,153	1,399,099
Net increase (decrease) in net assets resulting from operations	46,391,612	(15,131,290)
Distributions to shareholders from:		
Net investment income:		
Class A	(3,625,439)	(2,434,486)
Class B	(42,548)	(25,893)
Net realized gains:		
Class A	—	(12,035,759)
Class B	—	(185,570)
Total distributions	(3,667,987)	(14,681,708)
Fund share transactions:		
Class A		
Proceeds from shares sold	3,856,097	5,510,987
Reinvestment of distributions	3,625,439	14,470,245
Payments for shares redeemed	(124,081,648)	(56,264,127)
Net increase (decrease) in net assets from Class A share transactions	(116,600,112)	(36,282,895)
Class B		
Proceeds from shares sold	97,651	525,700
Reinvestment of distributions	42,548	211,463
Payments for shares redeemed	(815,252)	(1,258,566)
Net increase (decrease) in net assets from Class B share transactions	(675,053)	(521,403)
Increase (decrease) in net assets	(74,551,540)	(66,617,296)
Net assets at beginning of period	230,836,824	297,454,120
Net assets at end of period (including undistributed net investment income of $3,682,681 and $3,845,993, respectively)	**$ 156,285,284**	**$230,836,824**

Other Information		
Class A		
Shares outstanding at beginning of period	16,529,732	19,157,658
Shares sold	255,906	405,203
Shares issued to shareholders in reinvestment of distributions	245,460	1,079,869
Shares redeemed	(7,849,450)	(4,112,998)
Net increase (decrease) in Class A shares	(7,348,084)	(2,627,926)
Shares outstanding at end of period	**9,181,648**	**16,529,732**
Class B		
Shares outstanding at beginning of period	254,820	291,996
Shares sold	6,516	38,734
Shares issued to shareholders in reinvestment of distributions	2,869	15,722
Shares redeemed	(53,795)	(91,632)
Net increase (decrease) in Class B shares	(44,410)	(37,176)
Shares outstanding at end of period	**210,410**	**254,820**

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

Financial Highlights

Class A	2017	2016	2015	2014	2013
			Years Ended December 31,		
Selected Per Share Data					
Net asset value, beginning of period	**$13.75**	**$15.29**	**$17.38**	**$15.97**	**$12.45**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.24	.23	.11	.24	.26
Net realized and unrealized gain (loss)	2.88	(.93)	(1.20)	1.45	3.54
Total from investment operations	3.12	(.70)	(1.09)	1.69	3.80
Less distributions from:					
Net investment income	(.23)	(.14)	(.25)	(.28)	(.28)
Net realized gains on investment transactions	—	(.70)	(.75)	—	—
Total distributions	(.23)	(.84)	(1.00)	(.28)	(.28)
Net asset value, end of period	**$16.64**	**$13.75**	**$15.29**	**$17.38**	**$15.97**
Total Return (%)[b]	22.88[c]	(4.39)	(6.87)	10.72	30.89
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	153	227	293	430	432
Ratio of expenses before expense reductions (%)[d]	.82	.81	.78	.78	.78
Ratio of expenses after expense reductions (%)[d]	.72	.74	.73	.73	.74
Ratio of net investment income (loss) (%)	1.59	1.66	.65	1.43	1.82
Portfolio turnover rate (%)	97	293	121	133	54

a Based on average shares outstanding during the period.

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

c The Fund's total return includes a reimbursement by the Adviser for commission costs incurred in connection with purchases and sales of portfolio assets due to the change in investment strategy, which otherwise would have reduced total return by 0.03%.

d Expense ratio does not reflect charges and 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.

Class B	2017	2016	2015	2014	2013
			Years Ended December 31,		
Selected Per Share Data					
Net asset value, beginning of period	**$13.78**	**$15.31**	**$17.40**	**$15.99**	**$12.46**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.20	.19	.06	.18	.22
Net realized and unrealized gain (loss)	2.87	(.92)	(1.21)	1.46	3.55
Total from investment operations	3.07	(.73)	(1.15)	1.64	3.77
Less distributions from:					
Net investment income	(.18)	(.10)	(.19)	(.23)	(.24)
Net realized gains on investment transactions	—	(.70)	(.75)	—	—
Total distributions	(.18)	(.80)	(.94)	(.23)	(.24)
Net asset value, end of period	**$16.67**	**$13.78**	**$15.31**	**$17.40**	**$15.99**
Total Return (%)[b]	22.45[c]	(4.62)	(7.16)	10.36	30.54
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	4	4	4	5	5
Ratio of expenses before expense reductions (%)[d]	1.15	1.13	1.10	1.09	1.09
Ratio of expenses after expense reductions (%)[d]	1.03	1.05	1.04	1.04	1.05
Ratio of net investment income (loss) (%)	1.31	1.37	.35	1.10	1.52
Portfolio turnover rate (%)	97	293	121	133	54

a Based on average shares outstanding during the period.

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

c The Fund's total return includes a reimbursement by the Adviser for commission costs incurred in connection with purchases and sales of portfolio assets due to the change in investment strategy, which otherwise would have reduced total return by 0.03%.

d Expense ratio does not reflect charges and 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.

Notes to Financial Statements

A. Organization and Significant Accounting Policies

Deutsche CROCI® U.S. VIP (formerly 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. As of period end, any securities on loan were collateralized by cash. During the year ended December 31, 2017, 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, 2017, the Fund invested the cash collateral in Deutsche Government & Agency Securities Portfolio. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.13% annualized effective rate as of December 31, 2017) on the cash collateral invested in Deutsche 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, 2017, 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, 2017 and has determined that no provision for income tax and/or uncertain tax positions 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, 2017, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 7,031,142
Undistributed long-term capital gains	$ 7,220,108
Unrealized appreciation (depreciation) on investments	$ 11,084,333

At December 31, 2017, the aggregate cost of investments for federal income tax purposes was $150,299,681. The net unrealized appreciation for all investments based on tax cost was $11,084,333. This consisted of aggregate gross unrealized appreciation for all investments in which there was an excess of value over tax cost of $14,811,764 aggregate gross unrealized depreciation for all investments in which was an excess of tax cost over value of $3,727,431.

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

	Years Ended December 31, 2017	2016
Distributions from ordinary income*	$ 3,667,987	$ 2,525,931
Distribution from long-term capital gains	$ —	$ 12,155,777

* 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, 2017, purchases and sales of investment transactions (excluding short-term investments) aggregated $216,765,289 and $331,343,649, 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, 2017, 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, 2017 through April 30, 2018, 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, 2017, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 214,395
Class B	4,099
	$ 218,494

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, 2017, the Administration Fee was $226,137, of which $13,456 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, 2017, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	**Total Aggregated**	**Unpaid at December 31, 2017**
Class A	$ 393	$ 98
Class B	228	56
	$ 621	**$ 154**

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, 2017, the Distribution Service Fee aggregated $8,870, of which $755 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing certain pre-press and regulatory filing services to the Fund. For the year ended December 31, 2017, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $10,695, of which $3,559 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, 2017, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $269.

D. Ownership of the Fund

At December 31, 2017, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 63% and 27%. Two participating insurance companies was the owner of record of 10% or more of the total outstanding Class B shares of the Fund, each owning 61% 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, 2017.

F. Payment by Affiliate

During the year ended December 31, 2017, the Advisor agreed to reimburse the Fund $62,466 for commission costs incurred in connection with purchases and sales of portfolio assets due to the change in investment strategy. The amount reimbursed was 0.03% 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 the Shareholders of Deutsche CROCI® U.S. VIP:

Opinion on the Financial Statements

We have audited the accompanying statement of assets and liabilities of Deutsche CROCI U.S VIP, formerly Deutsche Large Cap Value VIP (the "Fund") (one of the funds constituting the Deutsche Variable Series II) (the "Trust"), including the schedule of investments, as of December 31, 2017, 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, the financial highlights for each of the five years in the period then ended and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund (one of the funds constituting the Deutsche Variable Series II) at December 31, 2017, 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 its financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on the Fund's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Trust in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Trust is not required to have, nor were we engaged to perform, an audit of the Trust's internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2017, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received.

Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Ernst + Young LLP

We have served as the auditor of one or more investment companies in the Deutsche family of funds since at least 1979, but we are unable to determine the specific year.

Boston, Massachusetts
February 15, 2018

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, 2017 to December 31, 2017).

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, 2017

Actual Fund Return	Class A	Class B
Beginning Account Value 7/1/17	$ 1,000.00	$ 1,000.00
Ending Account Value 12/31/17	$ 1,097.60	$ 1,095.30
Expenses Paid per $1,000*	$ 3.81	$ 5.44

Hypothetical 5% Fund Return	Class A	Class B
Beginning Account Value 7/1/17	$ 1,000.00	$ 1,000.00
Ending Account Value 12/31/17	$ 1,021.58	$ 1,020.01
Expenses Paid per $1,000*	$ 3.67	$ 5.24

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

Annualized Expense Ratios	Class A	Class B
Deutsche Variable Series II — Deutsche CROCI® U.S. VIP	.72%	1.03%

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

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

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

Tax Information

(Unaudited)

Pursuant to Section 852 of the Internal Revenue Code, the Fund designates $7,942,000 as capital gain dividends for its year ended December 31, 2017.

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, 2017, 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 CROCI® U.S. VIP's (formerly Deutsche Large Cap Value VIP) (the "Fund") investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2017.

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"). 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.

— The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly met 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.

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.

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 administrative support services provided by DIMA, such 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 "Funds in Review" (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, 2016, 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, 2016. 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 October 3, 2016, the Fund changed its investment strategy and portfolio managers and noted that the Fund further changed its investment strategy, effective May 1, 2017. The Board observed that the Fund had experienced improved relative performance during the first eight months of 2017. 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, 2016). 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, 2016, 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 to DIMA, 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, any fees received by an affiliate of DIMA for transfer agency 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. In addition, the Board considered 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, 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)	89	—
Kenneth C. Froewiss (1945) Vice Chairperson since 2017, and Board Member since 2001	Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); Member, Finance Committee, Association for Asian Studies (2002–present); Director, Mitsui Sumitomo Insurance Group (US) (2004–present); prior thereto, Managing Director, J.P. Morgan (investment banking firm) (until 1996)	92	—
John W. Ballantine (1946) Board Member since 1999	Retired; formerly, Executive Vice President and Chief Risk Management Officer, First Chicago NBD Corporation/The First National Bank of Chicago (1996–1998); Executive Vice President and Head of International Banking (1995–1996); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (population well-being and wellness services) (2003–2014); Stockwell Capital Investments PLC (private equity); Enron Corporation; FNB Corporation; Tokheim Corporation; First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International. Not-for-Profit Director, Trustee: Palm Beach Civic Association; Public Radio International; Window to the World Communications (public media); Harris Theater for Music and Dance (Chicago)	89	Portland General Electric[2] (utility company) (2003–present)
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); The Pew Charitable Trusts (charitable organization); former Directorships: Becton Dickinson and Company[2] (medical technology company); Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College; North Bennett Street School (Boston)	89	—
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)	89	—

Name, Year of Birth, Position with the Fund and Length of Time Served[1]	Business Experience and Directorships During the Past Five Years	Number of Funds in Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Paul K. Freeman (1950) Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Independent Directors Council (former chair); 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); Knoebel Institute for Healthy Aging, University of Denver (2017–present); former Directorships: Prisma Energy International	89	—
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)	89	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004	Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	89	—
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[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	89	Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc[2] (health care) (2009–present)
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	89	—
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)	89	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Hepsen Uzcan[6,9] (1974) President and Chief Executive Officer, 2017–present Assistant Secretary, 2013–present	Director,[3] Deutsche Asset Management; formerly: Vice President for the Deutsche funds (2016–2017)
John Millette[8] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset Management; Chief Legal Officer, Deutsche Investment Management Americas Inc. (2015–present); and Director and Vice President, Deutsche AM Trust Company (since 2016); formerly: Secretary, Deutsche Investment Management Americas Inc. (2015–2017)
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset Management, and Chairman, Director and President, Deutsche AM Trust Company (since 2013); Vice President, Deutsche AM Distributors, Inc. (since 2016); Director, Deutsche AM Service Company (since 2017); Director and President, DB Investment Managers, Inc. (since 2017); formerly: Director, Deutsche AM Trust Company (2004–2013)
Caroline Pearson[8] (1962) Chief Legal Officer, 2010–present	Managing Director,[3] Deutsche Asset Management; formerly: Secretary, Deutsche AM Distributors, Inc.; and Secretary, Deutsche AM Service Company
Scott D. Hogan[8] (1970) Chief Compliance Officer, 2016–present	Director,[3] Deutsche Asset Management
Wayne Salit[7] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Sheila Cadogan[8] (1966) Assistant Treasurer, since July 12, 2017	Director,[3] Deutsche Asset Management
Paul Antosca[8] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management
Diane Kenneally[8] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

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

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

3 Executive title, not a board directorship.

4 As a result of their respective positions held with the Advisor, these individuals are considered "interested persons" of the Advisor within the meaning of the 1940 Act. Interested persons receive no compensation from the Fund.

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

6 Address: 345 Park Avenue, New York, NY 10154.

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

8 Address: One International Place, Boston, MA 02110.

9 Appointed President and Chief Executive Officer effective December 1, 2017.

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

VS2CUS-2 (R-025833-7 2/18)

Deutsche
Asset Management

December 31, 2017

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. Please read the prospectus for details.

In June 2016, citizens of the United Kingdom approved a referendum to leave the European Union (EU) and in March 2017, the United Kingdom initiated its withdrawal from the EU, which is expected to take place by March 2019. Significant uncertainty exists regarding the United Kingdom's anticipated withdrawal from the EU and any adverse economic and political effects such withdrawal may have on the United Kingdom, other EU countries and the global economy.

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

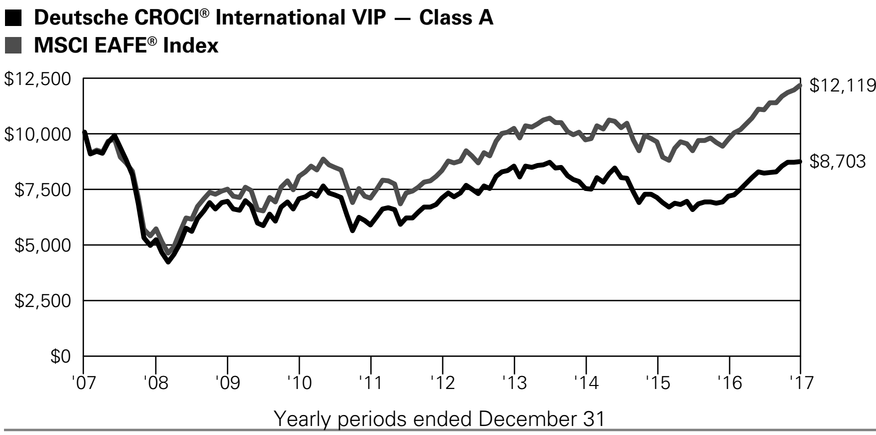
December 31, 2017 (Unaudited)

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, 2017 are 1.12% and 1.40% 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 equity index which captures large and mid cap representation across developed markets countries around the world, excluding the US and Canada.

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	$12,196	$11,613	$12,319	$8,703
	Average annual total return	21.96%	5.11%	4.26%	–1.38%
MSCI EAFE® Index	Growth of $10,000	$12,503	$12,526	$14,625	$12,119
	Average annual total return	25.03%	7.80%	7.90%	1.94%

Deutsche CROCI® International VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$12,176	$11,536	$12,186	$8,490
	Average annual total return	21.76%	4.88%	4.03%	–1.62%
MSCI EAFE® Index	Growth of $10,000	$12,503	$12,526	$14,625	$12,119
	Average annual total return	25.03%	7.80%	7.90%	1.94%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2017 (Unaudited)

The Fund produced a strong absolute return of 21.96% (Class A, unadjusted for contract charges) in 2017, but it underperformed the 25.03% gain of its benchmark, the MSCI EAFE Index. The resurgence in economic growth across Europe, Asia, and the emerging world was the primary reason for international equities' advance. While in prior years the United States did the bulk of the heavy lifting for the world economy, 2017 brought a synchronized global recovery with a corresponding benefit to corporate earnings. Returns were further boosted the strength in foreign currencies relative to the U.S. dollar. With this as the backdrop, the MSCI EAFE Index posted its largest gain since 2009 and outpaced the U.S. market — as gauged by the S&P 500 Index — for the first time since 2012.

Three factors typically drive the Fund's results: sector allocations, stock selection, and the impact of currencies. While stock selection and currency positioning were modest contributors in the 12-month period, allocation detracted.

Looking first at stock selection, we produced the widest margin of outperformance in the consumer discretionary and materials sectors. In the former, three U.K.-based homebuilding companies — Persimmon PLC, Barratt Developments PLC and Taylor Wimpey PLC — registered sizable gains amid the general improvement in the country's housing market. In materials, the Netherlands-based chemicals company Koninklijke DSM NV made the largest contribution to performance thanks to its rising profits and improved guidance regarding its earnings outlook. The German materials company Sika AG* — which rose on the strength of robust earnings and improving profit margins — was another top contributor. On the other side of the ledger, our stock selection in health care, industrials and utilities detracted. Subaru Corp., which was hurt by a sharp deterioration in operating margins and a weaker outlook, was the Fund's leading individual detractor. Astellas Pharma Inc., a Japanese company that lagged as patent expirations cut into its profits, also weighed on results.

We chose to hedge the portfolio's exposure to a basket of foreign currencies from May 2015 through April of 2017. This aspect of our positioning was a positive for performance in that interval, during which non-U.S. currencies lost ground, as a group, versus the U.S. dollar. We elected to remove the hedges on all currencies except the Japanese yen in April 2017 on the belief that hedging was unlikely to make a meaningful contribution in the intermediate term. We subsequently removed the hedge on the yen in November 2017. Foreign currencies indeed appreciated against the dollar in the final seven-plus months of the year, indicating that we added value from our decision to reduce the extent of the hedging program.

With regard to allocations, the Fund's unique investment strategy often results in a wide divergence in the portfolio's sector weightings relative to the benchmark. These variations were a headwind to performance in the annual period, with an underweight in information technology and an overweight in utilities representing the largest detractors. However, an overweight position in industrials and underweights in energy and telecommunications services contributed positively.

We see the potential for a longer runway for expansion in the international economies due to both the extended length of the U.S. economic cycle and the fact that the U.S. Federal Reserve continues to reduce stimulus at a faster pace than central banks overseas. At the same time, the underperformance of foreign stocks in the past five years translates to a continued valuation discount in relation to the United States. We therefore believe the foreign markets remain fertile ground for stock selection even after their outperformance in 2017.

Di Kumble, CFA, Managing Director
John Moody, Vice President
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.

Terms to Know

The **Morgan Stanley Capital International (MSCI) Europe, Australasia and Far East (EAFE) Index** is an equity index which captures large- and mid-cap representation across developed markets countries around the world, excluding the United States and Canada. With 928 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

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.

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

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.

* Not held in the portfolio as of December 31, 2017.

Portfolio Summary (Unaudited)

Asset Allocation (As a % of Investment Portfolio)	12/31/17	12/31/16
Common Stocks	97%	94%
Preferred Stocks	2%	—
Cash Equivalents	1%	6%
Total	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents)	12/31/17	12/31/16
Japan	24%	23%
Germany	18%	8%
Switzerland	16%	19%
United Kingdom	14%	27%
France	10%	6%
Hong Kong	6%	7%
Singapore	4%	4%
Netherlands	2%	2%
Australia	2%	—
Spain	2%	4%
Belgium	2%	—
Total	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents)	12/31/17	12/31/16
Industrials	24%	28%
Consumer Discretionary	22%	23%
Consumer Staples	16%	11%
Health Care	16%	17%
Utilities	14%	17%
Materials	6%	4%
Telecommunication Services	2%	—
Total	100%	100%

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 7.

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, 2017

	Shares	Value ($)
Common Stocks 96.9%		
Australia 2.1%		
Wesfarmers Ltd. (Cost $1,787,861)	55,766	**1,930,627**
Belgium 1.9%		
Solvay SA (Cost $1,815,707)	12,344	**1,719,163**
France 9.7%		
Cie Generale des Etablissements Michelin	12,419	1,781,785
Danone SA	22,131	1,855,255
L'Oreal SA	8,322	1,846,860
Pernod Ricard SA	12,033	1,905,651
Sanofi	18,525	1,596,624
(Cost $7,674,626)		**8,986,175**
Germany 16.1%		
BASF SE	16,727	1,845,676
Bayer AG (Registered)	13,265	1,657,856
Beiersdorf AG	16,786	1,975,691
Continental AG	7,167	1,940,390
Daimler AG (Registered)	22,096	1,882,683
Deutsche Post AG (Registered)	39,879	1,906,275
Merck KGaA	16,615	1,793,322
Siemens AG (Registered)	13,230	1,846,642
(Cost $13,180,053)		**14,848,535**
Hong Kong 5.9%		
CLP Holdings Ltd.	176,149	1,801,390
HK Electric Investments & HK Electric Investments Ltd. "SS", 144A, (Units)	1,955,000	1,789,758
Hong Kong & China Gas Co., Ltd.	950,632	1,862,852
(Cost $4,554,081)		**5,454,000**
Japan 23.6%		
Astellas Pharma, Inc.	134,800	1,718,112
Bridgestone Corp.	37,708	1,752,633
Central Japan Railway Co.	9,800	1,754,874
Daiichi Sankyo Co., Ltd.	81,800	2,132,616
ITOCHU Corp.	104,500	1,951,638
Japan Tobacco, Inc.	53,300	1,715,317
Nissan Motor Co., Ltd.	188,100	1,875,392
Osaka Gas Co., Ltd.	92,900	1,789,571
Secom Co., Ltd.	24,000	1,813,313
Sekisui House Ltd.	100,300	1,811,778
Subaru Corp.	50,700	1,612,410
Sumitomo Electric Industries Ltd.	107,700	1,816,878
(Cost $19,872,155)		**21,744,532**
Netherlands 2.2%		
Koninklijke DSM NV (Cost $1,335,833)	20,967	**2,005,748**
Singapore 4.0%		
Singapore Airlines Ltd.	239,941	1,913,655
Singapore Telecommunications Ltd.	657,200	1,759,103
(Cost $3,803,802)		**3,672,758**
Spain 1.9%		
Iberdrola SA (Cost $1,591,631)	230,606	**1,788,470**
Switzerland 16.2%		
ABB Ltd. (Registered)	71,501	1,917,598
Adecco Group AG (Registered)	23,213	1,774,422
Ferguson PLC	26,068	1,878,077
Kuehne + Nagel International AG (Registered)	10,461	1,852,739
Nestle SA (Registered)	21,606	1,858,935
Novartis AG (Registered)	21,724	1,834,458
Roche Holding AG (Genusschein)	7,698	1,948,516
Schindler Holding AG	7,962	1,833,255
(Cost $12,916,548)		**14,898,000**
United Kingdom 13.3%		
Barratt Developments PLC	195,463	1,711,615
Bunzl PLC	61,515	1,721,325
GlaxoSmithKline PLC	93,308	1,663,443
National Grid PLC	149,887	1,771,376
Persimmon PLC	47,364	1,752,230
SSE PLC	100,895	1,799,581
Taylor Wimpey PLC	662,400	1,847,875
(Cost $11,853,833)		**12,267,445**
Total Common Stocks (Cost $80,386,130)		**89,315,453**
Preferred Stock 1.9%		
Germany		
Henkel AG & Co. KGaA (Cost $1,612,286)	13,191	**1,748,154**
Cash Equivalents 0.8%		
Deutsche Central Cash Management Government Fund, 1.30% (a) (Cost $729,063)	729,063	**729,063**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $82,727,479)	99.6	**91,792,670**
Other Assets and Liabilities, Net	0.4	**344,140**
Net Assets	100.0	**92,136,810**

(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.

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, 2017 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Common Stocks				
Australia	$ —	$ 1,930,627	$ —	$ 1,930,627
Belgium	—	1,719,163	—	1,719,163
France	—	8,986,175	—	8,986,175
Germany	—	14,848,535	—	14,848,535
Hong Kong	—	5,454,000	—	5,454,000
Japan	—	21,744,532	—	21,744,532
Netherlands	—	2,005,748	—	2,005,748
Singapore	—	3,672,758	—	3,672,758
Spain	—	1,788,470	—	1,788,470
Switzerland	—	14,898,000	—	14,898,000
United Kingdom	—	12,267,445	—	12,267,445
Preferred Stock	—	1,748,154	—	1,748,154
Short-Term Investments	729,063	—	—	729,063
Total	**$ 729,063**	**$ 91,063,607**	**$ —**	**$ 91,792,670**

There have been no transfers between fair value measurement levels during the year ended December 31, 2017.

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

Statement of Assets and Liabilities

as of December 31, 2017

Assets	
Investments in non-affiliated securities, at value (cost $81,998,416)	$ 91,063,607
Investment in Deutsche Central Cash Management Government Fund (cost $729,063)	729,063
Foreign currency, at value (cost $106,520)	106,786
Receivable for investments sold	19,046
Receivable for Fund shares sold	42,943
Dividends receivable	165,013
Interest receivable	5,035
Foreign taxes recoverable	155,098
Other assets	2,486
Total assets	92,289,077

Liabilities	
Payable for Fund shares redeemed	6,177
Accrued management fee	35,400
Accrued Trustees' fees	2,253
Other accrued expenses and payables	108,437
Total liabilities	152,267
Net assets, at value	**$ 92,136,810**

Net Assets Consist of	
Undistributed net investment income	848,699
Net unrealized appreciation (depreciation) on: Investments	9,065,191
Foreign currency	4,789
Accumulated net realized gain (loss)	(31,082,918)
Paid-in capital	113,301,049
Net assets, at value	**$ 92,136,810**

Net Asset Value	
Class A **Net Asset Value,** offering and redemption price per share ($91,810,552 ÷ 12,504,196 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 7.34**
Class B **Net Asset Value,** offering and redemption price per share ($326,258 ÷ 44,351 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 7.36**

Statement of Operations

for the year ended December 31, 2017

Investment Income	
Income: Dividends (net of foreign taxes withheld of $215,223)	$ 3,033,329
Income distributions — Deutsche Central Cash Management Government Fund	10,240
Securities lending income, net of borrower rebates	21,214
Total income	3,064,783
Expenses: Management fee	785,617
Administration fee	99,445
Services to shareholders	2,353
Distribution service fee (Class B)	767
Custodian fee	53,679
Professional fees	78,763
Reports to shareholders	40,980
Trustees' fees and expenses	6,913
Other	25,898
Total expenses before expense reductions	1,094,415
Expense reductions	(258,060)
Total expenses after expense reductions	836,355
Net investment income (loss)	**2,228,428**

Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from: Investments	4,657,817
Forward foreign currency contracts	(2,061,249)
Foreign currency	7,315
	2,603,883
Change in net unrealized appreciation (depreciation) on: Investments	14,474,730
Forward foreign currency contracts	440,709
Foreign currency	15,454
	14,930,893
Net gain (loss)	**17,534,776**
Net increase (decrease) in net assets resulting from operations	**$ 19,763,204**

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

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets	Year Ended December 31, 2017	2016
Operations:		
Net investment income (loss)	$ 2,228,428	$ 2,302,440
Net realized gain (loss)	2,603,883	(8,480,561)
Change in net unrealized appreciation (depreciation)	14,930,893	6,340,956
Net increase (decrease) in net assets resulting from operations	19,763,204	162,835
Distributions to shareholders from:		
Net investment income:		
Class A	(7,067,244)	(9,803,744)
Class B	(20,366)	(26,284)
Total distributions	(7,087,610)	(9,830,028)
Fund share transactions:		
Class A		
Proceeds from shares sold	6,185,861	4,349,614
Reinvestment of distributions	7,067,244	9,803,744
Payments for shares redeemed	(27,986,345)	(15,723,948)
Net increase (decrease) in net assets from Class A share transactions	(14,733,240)	(1,570,590)
Class B		
Proceeds from shares sold	8,966	16,738
Reinvestment of distributions	20,366	26,284
Payments for shares redeemed	(15,497)	(15,735)
Net increase (decrease) in net assets from Class B share transactions	13,835	27,287
Increase (decrease) in net assets	(2,043,811)	(11,210,496)
Net assets at beginning of period	94,180,621	105,391,117
Net assets at end of period (including undistributed net investment income of $848,699 and $7,413,324, respectively)	**$ 92,136,810**	**$ 94,180,621**

Other Information		
Class A		
Shares outstanding at beginning of period	14,512,126	14,702,326
Shares sold	886,888	690,002
Shares issued to shareholders in reinvestment of distributions	1,054,813	1,563,596
Shares redeemed	(3,949,631)	(2,443,798)
Net increase (decrease) in Class A shares	(2,007,930)	(190,200)
Shares outstanding at end of period	**12,504,196**	**14,512,126**
Class B		
Shares outstanding at beginning of period	42,251	37,903
Shares sold	1,287	2,658
Shares issued to shareholders in reinvestment of distributions	3,026	4,179
Shares redeemed	(2,213)	(2,489)
Net increase (decrease) in Class B shares	2,100	4,348
Shares outstanding at end of period	**44,351**	**42,251**

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

Financial Highlights

Class A	2017	2016	2015	2014	2013
		Years Ended December 31,			
Selected Per Share Data					
Net asset value, beginning of period	**$ 6.47**	**$7.15**	**$ 7.86**	**$ 9.06**	**$ 7.96**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.16	.16	.21	.31[b]	.14
Net realized and unrealized gain (loss)	1.21	(.13)	(.59)	(1.36)	1.41
Total from investment operations	1.37	.03	(.38)	(1.05)	1.55
Less distributions from:					
Net investment income	(.50)	(.71)	(.33)	(.15)	(.45)
Net asset value, end of period	**$ 7.34**	**$6.47**	**$ 7.15**	**$ 7.86**	**$ 9.06**
Total Return (%)[c]	21.96	.74	(5.48)	(11.76)	20.23
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	92	94	105	126	151
Ratio of expenses before expense reductions (%)[d]	1.10	1.12	1.05	1.04	1.02
Ratio of expenses after expense reductions (%)[d]	.84	.84	.98	.98	1.01
Ratio of net investment income (loss) (%)	2.24	2.46	2.74	3.55[b]	1.64
Portfolio turnover rate (%)	73	67	99	135	97

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.

d Expense ratio does not reflect charges and 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.

Class B	2017	2016	2015	2014	2013
		Years Ended December 31,			
Selected Per Share Data					
Net asset value, beginning of period	**$ 6.48**	**$7.16**	**$ 7.87**	**$ 9.07**	**$ 7.96**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.13	.14	.19	.28[b]	.13
Net realized and unrealized gain (loss)	1.23	(.13)	(.59)	(1.35)	1.41
Total from investment operations	1.36	.01	(.40)	(1.07)	1.54
Less distributions from:					
Net investment income	(.48)	(.69)	(.31)	(.13)	(.43)
Net asset value, end of period	**$ 7.36**	**$6.48**	**$ 7.16**	**$ 7.87**	**$ 9.07**
Total Return (%)[c]	21.76	.48	(5.71)	(11.98)	20.01
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	.33	.27	.27	.26	.31
Ratio of expenses before expense reductions (%)[d]	1.38	1.40	1.33	1.31	1.30
Ratio of expenses after expense reductions (%)[d]	1.09	1.10	1.23	1.23	1.27
Ratio of net investment income (loss) (%)	1.86	2.18	2.47	3.26[b]	1.62
Portfolio turnover rate (%)	73	67	99	135	97

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.

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

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, 2017, the Fund invested the cash collateral into a joint trading account in affiliated money market funds including Deutsche Government & Agency Securities Portfolio managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.13% annualized effective rate as of December 31, 2017) on the cash collateral invested in Deutsche 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, 2017, 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.

At December 31, 2017, the Fund had a net tax basis capital loss carryforward of approximately $30,489,000 which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($6,944,000) and long-term losses ($23,545,000).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2017 and has determined that no positions for income tax and/or uncertain tax positions 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, expiration of capital loss carryforwards 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, 2017, the Fund's components of distributable earnings (accumulated losses) on a tax basis are as follows:

Undistributed ordinary income*	$ 848,700
Capital loss carryforwards	$ (30,489,000)
Net unrealized appreciation (depreciation) on investments	$ 8,471,654

At December 31, 2017, the aggregate cost of investments for federal income tax purposes was $83,321,016. The net unrealized appreciation for all investments based on tax cost was $8,471,654. This consisted of aggregate gross unrealized appreciation for all investments in which there was an excess of value over tax cost of $10,689,557 aggregate gross unrealized depreciation for all investments in which was an excess of tax cost over value of $2,217,903.

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

	Years Ended December 31, 2017	2016
Distributions from ordinary income*	$ 7,087,610	$ 9,830,028

* 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 Contracts. A forward foreign currency 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, 2017, from time to time 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.

As of December 31, 2017 the Fund did not hold open forward currency contracts. For the year ended December 31, 2017, 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 to $99,269,000, 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 $1,824,000.

The amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the year ended December 31, 2017 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)	$ (2,061,249)

The above derivative is located in the following Statement of Operations account:
(a) Net realized gain (loss) from foreign currency contracts

Change in Net Unrealized Appreciation (Depreciation)	**Forward Contracts**
Foreign Exchange Contracts (b)	$ 440,709

The above derivative is located in the following Statement of Operations account:
(b) Change in net unrealized appreciation (depreciation) on foreign currency contracts

C. Purchases and Sales of Securities

During the year ended December 31, 2017, purchases and sales of investment securities (excluding short-term investments) aggregated $70,604,090 and $87,205,535, 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, 2017, 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, 2017 through April 30, 2018, 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, 2017, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 257,182
Class B	878
	$ 258,060

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, 2017, the Administration Fee was $99,445, of which $7,760 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, 2017, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	**Total Aggregated**	**Unpaid at December 31, 2017**
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, 2017, the Distribution Service Fee aggregated $767, of which $69 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing certain pre-press and regulatory filing services to the Fund. For the year ended December 31, 2017, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $10,635, of which $2,970 is unpaid.

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

Affiliated Cash Management Vehicles. The Fund may invest uninvested cash balances in 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, 2017, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $1,597.

E. Ownership of the Fund

At December 31, 2017, five participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 19%, 18%, 14%, 12% and 11%, respectively.

Two participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, 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, 2017.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Deutsche Variable Series I and Shareholders of Deutsche CROCI® International VIP

Opinion on the Financial Statements

We have audited the accompanying statement of assets and liabilities, including the investment portfolio, of Deutsche CROCI® International VIP (one of the funds constituting Deutsche Variable Series I, referred to hereafter as the "Fund") as of December 31, 2017, the related statement of operations for the year ended December 31, 2017, the statement of changes in net assets for each of the two years in the period ended December 31, 2017, including the related notes, and the financial highlights for each of the five years in the period ended December 31, 2017 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2017, 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 ended December 31, 2017 and the financial highlights for each of the five years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on the Fund's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Fund in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our procedures included confirmation of securities owned as of December 31, 2017 by correspondence with the custodian. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Boston, Massachusetts
February 14, 2018

We have served as the auditor of one or more investment companies in the Deutsche family of funds since 1930.

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, 2017 to December 31, 2017).

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, 2017

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/17	$ 1,000.00	$ 1,000.00
Ending Account Value 12/31/17	$ 1,063.80	$ 1,063.60
Expenses Paid per $1,000*	$ 4.37	$ 5.67

Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/17	$ 1,000.00	$ 1,000.00
Ending Account Value 12/31/17	$ 1,020.97	$ 1,019.71
Expenses Paid per $1,000*	$ 4.28	$ 5.55

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

Annualized Expense Ratios	**Class A**	**Class B**
Deutsche Variable Series I — Deutsche CROCI® International VIP	.84%	1.09%

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 $168,108 and earned $1,672,876 of foreign source income during the year ended December 31, 2017. Pursuant to Section 853 of the Internal Revenue Code, the Fund designates $0.01 per share as foreign taxes paid and $0.13 per share as income earned from foreign sources for the year ended December 31, 2017.

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 2017.

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"). 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.

— The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly met 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.

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.

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 administrative support services provided by DIMA, such 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 "Funds in Review" (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, 2016, the Fund's performance (Class A shares) was in the 2nd quartile, 4th quartile and 4th quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has underperformed its benchmark in the one-, three-, and five-year periods ended December 31, 2016. 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 higher than the median (4th quartile) of the applicable Broadridge peer group (based on Broadridge data provided as of December 31, 2016). 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, 2016, 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 to DIMA, 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, any fees received by an affiliate of DIMA for transfer agency 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. In addition, the Board considered 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, 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)	89	—
Kenneth C. Froewiss (1945) Vice Chairperson since 2017, and Board Member since 2001	Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); Member, Finance Committee, Association for Asian Studies (2002–present); Director, Mitsui Sumitomo Insurance Group (US) (2004–present); prior thereto, Managing Director, J.P. Morgan (investment banking firm) (until 1996)	92	—
John W. Ballantine (1946) Board Member since 1999	Retired; formerly, Executive Vice President and Chief Risk Management Officer, First Chicago NBD Corporation/The First National Bank of Chicago (1996–1998); Executive Vice President and Head of International Banking (1995–1996); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (population well-being and wellness services) (2003–2014); Stockwell Capital Investments PLC (private equity); Enron Corporation; FNB Corporation; Tokheim Corporation; First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International. Not-for-Profit Director, Trustee: Palm Beach Civic Association; Public Radio International; Window to the World Communications (public media); Harris Theater for Music and Dance (Chicago)	89	Portland General Electric[2] (utility company) (2003–present)
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); The Pew Charitable Trusts (charitable organization); former Directorships: Becton Dickinson and Company[2] (medical technology company); Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College; North Bennett Street School (Boston)	89	—
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)	89	—

Name, Year of Birth, Position with the Fund and Length of Time Served[1]	Business Experience and Directorships During the Past Five Years	Number of Funds in Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Paul K. Freeman (1950) Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Independent Directors Council (former chair); 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); Knoebel Institute for Healthy Aging, University of Denver (2017–present); former Directorships: Prisma Energy International	89	—
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)	89	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004	Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	89	—
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[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	89	Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc[2] (health care) (2009–present)
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	89	—
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)	89	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Hepsen Uzcan[6,9] (1974) President and Chief Executive Officer, 2017–present Assistant Secretary, 2013–present	Director,[3] Deutsche Asset Management; formerly: Vice President for the Deutsche funds (2016–2017)
John Millette[8] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset Management; Chief Legal Officer, Deutsche Investment Management Americas Inc. (2015–present); and Director and Vice President, Deutsche AM Trust Company (since 2016); formerly: Secretary, Deutsche Investment Management Americas Inc. (2015–2017)
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset Management, and Chairman, Director and President, Deutsche AM Trust Company (since 2013); Vice President, Deutsche AM Distributors, Inc. (since 2016); Director, Deutsche AM Service Company (since 2017); Director and President, DB Investment Managers, Inc. (since 2017); formerly: Director, Deutsche AM Trust Company (2004–2013)
Caroline Pearson[8] (1962) Chief Legal Officer, 2010–present	Managing Director,[3] Deutsche Asset Management; formerly: Secretary, Deutsche AM Distributors, Inc.; and Secretary, Deutsche AM Service Company
Scott D. Hogan[8] (1970) Chief Compliance Officer, 2016–present	Director,[3] Deutsche Asset Management
Wayne Salit[7] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Sheila Cadogan[8] (1966) Assistant Treasurer, since July 12, 2017	Director,[3] Deutsche Asset Management
Paul Antosca[8] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management
Diane Kenneally[8] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

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

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

3 Executive title, not a board directorship.

4 As a result of their respective positions held with the Advisor, these individuals are considered "interested persons" of the Advisor within the meaning of the 1940 Act. Interested persons receive no compensation from the Fund.

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

6 Address: 345 Park Avenue, New York, NY 10154.

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

8 Address: One International Place, Boston, MA 02110.

9 Appointed President and Chief Executive Officer effective December 1, 2017.

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

VS1cint-2 (R-025823-7 2/18)

Deutsche
Asset Management

December 31, 2017

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. Please read 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

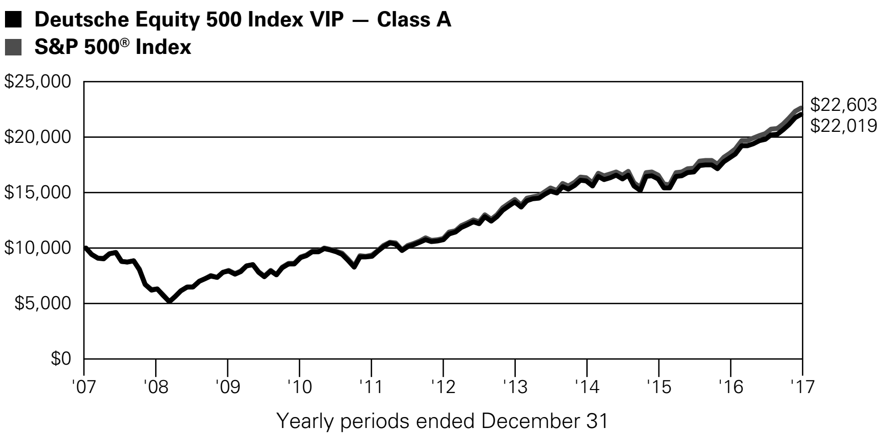
December 31, 2017 (Unaudited)

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, 2017 are 0.34%, 0.69% 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, 2017)

Deutsche Equity 500 Index VIP		**1-Year**	**3-Year**	**5-Year**	**10-Year**
Class A	Growth of $10,000	$12,153	$13,718	$20,521	$22,019
	Average annual total return	21.53%	11.11%	15.46%	8.21%
S&P 500 Index	Growth of $10,000	$12,183	$13,829	$20,814	$22,603
	Average annual total return	21.83%	11.41%	15.79%	8.50%
Deutsche Equity 500 Index VIP		**1-Year**	**3-Year**	**5-Year**	**10-Year**
Class B	Growth of $10,000	$12,107	$13,600	$20,245	$21,449
	Average annual total return	21.07%	10.79%	15.15%	7.93%
S&P 500 Index	Growth of $10,000	$12,183	$13,829	$20,814	$22,603
	Average annual total return	21.83%	11.41%	15.79%	8.50%
Deutsche Equity 500 Index VIP		**1-Year**	**3-Year**	**5-Year**	**10-Year**
Class B2	Growth of $10,000	$12,106	$13,564	$20,146	$21,209
	Average annual total return	21.06%	10.70%	15.04%	7.81%
S&P 500 Index	Growth of $10,000	$12,183	$13,829	$20,814	$22,603
	Average annual total return	21.83%	11.41%	15.79%	8.50%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2017 (Unaudited)

The Fund returned 21.53% in 2017 (Class A shares, unadjusted for contract charges), which compares with a return of 21.83% for the Standard & Poor's 500® (S&P 500) Index. Since the Fund's strategy is to replicate the performance of the Standard & Poor's 500® (S&P 500) Index before the deduction of expenses, the Fund's return is normally close to that of the index.

Stocks performed unusually well in 2017, with above-average total returns and a remarkably low degree of volatility. In a year characterized by a pronounced lack of negative financial headlines, the S&P 500 Index experienced few large single-day moves and no peak-to-trough downturns of more than 3%. In fact, the index posted a gain in each of the 12 months of the year — the first time in history that has occurred. The strong showing for the index represented its ninth consecutive year of positive performance, as well as the fourteenth positive year of the past 15. The year also market the best return for the S&P 500 Index since 2013 and its fourth-highest gain since 2000.

The combination of healthy economic growth, rising corporate profits and a stable outlook for U.S. Federal Reserve (Fed) policy was the primary reason for U.S. equities' hearty advance in 2017.

Looking first at growth, the U.S. Bureau of Economic Analysis reported that U.S. gross domestic product rose 3.1% and 3.2% in the second and third quarters, respectively, its strongest showing over a two-quarter interval since mid 2014. In addition, the unemployment rate fell to 4.1% — its lowest level since December 2000, according to the U.S. Bureau of Labor Statistics. Economic growth came from a variety of sources, including rising industrial production, surging housing prices and a strong holiday retail season at year-end.

The strength in the economy, in turn, fed through to corporate earnings. According to FactSet, U.S. corporations posted earnings growth of nearly 10% in 2017, the highest level since 2011. All sectors produced positive profit growth, led by energy, materials and information technology.

These favorable conditions provided the Fed with the latitude to tighten monetary policy. The central bank hiked interest rates three times in quarter-point increments in 2017, bringing the benchmark federal funds rate to a range of 1.25% to 1.50%. In addition, it announced that it would begin to reverse the quantitative easing policy it put in place following the financial crisis by reducing the size of its balance sheet. Although these moves removed monetary accommodation from the economy, the markets appeared confident that the low inflation-environment would enable the Fed to maintain its deliberate and well-communicated approach to raising interest rates.

The market also gained a significant benefit from the passage of a long-anticipated tax reform bill that reduced the U.S. corporate tax rate to 21% from its previous level of 35%. After an initial stretch of optimism in the wake of the November 2016 elections, investors gradually lost confidence that the Republican-led government would enact meaningful legislative changes. The mood shifted in mid-August, however, when a series of public statements by lawmakers indicated Republicans' intention to pass a tax plan by year-end. Stocks embarked on a protracted rally in response to the news, as investors discounted the prospect of stronger bottom-line earnings into equity valuations.

The performance of sectors and individual stocks largely reflected investors' preference for faster-growing companies. This tendency led to outsized gains for the technology sector, which registered a total return more than 17 points above the index. The sector was home to many of the leading performance contributors for the year, including Apple Inc., Microsoft Corp., Facebook, Inc. and Alphabet, Inc. (formerly known as Google). The consumer discretionary, financial and health care sectors also delivered market-beating returns.

On the other end of the spectrum, energy stocks finished in negative territory and were the worst performer among the 11 major sectors. The year's other underperforming sectors were largely those featuring the types of defensive, higher-dividend companies that lagged at a time in which investors embraced risk and favored stocks with above-average economic sensitivity. This trend contributed to underperformance for the utilities, consumer staples, telecommunications services and real estate sectors, although all posted double-digit gains in absolute terms. Industrials stocks also finished slightly behind the index.

Brent Reeder
Senior Vice President, Northern Trust Investments, Inc., Subadvisor to the Fund
Portfolio Manager

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

Terms to Know

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.

Gross domestic product (GDP) is the monetary value of goods and services produced within a country's borders in a specific time frame.

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

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

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

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

Portfolio Summary (Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	12/31/17	12/31/16
Common Stocks	99%	100%
Cash Equivalents	1%	0%
Government & Agency Obligations	0%	0%
	100%	100%

Sector Diversification (As a % of Common Stocks)	12/31/17	12/31/16
Information Technology	24%	21%
Financials	15%	15%
Health Care	14%	14%
Consumer Discretionary	12%	12%
Industrials	10%	10%
Consumer Staples	8%	9%
Energy	6%	7%
Materials	3%	3%
Utilities	3%	3%
Real Estate	3%	3%
Telecommunication Services	2%	3%
	100%	100%

Ten Largest Equity Holdings (20.6% of Net Assets)

1.	**Apple, Inc.** Designs, manufactures and markets personal computers and related computing and mobile communication devices	**3.7%**
2.	**Microsoft Corp.** Develops, manufactures, licenses, sells and supports software products	**2.8%**
3.	**Alphabet, Inc.** Holding company with subsidiaries that provide web-based search, advertisements, maps, software applications, mobile operating systems and a variety of other products	**2.7%**
4.	**Amazon.com, Inc.** Online retailer that offers a wide range of products, including books, music, videotapes, computers, electronics, home and garden, and numerous products	**2.0%**
5.	**Facebook, Inc.** Operates a social networking Web site	**1.8%**
6.	**Berkshire Hathaway, Inc.** Holding company of insurance business and a variety of other businesses	**1.7%**
7.	**Johnson & Johnson** Provider of health care products	**1.6%**
8.	**JPMorgan Chase & Co.** Provider of global financial services	**1.6%**
9.	**Exxon Mobil Corp.** Explorer and producer of oil and gas	**1.5%**
10.	**Bank of America Corp.** Provider of commercial banking services	**1.2%**

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 7.

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, 2017

	Shares	Value ($)
Common Stocks 97.5%		
Consumer Discretionary 11.9%		
Auto Components 0.2%		
Aptiv PLC	6,633	562,677
BorgWarner, Inc.	4,909	250,801
Goodyear Tire & Rubber Co.	6,057	195,702
		1,009,180
Automobiles 0.5%		
Ford Motor Co.	97,274	1,214,952
General Motors Co.	31,868	1,306,269
Harley-Davidson, Inc. (a)	4,196	213,493
		2,734,714
Distributors 0.1%		
Genuine Parts Co.	3,657	347,452
LKQ Corp.*	7,720	313,972
		661,424
Diversified Consumer Services 0.0%		
H&R Block, Inc.	5,178	**135,767**
Hotels, Restaurants & Leisure 1.8%		
Carnival Corp.	10,163	674,518
Chipotle Mexican Grill, Inc.*	614	177,464
Darden Restaurants, Inc.	3,060	293,821
Hilton Worldwide Holdings, Inc.	5,039	402,415
Marriott International, Inc. "A"	7,631	1,035,756
McDonald's Corp.	19,864	3,418,992
MGM Resorts International	12,660	422,717
Norwegian Cruise Line Holdings Ltd.*	4,465	237,761
Royal Caribbean Cruises Ltd.	4,268	509,087
Starbucks Corp.	35,453	2,036,066
Wyndham Worldwide Corp.	2,549	295,353
Wynn Resorts Ltd.	2,010	338,866
Yum! Brands, Inc.	8,398	685,361
		10,528,177
Household Durables 0.4%		
D.R. Horton, Inc.	8,458	431,950
Garmin Ltd.	2,762	164,532
Leggett & Platt, Inc.	3,259	155,552
Lennar Corp. "A"	5,107	322,967
Mohawk Industries, Inc.*	1,578	435,370
Newell Brands, Inc.	12,220	377,598
PulteGroup, Inc.	6,743	224,205
Whirlpool Corp.	1,796	302,878
		2,415,052
Internet & Direct Marketing Retail 2.8%		
Amazon.com, Inc.*	9,966	11,654,938
Expedia, Inc.	3,085	369,490
Netflix, Inc.*	10,782	2,069,713
The Priceline Group, Inc.*	1,215	2,111,354
TripAdvisor, Inc.*	2,702	93,111
		16,298,606
Leisure Products 0.1%		
Hasbro, Inc.	2,830	257,219
Mattel, Inc. (a)	8,557	131,606
		388,825
Media 2.7%		
CBS Corp. "B"	9,034	533,006
Charter Communications, Inc. "A"*	4,832	1,623,359
Comcast Corp. "A"	116,223	4,654,731
Discovery Communications, Inc. "A"* (a)	3,841	85,962
Discovery Communications, Inc. "C"*	5,068	107,290
DISH Network Corp. "A"*	5,672	270,838
Interpublic Group of Companies, Inc.	9,687	195,290
News Corp. "A"	9,421	152,714
News Corp. "B"	3,121	51,809
Omnicom Group, Inc.	5,744	418,335
Scripps Networks Interactive, Inc. "A"	2,411	205,851
Time Warner, Inc.	19,399	1,774,426
Twenty-First Century Fox, Inc. "A"	26,262	906,827
Twenty-First Century Fox, Inc. "B"	10,959	373,921
Viacom, Inc. "B"	8,795	270,974
Walt Disney Co.	37,632	4,045,816
		15,671,149
Multiline Retail 0.4%		
Dollar General Corp.	6,497	604,286
Dollar Tree, Inc.*	5,909	634,095
Kohl's Corp.	4,203	227,929
Macy's, Inc.	7,535	189,806
Nordstrom, Inc.	2,913	138,018
Target Corp.	13,551	884,203
		2,678,337
Specialty Retail 2.2%		
Advance Auto Parts, Inc.	1,858	185,224
AutoZone, Inc.*	686	488,000
Best Buy Co., Inc.	6,341	434,168
CarMax, Inc.*	4,515	289,547
Foot Locker, Inc.	2,998	140,546
Home Depot, Inc.	29,103	5,515,892
L Brands, Inc.	6,117	368,366
Lowe's Companies, Inc.	20,758	1,929,249
O'Reilly Automotive, Inc.*	2,120	509,945
Ross Stores, Inc.	9,618	771,844
Signet Jewelers Ltd.	1,509	85,334
The Gap, Inc.	5,490	186,989
Tiffany & Co.	2,547	264,761
TJX Companies, Inc.	15,867	1,213,191
Tractor Supply Co.	3,127	233,743
Ulta Salon, Cosmetics & Fragrance, Inc.*	1,450	324,307
		12,941,106
Textiles, Apparel & Luxury Goods 0.7%		
Hanesbrands, Inc.	9,039	189,005
Michael Kors Holdings Ltd.*	3,797	239,021
NIKE, Inc. "B"	32,754	2,048,763
PVH Corp.	1,931	264,952
Ralph Lauren Corp.	1,364	141,433
Tapestry, Inc.	7,103	314,166
Under Armour, Inc. "A"* (a)	4,604	66,436

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

	Shares	Value ($)
Under Armour, Inc. "C"* (a)	4,609	61,392
VF Corp.	8,146	602,804
		3,927,972
Consumer Staples 8.0%		
Beverages 1.9%		
Brown-Forman Corp. "B"	4,881	335,178
Coca-Cola Co.	95,551	4,383,880
Constellation Brands, Inc. "A"	4,293	981,251
Dr. Pepper Snapple Group, Inc.	4,500	436,770
Molson Coors Brewing Co. "B"	4,591	376,784
Monster Beverage Corp.*	10,259	649,292
PepsiCo, Inc.	35,438	4,249,725
		11,412,880
Food & Staples Retailing 1.8%		
Costco Wholesale Corp.	10,889	2,026,661
CVS Health Corp.	25,243	1,830,117
Kroger Co.	22,168	608,512
Sysco Corp.	11,946	725,480
Wal-Mart Stores, Inc.	36,473	3,601,709
Walgreens Boots Alliance, Inc.	21,636	1,571,206
		10,363,685
Food Products 1.2%		
Archer-Daniels-Midland Co.	13,940	558,715
Campbell Soup Co.	4,797	230,784
Conagra Brands, Inc.	10,188	383,782
General Mills, Inc.	14,168	840,021
Hormel Foods Corp.	6,655	242,175
Kellogg Co.	6,202	421,612
Kraft Heinz Co.	14,881	1,157,147
McCormick & Co., Inc.	2,968	302,469
Mondelez International, Inc. "A"	37,244	1,594,043
The Hershey Co.	3,518	399,328
The JM Smucker Co.	2,839	352,717
Tyson Foods, Inc. "A"	7,418	601,377
		7,084,170
Household Products 1.6%		
Church & Dwight Co., Inc.	6,232	312,659
Clorox Co.	3,213	477,902
Colgate-Palmolive Co.	21,880	1,650,846
Kimberly-Clark Corp.	8,766	1,057,705
Procter & Gamble Co.	63,492	5,833,645
		9,332,757
Personal Products 0.2%		
Coty, Inc. "A"	11,799	234,682
Estee Lauder Companies, Inc. "A"	5,577	709,618
		944,300
Tobacco 1.3%		
Altria Group, Inc.	47,550	3,395,546
Philip Morris International, Inc.	38,702	4,088,866
		7,484,412
Energy 5.9%		
Energy Equipment & Services 0.8%		
Baker Hughes a GE Co.	10,634	336,460
Halliburton Co.	21,762	1,063,509
Helmerich & Payne, Inc. (a)	2,671	172,653
National Oilwell Varco, Inc.	9,483	341,578
Schlumberger Ltd.	34,528	2,326,842
TechnipFMC PLC	10,930	342,218
		4,583,260
Oil, Gas & Consumable Fuels 5.1%		
Anadarko Petroleum Corp.	13,639	731,596
Andeavor	3,578	409,109
Apache Corp.	9,497	400,963
Cabot Oil & Gas Corp.	11,528	329,701
Chesapeake Energy Corp.*	22,687	89,841
Chevron Corp.	47,331	5,925,368
Cimarex Energy Co.	2,377	290,018
Concho Resources, Inc.*	3,691	554,462
ConocoPhillips	29,796	1,635,502
Devon Energy Corp.	13,134	543,748
EOG Resources, Inc.	14,414	1,555,415
EQT Corp.	6,091	346,700
Exxon Mobil Corp.	105,588	8,831,380
Hess Corp.	6,739	319,900
Kinder Morgan, Inc.	47,869	864,993
Marathon Oil Corp.	21,180	358,577
Marathon Petroleum Corp.	12,174	803,241
Newfield Exploration Co.*	4,910	154,812
Noble Energy, Inc.	12,180	354,925
Occidental Petroleum Corp.	19,073	1,404,917
ONEOK, Inc.	9,559	510,929
Phillips 66	10,709	1,083,215
Pioneer Natural Resources Co.	4,241	733,057
Range Resources Corp.	5,415	92,380
Valero Energy Corp.	10,906	1,002,370
Williams Companies, Inc.	20,609	628,368
		29,955,487
Financials 14.4%		
Banks 6.4%		
Bank of America Corp.	241,721	7,135,604
BB&T Corp.	19,661	977,545
Citigroup, Inc.	65,884	4,902,428
Citizens Financial Group, Inc.	12,263	514,801
Comerica, Inc.	4,336	376,408
Fifth Third Bancorp.	17,591	533,711
Huntington Bancshares, Inc.	26,954	392,450
JPMorgan Chase & Co.	86,459	9,245,925
KeyCorp	26,807	540,697
M&T Bank Corp.	3,738	639,161
People's United Financial, Inc.	8,585	160,539
PNC Financial Services Group, Inc.	11,857	1,710,847
Regions Financial Corp.	28,915	499,651
SunTrust Banks, Inc.	11,862	766,167
U.S. Bancorp.	39,286	2,104,944
Wells Fargo & Co.	110,434	6,700,031
Zions Bancorp.	4,987	253,489
		37,454,398
Capital Markets 3.0%		
Affiliated Managers Group, Inc.	1,381	283,450
Ameriprise Financial, Inc.	3,686	624,667
Bank of New York Mellon Corp.	25,513	1,374,130
BlackRock, Inc.	3,076	1,580,172
Cboe Global Markets, Inc.	2,822	351,593
Charles Schwab Corp.	29,728	1,527,127
CME Group, Inc.	8,478	1,238,212
E*TRADE Financial Corp.*	6,744	334,300
Franklin Resources, Inc.	8,142	352,793

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

	Shares	Value ($)
Intercontinental Exchange, Inc.	14,576	1,028,483
Invesco Ltd.	10,144	370,662
Moody's Corp.	4,142	611,401
Morgan Stanley	34,688	1,820,079
Nasdaq, Inc.	2,898	222,653
Northern Trust Corp.	5,405	539,906
Raymond James Financial, Inc.	3,202	285,939
S&P Global, Inc.	6,353	1,076,198
State Street Corp.	9,240	901,916
T. Rowe Price Group, Inc.	6,037	633,462
The Goldman Sachs Group, Inc.	8,741	2,226,857
		17,384,000
Consumer Finance 0.8%		
American Express Co.	17,953	1,782,912
Capital One Financial Corp.	12,082	1,203,126
Discover Financial Services	9,059	696,818
Navient Corp.	6,472	86,207
Synchrony Financial	18,335	707,914
		4,476,977
Diversified Financial Services 1.6%		
Berkshire Hathaway, Inc. "B"*	47,947	9,504,055
Leucadia National Corp.	7,817	207,072
		9,711,127
Insurance 2.6%		
Aflac, Inc.	9,793	859,630
Allstate Corp.	8,939	936,003
American International Group, Inc.	22,395	1,334,294
Aon PLC	6,226	834,284
Arthur J. Gallagher & Co.	4,506	285,140
Assurant, Inc.	1,341	135,226
Brighthouse Financial, Inc.*	2,399	140,677
Chubb Ltd.	11,565	1,689,993
Cincinnati Financial Corp.	3,696	277,089
Everest Re Group Ltd.	1,023	226,349
Hartford Financial Services Group, Inc.	8,923	502,186
Lincoln National Corp.	5,461	419,787
Loews Corp.	6,868	343,606
Marsh & McLennan Companies, Inc.	12,714	1,034,793
MetLife, Inc.	26,219	1,325,633
Principal Financial Group, Inc.	6,690	472,046
Progressive Corp.	14,488	815,964
Prudential Financial, Inc.	10,564	1,214,649
The Travelers Companies, Inc.	6,818	924,794
Torchmark Corp.	2,677	242,831
Unum Group	5,605	307,658
Willis Towers Watson PLC	3,304	497,880
XL Group Ltd.	6,382	224,391
		15,044,903

Health Care 13.5%

	Shares	Value ($)
Biotechnology 2.7%		
AbbVie, Inc.	39,720	3,841,321
Alexion Pharmaceuticals, Inc.*	5,566	665,638
Amgen, Inc.	18,086	3,145,155
Biogen, Inc.*	5,268	1,678,227
Celgene Corp.*	19,617	2,047,230
Gilead Sciences, Inc.	32,548	2,331,739
Incyte Corp.*	4,364	413,315
Regeneron Pharmaceuticals, Inc.*	1,919	721,467
Vertex Pharmaceuticals, Inc.*	6,301	944,268
		15,788,360
Health Care Equipment & Supplies 2.7%		
Abbott Laboratories	43,370	2,475,126
Align Technology, Inc.*	1,798	399,498
Baxter International, Inc.	12,488	807,224
Becton, Dickinson & Co.	6,608	1,414,525
Boston Scientific Corp.*	34,214	848,165
Danaher Corp.	15,252	1,415,691
DENTSPLY SIRONA, Inc.	5,721	376,613
Edwards Lifesciences Corp.*	5,273	594,320
Hologic, Inc.*	6,933	296,386
IDEXX Laboratories, Inc.*	2,187	342,003
Intuitive Surgical, Inc.*	2,792	1,018,912
Medtronic PLC	33,728	2,723,536
ResMed, Inc.	3,533	299,210
Stryker Corp.	8,019	1,241,662
The Cooper Companies, Inc.	1,216	264,942
Varian Medical Systems, Inc.*	2,284	253,867
Zimmer Biomet Holdings, Inc.	5,045	608,780
		15,380,460
Health Care Providers & Services 2.7%		
Aetna, Inc.	8,127	1,466,030
AmerisourceBergen Corp.	4,016	368,749
Anthem, Inc.	6,399	1,439,839
Cardinal Health, Inc.	7,842	480,479
Centene Corp.*	4,299	433,683
Cigna Corp.	6,145	1,247,988
DaVita, Inc.*	3,774	272,672
Envision Healthcare Corp.*	3,013	104,129
Express Scripts Holding Co.*	14,116	1,053,618
HCA Healthcare, Inc.*	7,062	620,326
Henry Schein, Inc.*	3,903	272,742
Humana, Inc.	3,561	883,377
Laboratory Corp. of America Holdings*	2,539	404,996
McKesson Corp.	5,196	810,316
Patterson Companies, Inc.	2,041	73,741
Quest Diagnostics, Inc.	3,400	334,866
UnitedHealth Group, Inc.	24,149	5,323,889
Universal Health Services, Inc. "B"	2,165	245,403
		15,836,843
Health Care Technology 0.1%		
Cerner Corp.*	7,853	**529,213**
Life Sciences Tools & Services 0.8%		
Agilent Technologies, Inc.	7,987	534,890
Illumina, Inc.*	3,638	794,867
IQVIA Holdings, Inc.*	3,627	355,083
Mettler-Toledo International, Inc.*	639	395,873
PerkinElmer, Inc.	2,773	202,762
Thermo Fisher Scientific, Inc.	9,991	1,897,091
Waters Corp.*	1,981	382,709
		4,563,275
Pharmaceuticals 4.5%		
Allergan PLC	8,286	1,355,424
Bristol-Myers Squibb Co.	40,779	2,498,937
Eli Lilly & Co.	24,137	2,038,611
Johnson & Johnson	66,939	9,352,717
Merck & Co., Inc.	68,149	3,834,744

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

	Shares	Value ($)
Mylan NV*	13,407	567,250
Perrigo Co. PLC	3,289	286,669
Pfizer, Inc.	148,509	5,378,996
Zoetis, Inc.	12,138	874,422
		26,187,770
Industrials 10.0%		
Aerospace & Defense 2.6%		
Arconic, Inc.	10,640	289,940
Boeing Co.	13,950	4,113,994
General Dynamics Corp.	6,918	1,407,467
Harris Corp.	2,970	420,700
L3 Technologies, Inc.	1,947	385,214
Lockheed Martin Corp.	6,214	1,995,005
Northrop Grumman Corp.	4,336	1,330,762
Raytheon Co.	7,202	1,352,896
Rockwell Collins, Inc.	4,053	549,668
Textron, Inc.	6,563	371,400
TransDigm Group, Inc.	1,201	329,819
United Technologies Corp.	18,505	2,360,683
		14,907,548
Air Freight & Logistics 0.7%		
C.H. Robinson Worldwide, Inc.	3,488	310,746
Expeditors International of Washington, Inc.	4,433	286,771
FedEx Corp.	6,147	1,533,922
United Parcel Service, Inc. "B"	17,119	2,039,729
		4,171,168
Airlines 0.5%		
Alaska Air Group, Inc.	3,070	225,676
American Airlines Group, Inc.	10,566	549,749
Delta Air Lines, Inc.	16,357	915,992
Southwest Airlines Co.	13,610	890,774
United Continental Holdings, Inc.*	6,279	423,205
		3,005,396
Building Products 0.3%		
A.O. Smith Corp.	3,637	222,875
Allegion PLC	2,373	188,796
Fortune Brands Home & Security, Inc.	3,842	262,946
Johnson Controls International PLC	23,061	878,855
Masco Corp.	7,840	344,490
		1,897,962
Commercial Services & Supplies 0.3%		
Cintas Corp.	2,145	334,255
Republic Services, Inc.	5,661	382,740
Stericycle, Inc.*	2,164	147,130
Waste Management, Inc.	9,952	858,858
		1,722,983
Construction & Engineering 0.1%		
Fluor Corp.	3,501	180,827
Jacobs Engineering Group, Inc.	3,049	201,112
Quanta Services, Inc.*	3,766	147,288
		529,227
Electrical Equipment 0.5%		
Acuity Brands, Inc.	1,057	186,032
AMETEK, Inc.	5,755	417,065
Eaton Corp. PLC	10,978	867,372

	Shares	Value ($)
Emerson Electric Co.	15,990	1,114,343
Rockwell Automation, Inc.	3,201	628,516
		3,213,328
Industrial Conglomerates 1.9%		
3M Co.	14,870	3,499,952
General Electric Co.	216,095	3,770,857
Honeywell International, Inc.	18,983	2,911,233
Roper Technologies, Inc.	2,551	660,709
		10,842,751
Machinery 1.7%		
Caterpillar, Inc.	14,824	2,335,966
Cummins, Inc.	3,888	686,776
Deere & Co.	7,971	1,247,541
Dover Corp.	3,867	390,528
Flowserve Corp.	3,187	134,268
Fortive Corp.	7,614	550,873
Illinois Tool Works, Inc.	7,683	1,281,909
Ingersoll-Rand PLC	6,256	557,973
PACCAR, Inc.	8,762	622,803
Parker-Hannifin Corp.	3,320	662,606
Pentair PLC	4,116	290,672
Snap-on, Inc.	1,422	247,855
Stanley Black & Decker, Inc.	3,821	648,385
Xylem, Inc.	4,476	305,263
		9,963,418
Professional Services 0.3%		
Equifax, Inc.	2,993	352,935
IHS Markit Ltd.*	9,051	408,653
Nielsen Holdings PLC	8,416	306,342
Robert Half International, Inc.	3,141	174,451
Verisk Analytics, Inc.*	3,860	370,560
		1,612,941
Road & Rail 0.9%		
CSX Corp.	22,269	1,225,018
J.B. Hunt Transport Services, Inc.	2,133	245,252
Kansas City Southern	2,584	271,889
Norfolk Southern Corp.	7,129	1,032,992
Union Pacific Corp.	19,613	2,630,103
		5,405,254
Trading Companies & Distributors 0.2%		
Fastenal Co.	7,153	391,198
United Rentals, Inc.*	2,106	362,042
W.W. Grainger, Inc.	1,292	305,235
		1,058,475
Information Technology 23.2%		
Communications Equipment 1.0%		
Cisco Systems, Inc.	123,193	4,718,292
F5 Networks, Inc.*	1,551	203,522
Juniper Networks, Inc.	9,316	265,506
Motorola Solutions, Inc.	4,040	364,974
		5,552,294
Electronic Equipment, Instruments & Components 0.4%		
Amphenol Corp. "A"	7,607	667,895
Corning, Inc.	21,657	692,807
FLIR Systems, Inc.	3,446	160,653
TE Connectivity Ltd.	8,763	832,835
		2,354,190

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

	Shares	Value ($)
Internet Software & Services 4.7%		
Akamai Technologies, Inc.*	4,213	274,014
Alphabet, Inc. "A"*	7,427	7,823,602
Alphabet, Inc. "C"*	7,522	7,871,021
eBay, Inc.*	24,211	913,723
Facebook, Inc. "A"*	59,424	10,485,959
VeriSign, Inc.*	2,096	239,866
		27,608,185
IT Services 4.0%		
Accenture PLC "A"	15,400	2,357,586
Alliance Data Systems Corp.	1,198	303,669
Automatic Data Processing, Inc.	11,052	1,295,184
Cognizant Technology Solutions Corp. "A"	14,695	1,043,639
CSRA, Inc.	4,031	120,608
DXC Technology Co.	7,109	674,644
Fidelity National Information Services, Inc.	8,321	782,923
Fiserv, Inc.*	5,195	681,220
Gartner, Inc.*	2,261	278,442
Global Payments, Inc.	3,967	397,652
International Business Machines Corp.	21,455	3,291,626
Mastercard, Inc. "A"	23,145	3,503,227
Paychex, Inc.	7,940	540,555
PayPal Holdings, Inc.*	28,154	2,072,697
Total System Services, Inc.	4,142	327,591
Visa, Inc. "A"	45,190	5,152,564
Western Union Co.	11,465	217,950
		23,041,777
Semiconductors & Semiconductor Equipment 3.8%		
Advanced Micro Devices, Inc.* (a)	20,647	212,251
Analog Devices, Inc.	9,180	817,295
Applied Materials, Inc.	26,566	1,358,054
Broadcom Ltd.	10,130	2,602,397
Intel Corp.	116,610	5,382,718
KLA-Tencor Corp.	3,902	409,983
Lam Research Corp.	4,034	742,538
Microchip Technology, Inc.	5,853	514,362
Micron Technology, Inc.*	28,735	1,181,583
NVIDIA Corp.	15,099	2,921,657
Qorvo, Inc.*	3,169	211,055
QUALCOMM, Inc.	36,730	2,351,455
Skyworks Solutions, Inc.	4,598	436,580
Texas Instruments, Inc.	24,548	2,563,793
Xilinx, Inc.	6,247	421,173
		22,126,894
Software 5.1%		
Activision Blizzard, Inc.	18,841	1,193,012
Adobe Systems, Inc.*	12,283	2,152,473
ANSYS, Inc.*	2,114	312,005
Autodesk, Inc.*	5,462	572,581
CA, Inc.	7,782	258,985
Cadence Design Systems, Inc.*	7,037	294,287
Citrix Systems, Inc.*	3,574	314,512
Electronic Arts, Inc.*	7,673	806,125
Intuit, Inc.	6,051	954,727
Microsoft Corp.	192,231	16,443,440
Oracle Corp.	75,916	3,589,309
Red Hat, Inc.*	4,409	529,521
salesforce.com, Inc.*	17,096	1,747,724
Symantec Corp.	15,450	433,527
Synopsys, Inc.*	3,763	320,758
		29,922,986
Technology Hardware, Storage & Peripherals 4.2%		
Apple, Inc.	127,939	21,651,117
Hewlett Packard Enterprise Co.	39,757	570,911
HP, Inc.	41,633	874,709
NetApp, Inc.	6,685	369,814
Seagate Technology PLC	7,213	301,792
Western Digital Corp.	7,361	585,420
Xerox Corp.	5,356	156,128
		24,509,891
Materials 2.9%		
Chemicals 2.1%		
Air Products & Chemicals, Inc.	5,431	891,118
Albemarle Corp.	2,756	352,465
CF Industries Holdings, Inc.	5,813	247,285
DowDuPont, Inc.	58,308	4,152,696
Eastman Chemical Co.	3,573	331,003
Ecolab, Inc.	6,478	869,218
FMC Corp.	3,346	316,732
International Flavors & Fragrances, Inc.	1,959	298,963
LyondellBasell Industries NV "A"	8,061	889,290
Monsanto Co.	10,945	1,278,157
PPG Industries, Inc.	6,341	740,756
Praxair, Inc.	7,134	1,103,487
The Mosaic Co.	8,830	226,578
The Sherwin-Williams Co.	2,051	840,992
		12,538,740
Construction Materials 0.1%		
Martin Marietta Materials, Inc.	1,566	346,149
Vulcan Materials Co.	3,284	421,567
		767,716
Containers & Packaging 0.4%		
Avery Dennison Corp.	2,207	253,496
Ball Corp.	8,737	330,695
International Paper Co.	10,293	596,376
Packaging Corp. of America	2,330	280,882
Sealed Air Corp.	4,507	222,195
WestRock Co.	6,337	400,562
		2,084,206
Metals & Mining 0.3%		
Freeport-McMoRan, Inc.*	33,513	635,406
Newmont Mining Corp.	13,354	501,042
Nucor Corp.	7,958	505,970
		1,642,418
Real Estate 2.8%		
Equity Real Estate Investment Trusts (REITs) 2.7%		
Alexandria Real Estate Equities, Inc.	2,386	311,588
American Tower Corp.	10,687	1,524,714
Apartment Investment & Management Co. "A"	3,882	169,682
AvalonBay Communities, Inc.	3,441	613,909
Boston Properties, Inc.	3,861	502,046
Crown Castle International Corp.	10,123	1,123,754
Digital Realty Trust, Inc.	5,107	581,687
Duke Realty Corp.	8,888	241,842

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

	Shares	Value ($)
Equinix, Inc.	1,949	883,326
Equity Residential	9,158	584,006
Essex Property Trust, Inc.	1,643	396,571
Extra Space Storage, Inc.	3,140	274,593
Federal Realty Investment Trust	1,800	239,058
GGP, Inc.	15,545	363,598
HCP, Inc.	11,738	306,127
Host Hotels & Resorts, Inc.	18,446	366,153
Iron Mountain, Inc.	6,974	263,129
Kimco Realty Corp.	10,684	193,915
Mid-America Apartment Communities, Inc.	2,833	284,886
Prologis, Inc.	13,261	855,467
Public Storage	3,730	779,570
Realty Income Corp.	7,024	400,509
Regency Centers Corp.	3,678	254,444
SBA Communications Corp. *	2,929	478,481
Simon Property Group, Inc.	7,746	1,330,298
SL Green Realty Corp.	2,437	245,966
The Macerich Co.	2,726	179,044
UDR, Inc.	6,679	257,275
Ventas, Inc.	8,876	532,649
Vornado Realty Trust	4,290	335,392
Welltower, Inc.	9,214	587,577
Weyerhaeuser Co.	18,810	663,241
		16,124,497
Real Estate Management & Development 0.1%		
CBRE Group, Inc. "A"*	7,536	**326,384**

Telecommunication Services 2.0%

	Shares	Value ($)
Diversified Telecommunication Services		
AT&T, Inc.	152,984	5,948,018
CenturyLink, Inc.	24,360	406,325
Verizon Communications, Inc.	101,639	5,379,752
		11,734,095

Utilities 2.9%

	Shares	Value ($)
Electric Utilities 1.7%		
Alliant Energy Corp.	5,795	246,925
American Electric Power Co., Inc.	12,258	901,821
Duke Energy Corp.	17,440	1,466,879
Edison International	8,116	513,256
Entergy Corp.	4,492	365,604
Eversource Energy	7,879	497,795
Exelon Corp.	23,926	942,924
FirstEnergy Corp.	11,079	339,239
NextEra Energy, Inc.	11,722	1,830,859
PG&E Corp.	12,783	573,062
Pinnacle West Capital Corp.	2,785	237,226
PPL Corp.	17,032	527,140
Southern Co.	25,009	1,202,683
Xcel Energy, Inc.	12,657	608,928
		10,254,341
Independent Power & Renewable Electricity Producers 0.1%		
AES Corp.	16,425	177,883
NRG Energy, Inc.	7,441	211,920
		389,803
Multi-Utilities 1.0%		
Ameren Corp.	6,051	356,948
CenterPoint Energy, Inc.	10,785	305,863
CMS Energy Corp.	7,060	333,938
Consolidated Edison, Inc.	7,730	656,663
Dominion Energy, Inc.	16,037	1,299,959
DTE Energy Co.	4,456	487,754
NiSource, Inc.	8,389	215,346
Public Service Enterprise Group, Inc.	12,611	649,466
SCANA Corp.	3,533	140,543
Sempra Energy	6,258	669,105
WEC Energy Group, Inc.	7,850	521,476
		5,637,061
Water Utilities 0.1%		
American Water Works Co., Inc.	4,435	**405,758**
Total Common Stocks (Cost $278,366,355)		**568,260,273**

	Principal Amount ($)	Value ($)

Government & Agency Obligation 0.1%

U.S. Treasury Obligation

	Principal Amount ($)	Value ($)
U.S. Treasury Bill, 1.07%**, 2/1/2018 (b) (Cost $584,461)	585,000	**584,383**

Securities Lending Collateral 0.1%

	Shares	Value ($)
Deutsche Government & Agency Securities Portfolio "Deutsche Government Cash Institutional Shares", 1.21% (c) (d) (Cost $870,253)	870,253	**870,253**

Cash Equivalents 1.0%

	Shares	Value ($)
Deutsche Central Cash Management Government Fund, 1.30% (c) (Cost $5,621,694)	5,621,694	**5,621,694**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $285,442,763)	98.7	**575,336,603**
Other Assets and Liabilities, Net	1.3	**7,745,805**
Net Assets	100.0	**583,082,408**

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

* Non-income producing security.
** Annualized yield at time of purchase; not a coupon rate.
(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, 2017 amounted to $826,429, which is 0.1% of net assets.
(b) At December 31, 2017, 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, 2017, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Amount ($)	Notional Value ($)	Unrealized Appreciation ($)
S&P 500 E-Mini Index	USD	3/16/2018	50	6,609,683	6,690,000	**80,317**

Currency Abbreviation	
USD	United States Dollar

For information on the Fund's policy and additional disclosures regarding futures contracts, please refer to the Derivatives section of Note A 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, 2017 in valuing the Fund's investments.

Assets	Level 1	Level 2	Level 3	Total
Common Stocks (e)	$ 568,260,273	$ —	$ —	$ 568,260,273
Government & Agency Obligation (e)	—	584,383	—	584,383
Short-Term Investments (e)	6,491,947	—	—	6,491,947
Derivatives (f)				
Futures Contracts	80,317	—	—	80,317
Total	**$ 574,832,537**	**$ 584,383**	**$ —**	**$ 575,416,920**

There have been no transfers between fair value measurement levels during the year ended December 31, 2017.
(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, 2017

Assets	
Investments in non-affiliated securities, at value (cost $278,950,816) — including $826,429 of securities loaned	$ 568,844,656
Investment in Deutsche Government & Agency Securities Portfolio (cost $870,253)*	870,253
Investment in Deutsche Central Cash Management Government Fund (cost $5,621,694)	5,621,694
Cash	4,780
Receivable for investments sold	7,960,915
Receivable for Fund shares sold	547,179
Dividends receivable	582,877
Interest receivable	7,769
Other assets	10,418
Total assets	584,450,541
Liabilities	
Payable upon return of securities loaned	870,253
Payable for Fund shares redeemed	178,637
Payable for variation margin on futures contracts	24,302
Accrued management fee	94,524
Accrued Trustees' fees	7,471
Other accrued expenses and payables	192,946
Total liabilities	1,368,133
Net assets, at value	**$ 583,082,408**
Net Assets Consist of	
Undistributed net investment income	9,463,423
Net unrealized appreciation (depreciation) on: Investments	289,893,840
Futures	80,317
Accumulated net realized gain (loss)	40,874,429
Paid-in capital	242,770,399
Net assets, at value	**$ 583,082,408**
Net Asset Value	
Class A	
Net Asset Value, offering and redemption price per share ($540,610,325 ÷ 24,366,996 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$ 22.19**
Class B	
Net Asset Value, offering and redemption price per share ($25,244,880 ÷ 1,138,481 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$ 22.17**
Class B2	
Net Asset Value, offering and redemption price per share ($17,227,203 ÷ 776,819 outstanding shares of beneficial interest, $.001 par value, unlimited number of shares authorized)	**$ 22.18**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2017

Investment Income	
Income: Dividends	$ 11,395,495
Interest	4,814
Income distributions — Deutsche Central Cash Management Government Fund	50,604
Securities lending income, net of borrower rebates	12,164
Other income	53,939
Total income	11,517,016
Expenses: Management fee	1,155,097
Administration fee	577,549
Services to shareholders	3,453
Record keeping fee (Class B and Class B-2)	50,008
Distribution service fees (Class B and Class B-2)	94,521
Custodian fee	16,858
Professional fees	87,104
Reports to shareholders	38,432
Trustees' fees and expenses	31,013
Other	44,127
Total expenses before expense reductions	2,098,162
Expense reductions	(85,152)
Total expenses after expense reductions	2,013,010
Net investment income (loss)	**9,504,006**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from: Investments	49,946,820
Futures	1,343,561
	51,290,381
Change in net unrealized appreciation (depreciation) on: Investments	50,986,271
Futures	100,717
	51,086,988
Net gain (loss)	**102,377,369**
Net increase (decrease) in net assets resulting from operations	**$ 111,881,375**

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, 2017	2016
Operations:		
Net investment income (loss)	$ 9,504,006	$ 9,929,415
Net realized gain (loss)	51,290,381	30,550,655
Change in net unrealized appreciation (depreciation)	51,086,988	17,492,004
Net increase (decrease) in net assets resulting from operations	111,881,375	57,972,074
Distributions to shareholders from:		
Net investment income:		
Class A	(9,614,078)	(10,160,013)
Class B	(291,291)	(239,707)
Class B2	(232,694)	(284,387)
Net realized gains:		
Class A	(27,007,783)	(37,893,356)
Class B	(972,179)	(1,020,192)
Class B2	(832,427)	(1,283,529)
Total distributions	(38,950,452)	(50,881,184)
Fund share transactions:		
Class A		
Proceeds from shares sold	14,878,880	19,113,656
Reinvestment of distributions	36,621,861	48,053,369
Cost of shares redeemed	(98,129,716)	(84,799,336)
Net increase (decrease) in net assets from Class A share transactions	(46,628,975)	(17,632,311)
Class B		
Proceeds from shares sold	7,279,737	6,018,267
Reinvestment of distributions	1,263,470	1,259,899
Cost of shares redeemed	(4,494,346)	(1,576,659)
Net increase (decrease) in net assets from Class B share transactions	4,048,861	5,701,507
Class B2		
Proceeds from shares sold	375,574	343,915
Reinvestment of distributions	1,065,121	1,567,916
Cost of shares redeemed	(2,854,784)	(2,587,120)
Net increase (decrease) in net assets from Class C share transaction	(1,414,089)	(675,289)
Increase (decrease) in net assets	28,936,720	(5,515,203)
Net assets at beginning of year	554,145,688	559,660,891
Net assets at end of year (including undistributed net investment income of $9,463,423 and $9,879,009, respectively)	**$583,082,408**	**$554,145,688**

Other Information	Years Ended December 31, 2017	2016
Class A		
Shares outstanding at beginning of period	26,513,791	27,337,468
Shares sold	724,657	1,015,516
Shares issued to shareholders in reinvestment of distributions	1,870,371	2,660,762
Shares redeemed	(4,741,823)	(4,499,955)
Net increase (decrease) in Class A shares	(2,146,795)	(823,677)
Shares outstanding at end of period	**24,366,996**	**26,513,791**
Class B		
Shares outstanding at beginning of period	940,533	634,704
Shares sold	355,052	320,148
Shares issued to shareholders in reinvestment of distributions	64,397	69,646
Shares redeemed	(221,501)	(83,965)
Net increase (decrease) in Class B shares	197,948	305,829
Shares outstanding at end of period	**1,138,481**	**940,533**
Class B2		
Shares outstanding at beginning of period	843,125	877,722
Shares sold	18,378	18,490
Shares issued to shareholders in reinvestment of distributions	54,260	86,625
Shares redeemed	(138,944)	(139,712)
Net increase (decrease) in Class C shares	(66,306)	(34,597)
Shares outstanding at end of period	**776,819**	**843,125**

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

Financial Highlights

Class A	2017	Years Ended December 31, 2016	2015	2014	2013
Selected Per Share Data					
Net asset value, beginning of period	**$19.58**	**$19.40**	**$20.41**	**$19.01**	**$15.01**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.34	.35	.35	.33	.30
Net realized and unrealized gain (loss)	3.69	1.74	(.10)	2.10	4.37
Total from investment operations	4.03	2.09	.25	2.43	4.67
Less distributions from:					
Net investment income	(.37)	(.40)	(.33)	(.37)	(.31)
Net realized gains	(1.05)	(1.51)	(.93)	(.66)	(.36)
Total distributions	(1.42)	(1.91)	(1.26)	(1.03)	(.67)
Net asset value, end of period	**$22.19**	**$19.58**	**$19.40**	**$20.41**	**$19.01**
Total Return (%)[b]	21.53	11.61	1.13	13.39	31.93
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	541	519	530	610	600
Ratio of expenses before expense reductions (%)[d]	.34	.34	.34	.34	.34
Ratio of expenses after expense reductions (%)[d]	.33	.33	.33	.33	.34
Ratio of net investment income (%)	1.67	1.88	1.77	1.70	1.76
Portfolio turnover rate (%)	3	4	3	3	4[c]

[a] Based on average shares outstanding during the period.
[b] Total return would have been lower had certain expenses not been reduced.
[c] Excludes portfolio securities delivered as a result of processing redemption in-kind transactions.
[d] Expense ratio does not reflect charges and 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.

Class B	2017	Years Ended December 31, 2016	2015	2014	2013
Selected Per Share Data					
Net asset value, beginning of period	**$19.58**	**$19.40**	**$20.40**	**$19.01**	**$15.00**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.28	.30	.30	.28	.34
Net realized and unrealized gain (loss)	3.67	1.74	(.09)	2.09	4.29
Total from investment operations	3.95	2.04	.21	2.37	4.63
Less distributions from:					
Net investment income	(.31)	(.35)	(.28)	(.32)	(.26)
Net realized gains	(1.05)	(1.51)	(.93)	(.66)	(.36)
Total distributions	(1.36)	(1.86)	(1.21)	(.98)	(.62)
Net asset value, end of period	**$22.17**	**$19.58**	**$19.40**	**$20.40**	**$19.01**
Total Return (%)[b]	21.07	11.32	.92	13.05	31.68
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	25	18	12	7	5
Ratio of expenses before expense reductions (%)[d]	.71	.69	.67	.62	.59
Ratio of expenses after expense reductions (%)[d]	.65	.61	.58	.58	.58
Ratio of net investment income (%)	1.35	1.61	1.53	1.45	2.11
Portfolio turnover rate (%)	3	4	3	3	4[c]

[a] Based on average shares outstanding during the period.
[b] Total return would have been lower had certain expenses not been reduced.
[c] Excludes portfolio securities delivered as a result of processing redemption in-kind transactions.
[d] Expense ratio does not reflect charges and 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.

Class B2	**Years Ended December 31,** **2017**	**2016**	**2015**	**2014**	**2013**
Selected Per Share Data					
Net asset value, beginning of period	**$19.57**	**$19.39**	**$20.40**	**$18.99**	**$14.99**
Income (loss) from investment operations:					
Net investment income (loss)[a]	.26	.28	.28	.27	.23
Net realized and unrealized gain (loss)	3.69	1.74	(.10)	2.09	4.37
Total from investment operations	3.95	2.02	.18	2.36	4.60
Less distributions from:					
Net investment income	(.29)	(.33)	(.26)	(.29)	(.24)
Net realized gains	(1.05)	(1.51)	(.93)	(.66)	(.36)
Total distributions	(1.34)	(1.84)	(1.19)	(.95)	(.60)
Net asset value, end of period	**$22.18**	**$19.57**	**$19.39**	**$20.40**	**$18.99**
Total Return (%)[b]	21.06	11.20	.76	13.00	31.44
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	17	17	17	19	20
Ratio of expenses before expense reductions (%)[d]	.74	.74	.74	.74	.74
Ratio of expenses after expense reductions (%)[d]	.72	.71	.68	.68	.72
Ratio of net investment income (%)	1.27	1.50	1.42	1.35	1.39
Portfolio turnover rate (%)	3	4	3	3	4[c]

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

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

[c] Excludes portfolio securities delivered as a result of processing redemption in-kind transactions.

[d] Expense ratio does not reflect charges and 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.

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, 2017, 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, 2017, the Fund invested the cash collateral in Deutsche Government & Agency Securities Portfolio. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.13% annualized effective rate as of December 31, 2017) on the cash collateral invested in Deutsche 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, 2017, 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, 2017 and has determined that no provision for income tax and/or uncertain tax positions 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, 2017, the Fund's components of distributable earnings (accumulated gains) on a tax basis were as follows:

Undistributed ordinary income*	$ 10,196,699
Undistributed long-term capital gains	$ 49,256,819
Unrealized appreciation (depreciation) on investments	$ 280,834,182

At December 31, 2017, the aggregate cost of investments for federal income tax purposes was $294,499,895. The net unrealized appreciation for all investments based on tax cost was $280,834,182. This consisted of aggregate gross unrealized appreciation for all investments in which there was an excess of value over tax cost of $300,179,590 and aggregate gross unrealized depreciation for all investments in which was an excess of tax cost over value of $19,345,408.

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

	Years Ended December 31,	
	2017	**2016**
Distributions from ordinary income*	$ 10,904,335	$ 11,177,274
Distributions from long-term capital gains	$ 28,046,117	$ 39,703,910

* 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, 2017, 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, 2017 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2017, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $1,921,000 to $7,196,000.

The following tables summarize the value of the Fund's derivative instruments held as of December 31, 2017 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivative	**Futures Contracts**
Equity Contracts (a)	$ 80,317

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

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

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the year ended December 31, 2017 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 (b)	$ 1,343,561

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

(b) Net realized gain (loss) from futures

Change in Net Unrealized Appreciation (Depreciation)	**Futures Contracts**
Equity Contracts (c)	$ 100,717

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

(c) Change in net unrealized appreciation (depreciation) on futures

C. Purchases and Sales of Securities

During the year ended December 31, 2017, purchases and sales of investment securities (excluding short-term investments) aggregated $16,582,062 and $98,799,211, 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, 2017, 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, 2017 through April 30, 2017, (through September 30, 2017 for Class A shares), 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	.62%
Class B2	.72%

For the period from May 1, 2017 through September 30, 2017 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 classes as follows:

Class B	.67%
Class B2	.77%

Effective October 1, 2017 through September 30, 2018, 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 classes as follows:

Class A	.31%
Class B	.65%
Class B2	.75%

For the year ended December 31, 2017, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 70,591
Class B	12,384
Class B2	2,177
	$ 85,152

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, 2017, the Administration Fee was $577,549, of which $49,439 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, 2017, the Distribution Service Fees were as follows:

Distribution Service Fees	**Total Aggregated**	**Unpaid at December 31, 2017**
Class B	$ 52,639	$ 5,298
Class B2	41,882	3,679
	$ 94,521	**$ 8,977**

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, 2017, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at December 31, 2017
Class A	$ 445	$ 111
Class B	81	20
Class B2	60	15
	$ 586	**$ 146**

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing certain pre-press and regulatory filing services to the Fund. For the year ended December 31, 2017, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $17,122, of which $4,642 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, 2017, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $916.

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, 2017.

F. Ownership of the Fund

At December 31, 2017, 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 53% and 13%, respectively. At December 31, 2017, one participating insurance company was beneficial owner of record of 10% or more of the total outstanding Class B shares of the Fund, owning 82%. At December 31, 2017, one participating insurance company was a beneficial owner of record of 92% 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 Shareholders of Deutsche Equity 500 Index VIP

Opinion on the Financial Statements

We have audited the accompanying statement of assets and liabilities, including the investment portfolio, of Deutsche Equity 500 Index VIP (one of the funds constituting Deutsche Investments VIT Funds, referred to hereafter as the "Fund") as of December 31, 2017, the related statement of operations for the year ended December 31, 2017, the statement of changes in net assets for each of the two years in the period ended December 31, 2017, including the related notes, and the financial highlights for each of the five years in the period ended December 31, 2017 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2017, 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 ended December 31, 2017 and the financial highlights for each of the five years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on the Fund's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Fund in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our procedures included confirmation of securities owned as of December 31, 2017 by correspondence with the custodian, transfer agent and brokers; when replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Boston, Massachusetts
February 14, 2018

We have served as the auditor of one or more investment companies in the Deutsche family of funds since 1930.

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, 2017 to December 31, 2017).

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, 2017

Actual Fund Return	**Class A**	**Class B**	**Class B2**
Beginning Account Value 7/1/17	$ 1,000.00	$ 1,000.00	$ 1,000.00
Ending Account Value 12/31/17	$ 1,112.80	$ 1,110.70	$ 1,110.70
Expenses Paid per $1,000*	$ 1.70	$ 3.51	$ 3.83

Hypothetical 5% Fund Return	**Class A**	**Class B**	**Class B2**
Beginning Account Value 7/1/17	$ 1,000.00	$ 1,000.00	$ 1,000.00
Ending Account Value 12/31/17	$ 1,023.59	$ 1,021.88	$ 1,021.58
Expenses Paid per $1,000*	$ 1.63	$ 3.36	$ 3.67

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

Annualized Expense Ratios	**Class A**	**Class B**	**Class B2**
Deutsche Equity 500 Index VIP	.32%	.66%	.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 $1.02 per share from net long-term capital gains during its year ended December 31, 2017.

Pursuant to Section 852 of the Internal Revenue Code, the Fund designates $54,247,000 as capital gain dividends for its year ended December 31, 2017.

For corporate shareholders, 93% of the ordinary dividends (i.e., income dividends plus short-term capital gains) paid during the Fund's fiscal year ended December 31, 2017 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 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 2017.

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"). 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.

— The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly met 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.

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.

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 administrative support services provided by DIMA, such 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 fund sub-advisers, including NTI. The Board reviewed the Fund's performance over short-term and long-term periods and compared those returns to various agreed-upon performance measures, including market index(es) and a peer universe compiled using information supplied by

Morningstar Direct ("Morningstar"), an independent fund data service. The Board also noted that it has put into place a process of identifying "Funds in Review" (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, 2016, the Fund's performance (Class A shares) was in the 2nd quartile, 1st quartile and 2nd quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers).

Fees and Expenses. The Board considered the Fund's investment management fee schedule, sub-advisory fee schedule, operating expenses and total expense ratios, and comparative information provided by 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, 2016). 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, 2016, 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 to DIMA, 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, any fees received by an affiliate of DIMA for transfer agency 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. In addition, the Board considered 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, 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)	89	—
Kenneth C. Froewiss (1945) Vice Chairperson since 2017, and Board Member since 2001	Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); Member, Finance Committee, Association for Asian Studies (2002–present); Director, Mitsui Sumitomo Insurance Group (US) (2004–present); prior thereto, Managing Director, J.P. Morgan (investment banking firm) (until 1996)	92	—
John W. Ballantine (1946) Board Member since 1999	Retired; formerly, Executive Vice President and Chief Risk Management Officer, First Chicago NBD Corporation/The First National Bank of Chicago (1996–1998); Executive Vice President and Head of International Banking (1995–1996); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (population well-being and wellness services) (2003–2014); Stockwell Capital Investments PLC (private equity); Enron Corporation; FNB Corporation; Tokheim Corporation; First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International. Not-for-Profit Director, Trustee: Palm Beach Civic Association; Public Radio International; Window to the World Communications (public media); Harris Theater for Music and Dance (Chicago)	89	Portland General Electric[2] (utility company) (2003–present)
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); The Pew Charitable Trusts (charitable organization); former Directorships: Becton Dickinson and Company[2] (medical technology company); Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College; North Bennett Street School (Boston)	89	—
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)	89	—

Name, Year of Birth, Position with the Fund and Length of Time Served[1]	Business Experience and Directorships During the Past Five Years	Number of Funds in Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Paul K. Freeman (1950) Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Independent Directors Council (former chair); 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); Knoebel Institute for Healthy Aging, University of Denver (2017–present); former Directorships: Prisma Energy International	89	—
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)	89	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004	Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	89	—
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[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	89	Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc[2] (health care) (2009–present)
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	89	—
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)	89	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Hepsen Uzcan[6,9] (1974) President and Chief Executive Officer, 2017–present Assistant Secretary, 2013–present	Director,[3] Deutsche Asset Management; formerly: Vice President for the Deutsche funds (2016–2017)
John Millette[8] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset Management; Chief Legal Officer, Deutsche Investment Management Americas Inc. (2015–present); and Director and Vice President, Deutsche AM Trust Company (since 2016); formerly: Secretary, Deutsche Investment Management Americas Inc. (2015–2017)
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset Management, and Chairman, Director and President, Deutsche AM Trust Company (since 2013); Vice President, Deutsche AM Distributors, Inc. (since 2016); Director, Deutsche AM Service Company (since 2017); Director and President, DB Investment Managers, Inc. (since 2017); formerly: Director, Deutsche AM Trust Company (2004–2013)
Caroline Pearson[8] (1962) Chief Legal Officer, 2010–present	Managing Director,[3] Deutsche Asset Management; formerly: Secretary, Deutsche AM Distributors, Inc.; and Secretary, Deutsche AM Service Company
Scott D. Hogan[8] (1970) Chief Compliance Officer, 2016–present	Director,[3] Deutsche Asset Management
Wayne Salit[7] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Sheila Cadogan[8] (1966) Assistant Treasurer, since July 12, 2017	Director,[3] Deutsche Asset Management
Paul Antosca[8] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management
Diane Kenneally[8] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

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

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

3 Executive title, not a board directorship.

4 As a result of their respective positions held with the Advisor, these individuals are considered "interested persons" of the Advisor within the meaning of the 1940 Act. Interested persons receive no compensation from the Fund.

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

6 Address: 345 Park Avenue, New York, NY 10154.

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

8 Address: One International Place, Boston, MA 02110.

9 Appointed President and Chief Executive Officer effective December 1, 2017.

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-025817-7 2/18)

Deutsche
Asset Management

December 31, 2017

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. Please read 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

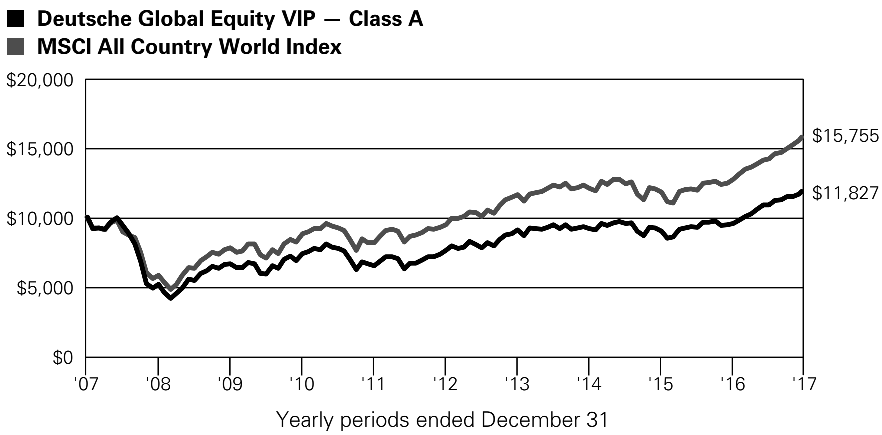
December 31, 2017 (Unaudited)

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, 2017 is 1.03% 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 captures large and mid cap representation across 23 Developed Markets and 23 Emerging Markets countries.

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	$12,404	$12,932	$15,605	$11,827
	Average annual total return	24.04%	8.95%	9.31%	1.69%
MSCI All Country World Index	Growth of $10,000	$12,397	$13,056	$16,700	$15,755
	Average annual total return	23.97%	9.30%	10.80%	4.65%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2017 (Unaudited)

Global equities delivered strong performance in 2017, as gauged by the 23.97% return of the Fund's benchmark, the MSCI AC World Index. Class A shares of the Fund returned 24.04% (unadjusted for contract charges).

The markets' positive showing reflected the supportive backdrop of improving global growth and robust corporate earnings. Political developments were also supportive, highlighted by market-friendly outcomes of elections in Europe and the passage of a reduction of the corporate tax rate in the United States. In addition, economic growth — while accelerating — did not pick up to a large enough extent that the U.S. Federal Reserve and other major central banks were compelled to tighten monetary policy aggressively. In this environment, U.S. stocks climbed to a series of record highs with unusually low volatility, led by faster-growing and higher-risk market segments. Overseas, both developed- and emerging-market stocks registered robust gains and outpaced the United States due to the combination of better-than-expected economic data and weakness in the U.S. dollar.

The Fund's sector allocations proved to be a significant tailwind for performance. Since we use a bottom-up process designed to identify what we think are the most compelling individual-stock growth opportunities in the world markets, the portfolio's sector weightings can deviate widely from the index. This worked to our benefit, as we held a sizable overweight in the information technology sector — which outpaced the broader market — along with underweights in slower-growing sectors that lagged, such as utilities, telecommunications services and real estate. An underweight position in energy further aided the Fund's return.

Stock selection made a modest contribution to results, highlighted by our investments in information technology and financials. In the former, Activision Blizzard, Inc. generated market-beating gains thanks to the release of new games, a strong presence in online gaming and the increasing popularity of eSports. Applied Materials, Inc., whose status as the leading supplier of semiconductor fabrication equipment enabled it to take advantage of the robust order cycle in the chip industry, also rallied. Tencent Holdings, Ltd. which capitalized on the rapid growth of e-commerce in China and exceeded analysts' growth expectations, was an additional contributor of note. In financials, our position in Progressive Corp. benefited from an improving growth outlook, and the Canadian company Brookfield Asset Management, Inc. was boosted by rising earnings, continued gains in its assets under management and the expansion of its emerging-markets business.

Our stock selection was less effective in the materials sector. The Fund's holdings, while producing a positive return in the aggregate, did not keep up with the materials stocks in the benchmark. In energy, we fell short of the index return due to positions in Noble Energy, Inc. and Schlumberger Ltd. The health care sector also proved to be a challenging area for the Fund. Shares of Celgene Corp. declined after the company lowered its long-term earnings expectations, and the pharmaceutical developer Allergan PLC* slid due to heightened generic competition for one of its key medications. A position in the U.S. media giant Time Warner, Inc.* also cost the Fund some performance due to regulatory challenges that reduced the likelihood of AT&T, Inc.* executing its planned acquisition of the company.

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 macroeconomic calls or taking excessive risk. With the markets in general — and growth stocks in particular — having come so far in the past two years, we think intensive company research and bottom-up security selection have become even more important in generating positive investment results. Accordingly, we emphasized companies with sustainable, above-average growth that we believe can provide a firm foundation for longer-term performance.

Sebastian P. Werner, PhD, Director
Mark Schumann, CFA, Director
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.

Terms to Know

The **MSCI All Country (AC) 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 fees or expenses and it is not possible to invest directly into an index.

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

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

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

* Held and sold prior to December 31, 2017. AT&T was not held in 2017.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/17**	**12/31/16**
Common Stocks	98%	98%
Cash Equivalents	2%	1%
Preferred Stock	0%	1%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/17**	**12/31/16**
Information Technology	26%	21%
Financials	19%	13%
Health Care	19%	20%
Industrials	11%	8%
Consumer Discretionary	7%	9%
Consumer Staples	6%	12%
Materials	6%	7%
Energy	3%	6%
Telecommunication Services	2%	2%
Real Estate	1%	2%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/17**	**12/31/16**
United States	51%	55%
Canada	9%	7%
Switzerland	7%	7%
Germany	7%	6%
United Kingdom	7%	6%
China	6%	1%
France	3%	—
Finland	2%	2%
Ireland	2%	2%
Luxembourg	1%	2%
Sweden	1%	3%
Japan	1%	3%
Others	3%	6%
	100%	100%

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 7.

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, 2017

	Shares	Value ($)
Common Stocks 98.1%		
Australia 1.0%		
Australia & New Zealand Banking Group Ltd. (Cost $291,975)	13,300	**297,925**
Canada 9.0%		
Agnico Eagle Mines Ltd.	12,100	558,778
Alimentation Couche-Tard, Inc. "B"	10,200	532,234
Brookfield Asset Management, Inc. "A"	21,400	931,589
Canada Goose Holdings, Inc.*	10,700	338,025
Toronto-Dominion Bank	6,700	392,566
(Cost $1,682,802)		**2,753,192**
China 5.6%		
Alibaba Group Holding Ltd. (ADR)*	2,600	448,318
China Life Insurance Co., Ltd. "H"	94,000	295,293
China Literature Ltd. 144A*	14	149
New Oriental Education & Technology Group, Inc. (ADR)	1,900	178,600
Ping An Insurance (Group) Co. of China Ltd. "H"	15,500	161,514
Tencent Holdings Ltd.	12,300	639,764
(Cost $1,227,682)		**1,723,638**
Finland 1.9%		
Sampo Oyj "A" (Cost $494,083)	10,700	**588,597**
France 3.1%		
Air Liquide SA	1,500	189,178
VINCI SA	4,500	460,051
Vivendi SA	11,500	308,895
(Cost $952,517)		**958,124**
Germany 6.6%		
Allianz SE (Registered)	2,800	644,520
BASF SE	2,400	264,818
Fresenius Medical Care AG & Co. KGaA	8,000	843,709
Siemens AG (Registered)	1,900	265,202
(Cost $1,338,957)		**2,018,249**
Ireland 1.7%		
Kerry Group PLC "A" (a)	4,321	485,083
Kerry Group PLC "A" (a)	479	53,753
(Cost $326,642)		**538,836**
Japan 1.2%		
Komatsu Ltd.	6,000	217,603
SMC Corp.	400	164,586
(Cost $341,579)		**382,189**
Luxembourg 1.4%		
Eurofins Scientific (Cost $150,981)	700	**426,435**
Malaysia 0.7%		
IHH Healthcare Bhd. (Cost $184,246)	141,500	**204,788**
Norway 0.5%		
Marine Harvest ASA* (Cost $95,936)	8,400	**142,129**
Sweden 1.4%		
Assa Abloy AB "B" (Cost $330,340)	20,100	**418,168**

	Shares	Value ($)
Switzerland 7.3%		
Comet Holding AG (Registered)*	1,400	220,862
Lonza Group AG (Registered)*	2,100	567,932
Nestle SA (Registered)	8,015	689,594
Roche Holding AG (Genusschein)	2,300	582,176
u-blox Holding AG*	830	163,397
(Cost $1,357,520)		**2,223,961**
United Kingdom 6.5%		
Aon PLC (b)	4,400	589,600
Compass Group PLC	24,600	531,466
Halma PLC	26,500	450,945
Spirax-Sarco Engineering PLC	5,600	425,139
(Cost $1,337,029)		**1,997,150**
United States 50.2%		
A.O. Smith Corp.	4,400	269,632
Acadia Healthcare Co., Inc.* (c)	8,000	261,040
Activision Blizzard, Inc.	7,400	468,568
Alphabet, Inc. "A"*	580	610,972
American Express Co.	3,300	327,723
AMETEK, Inc.	7,700	558,019
Amphenol Corp. "A"	9,600	842,880
Apple, Inc.	4,450	753,073
Applied Materials, Inc.	11,000	562,320
Biogen, Inc.*	840	267,599
Bristol-Myers Squibb Co.	4,200	257,376
CBRE Group, Inc. "A"*	4,800	207,888
Celgene Corp.*	4,800	500,928
Danaher Corp.	6,400	594,048
Ecolab, Inc.	3,400	456,212
EOG Resources, Inc.	3,400	366,894
EPAM Systems, Inc.*	2,100	225,603
Evolent Health, Inc. "A"* (c)	13,400	164,820
Exxon Mobil Corp.	2,100	175,644
Facebook, Inc. "A"*	2,830	499,382
Fidelity National Information Services, Inc.	3,100	291,679
Hologic, Inc.*	5,100	218,025
Intuit, Inc.	1,600	252,448
JPMorgan Chase & Co.	6,000	641,640
LKQ Corp.*	9,400	382,298
Mastercard, Inc. "A"	5,700	862,752
Noble Energy, Inc.	5,600	163,184
Oracle Corp.	5,400	255,312
Palo Alto Networks, Inc.*	1,500	217,410
Progressive Corp.	14,500	816,640
QUALCOMM, Inc.	3,500	224,070
Schlumberger Ltd.	4,600	309,994
Scotts Miracle-Gro Co.	3,000	320,970
T-Mobile U.S., Inc.*	10,100	641,451
TJX Companies, Inc.	4,300	328,778
Union Pacific Corp.	2,400	321,840
United Technologies Corp.	1,300	165,841
Zoetis, Inc.	8,000	576,320
(Cost $10,766,115)		**15,361,273**
Total Common Stocks (Cost $20,878,404)		**30,034,654**

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

Preferred Stock 0.3%

	Shares	Value ($)
Germany		
Draegerwerk AG & Co. KGaA (Cost $78,140)	1,100	**95,546**

Securities Lending Collateral 1.3%

	Shares	Value ($)
Deutsche Government & Agency Securities Portfolio "Deutsche Government Cash Institutional Shares", 1.21% (d) (e) (Cost $395,119)	395,119	**395,119**

Cash Equivalents 1.6%

	Shares	Value ($)
Deutsche Central Cash Management Government Fund, 1.30% (d) (Cost $480,743)	480,743	**480,743**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $21,832,406)	101.3	**31,006,062**
Other Assets and Liabilities, Net	(1.3)	**(397,667)**
Net Assets	100.0	**30,608,395**

* Non-income producing security.

(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, 2017 amounted to $376,740, which is 1.2% 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.

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

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, 2017 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	$ —	$ 297,925	$ —	$ 297,925
Canada	2,753,192	—	—	2,753,192
China	627,067	1,096,571	—	1,723,638
Finland	—	588,597	—	588,597
France	—	958,124	—	958,124
Germany	—	2,018,249	—	2,018,249
Ireland	—	538,836	—	538,836
Japan	—	382,189	—	382,189
Luxembourg	—	426,435	—	426,435
Malaysia	—	204,788	—	204,788
Norway	—	142,129	—	142,129
Sweden	—	418,168	—	418,168
Switzerland	—	2,223,961	—	2,223,961
United Kingdom	589,600	1,407,550	—	1,997,150
United States	15,361,273	—	—	15,361,273
Preferred Stocks (f)	—	95,546	—	95,546
Short-Term Investments (f)	875,862	—	—	875,862
Total	**$ 20,206,994**	**$ 10,799,068**	**$ —**	**$ 31,006,062**

There have been no transfers between fair value measurement levels during the year ended December 31, 2017.

(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, 2017

Assets	
Investments in non-affiliated securities, at value (cost $20,956,544) — including $376,740 of securities loaned	$ 30,130,200
Investment in Deutsche Government & Agency Securities Portfolio (cost $395,119)*	395,119
Investment in Deutsche Central Cash Management Government Fund (cost $480,743)	480,743
Foreign currency, at value (cost $145,464)	146,740
Dividends receivable	8,457
Interest receivable	789
Foreign taxes recoverable	21,289
Other assets	956
Total assets	31,184,293
Liabilities	
Payable upon return of securities loaned	395,119
Payable for Fund shares redeemed	71,259
Accrued management fee	19,405
Accrued Trustees' fees	1,054
Other accrued expenses and payables	89,061
Total liabilities	575,898
Net assets, at value	**$ 30,608,395**
Net Assets Consist of	
Undistributed net investment income	209,108
Net unrealized appreciation (depreciation) on:	
Investments	9,173,656
Foreign currency	750
Accumulated net realized gain (loss)	(91,638)
Paid-in capital	21,316,519
Net assets, at value	**$ 30,608,395**
Class A	
Net Asset Value, offering and redemption price per share ($30,608,395 ÷ 2,616,821 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 11.70**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2017

Investment Income	
Income:	
Dividends (net of foreign taxes withheld of $38,865)	$ 617,693
Income distributions — Deutsche Central Cash Management Government Fund	5,392
Securities lending income, net of borrower rebates	5,617
Total income	628,702
Expenses:	
Management fee	283,683
Administration fee	43,644
Services to Shareholders	326
Custodian fee	22,782
Professional fees	73,321
Reports to shareholders	16,620
Trustees' fees and expenses	4,247
Other	17,328
Total expenses before expense reductions	461,951
Expense reductions	(49,159)
Total expenses after expense reductions	412,792
Net investment income	**215,910**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	5,312,794
Foreign currency	8,849
	5,321,643
Change in net unrealized appreciation (depreciation) on:	
Investments	3,909,848
Foreign currency	7,479
	3,917,327
Net gain (loss)	**9,238,970**
Net increase (decrease) in net assets resulting from operations	**$ 9,454,880**

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, 2017	2016
Operations:		
Net investment income (loss)	$ 215,910	$ 218,495
Net realized gain (loss)	5,321,643	1,040,800
Change in net unrealized appreciation (depreciation)	3,917,327	1,213,259
Net increase (decrease) in net assets resulting from operations	9,454,880	2,472,554
Distributions to shareholders from:		
Net investment income:		
Class A	(233,988)	(336,718)
Fund share transactions:		
Class A		
Proceeds from shares sold	1,174,131	1,414,193
Reinvestment of distributions	233,988	336,718
Cost of shares redeemed	(23,512,478)	(9,403,270)
Net increase (decrease) in net assets from Class A share transactions	(22,104,359)	(7,652,359)
Increase (decrease) in net assets	(12,883,467)	(5,516,523)
Net assets at beginning of year	43,491,862	49,008,385
Net assets at end of year (including undistributed net investment income of $209,108 and $215,993, respectively)	**$ 30,608,395**	**$ 43,491,862**

Other Information		
Class A		
Shares outstanding at beginning of period	4,587,493	5,446,357
Shares sold	110,161	152,025
Shares issued to shareholders in reinvestment of distributions	22,499	36,640
Shares redeemed	(2,103,332)	(1,047,529)
Net increase (decrease) in Class A shares	(1,970,672)	(858,864)
Shares outstanding at end of period	**2,616,821**	**4,587,493**

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

Financial Highlights

Class A	2017	Years Ended December 31, 2016	2015	2014	2013
Selected Per Share Data					
Net asset value, beginning of period	**$ 9.48**	**$9.00**	**$ 9.21**	**$9.27**	**$ 7.96**
Income (loss) from investment operations:					
Net investment income[a]	.05	.04	.05	.06	.14
Net realized and unrealized gain (loss)	2.22	.51	(.21)	.04	1.37
Total from investment operations	2.27	.55	(.16)	.10	1.51
Less distributions from:					
Net investment income	(.05)	(.07)	(.05)	(.16)	(.20)
Net asset value, end of period	**$11.70**	**$9.48**	**$ 9.00**	**$9.21**	**$ 9.27**
Total Return (%)	24.04[b]	6.11[b,c]	(1.75)[b]	1.14	19.31[b]
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	31	43	49	68	73
Ratio of expenses before expense reductions (%)[d]	1.06	1.03	1.00	.95	1.06
Ratio of expenses after expense reductions (%)[d]	.95	.95	.91	.95	.99
Ratio of net investment income (%)	.49	.49	.58	.59	1.69
Portfolio turnover rate (%)	19	46	79	78	139

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%.

d Expense ratio does not reflect charges and 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.

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, 2017, 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, 2017, the

Fund invested the cash collateral in Deutsche Government & Agency Securities Portfolio. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.13% annualized effective rate as of December 31, 2017) on the cash collateral invested in Deutsche 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, 2017, 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.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2017 and has determined that no provision for income tax and/or uncertain tax positions 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, 2017, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 209,108
Unrealized appreciation (depreciation) on investments	$ 9,082,018

At December 31, 2017, the aggregate cost of investments for federal income tax purposes was $21,924,044. The net unrealized appreciation for all investments based on tax cost was $9,082,018. This consisted of aggregate gross unrealized appreciation for all investments in which there was an excess of value over tax cost of $9,650,964 and aggregate gross unrealized depreciation for all investments in which there was an excess of tax cost over value of $568,946.

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

	Years Ended December 31, 2017	2016
Distributions from ordinary income*	$ 233,988	$ 336,718

* 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, 2017, purchases and sales of investment transactions (excluding short-term investments) aggregated $8,256,563 and $30,064,274, 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, 2017, 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, 2017 through September 30, 2017, the Advisor had contractually agreed to waive its fee and/or reimburse certain operating expenses to the extent necessary to maintain the total annual operating expenses (excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest expense) of Class A shares at 0.95%.

Effective October 1, 2017 through September 30, 2018, 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 0.93%.

For the year ended December 31, 2017, fees waived and/or expenses reimbursed were $49,159.

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, 2017, the Administration Fee was $43,644, of which $2,605 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, 2017, the amounts charged to the Fund by DSC aggregated $81, of which $20 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing certain pre-press and regulatory filing services to the Fund. For the year ended December 31, 2017, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $9,727, of which $4,022 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, 2017, the Fund incurred lending agent fees to Deutsche Bank AG in the amount of $423.

D. Ownership of the Fund

At December 31, 2017, one participating insurance company was owner of record of 10% or more of the total outstanding Class A shares of the Fund, owning 99%.

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, 2017.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Deutsche Variable Series II and the Shareholders of Deutsche Global Equity VIP

Opinion on the Financial Statements

We have audited the accompanying statement of assets and liabilities of Deutsche Global Equity VIP (the "Fund") (one of the funds constituting the Deutsche Variable Series II) (the "Trust"), including the schedule of investments, as of December 31, 2017, 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, the financial highlights for each of the five years in the period then ended and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund (one of the funds constituting the Deutsche Variable Series II) at December 31, 2017, 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 its financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on the Fund's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Trust in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Trust is not required to have, nor were we engaged to perform, an audit of the Trust's internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2017, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received.

Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Ernst + Young LLP

We have served as the auditor of one or more investment companies in the Deutsche family of funds since at least 1979, but we are unable to determine the specific year.

Boston, Massachusetts
February 15, 2018

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, 2017 to December 31, 2017).

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, 2017

Actual Fund Return	**Class A**
Beginning Account Value 7/1/17	$ 1,000.00
Ending Account Value 12/31/17	$ 1,087.40
Expenses Paid per $1,000*	$ 4.95

Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 7/1/17	$ 1,000.00
Ending Account Value 12/31/17	$ 1,020.47
Expenses Paid per $1,000*	$ 4.79

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

Annualized Expense Ratio	**Class A**
Deutsche Variable Series II — Deutsche Global Equity VIP	.94%

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, 100% of the ordinary dividends (i.e., income dividends plus short-term capital gains) paid during the Fund's fiscal year ended December 31, 2017, 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 2017.

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"). 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.

— The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly met 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.

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.

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 administrative support services provided by DIMA, such 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 "Funds in Review" (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, 2016, the Fund's performance (Class A shares) was in the 2nd quartile, 3rd quartile and 4th quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has underperformed its benchmark in the one-, three- and five-year periods ended December 31, 2016.

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, 2016). 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, 2016, 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 to DIMA, 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 transfer agency 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. In addition, the Board considered 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, 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)	89	—
Kenneth C. Froewiss (1945) Vice Chairperson since 2017, and Board Member since 2001	Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); Member, Finance Committee, Association for Asian Studies (2002–present); Director, Mitsui Sumitomo Insurance Group (US) (2004–present); prior thereto, Managing Director, J.P. Morgan (investment banking firm) (until 1996)	92	—
John W. Ballantine (1946) Board Member since 1999	Retired; formerly, Executive Vice President and Chief Risk Management Officer, First Chicago NBD Corporation/The First National Bank of Chicago (1996–1998); Executive Vice President and Head of International Banking (1995–1996); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (population well-being and wellness services) (2003–2014); Stockwell Capital Investments PLC (private equity); Enron Corporation; FNB Corporation; Tokheim Corporation; First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International. Not-for-Profit Director, Trustee: Palm Beach Civic Association; Public Radio International; Window to the World Communications (public media); Harris Theater for Music and Dance (Chicago)	89	Portland General Electric[2] (utility company) (2003–present)
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); The Pew Charitable Trusts (charitable organization); former Directorships: Becton Dickinson and Company[2] (medical technology company); Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College; North Bennett Street School (Boston)	89	—
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)	89	—

Name, Year of Birth, Position with the Fund and Length of Time Served[1]	Business Experience and Directorships During the Past Five Years	Number of Funds in Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Paul K. Freeman (1950) Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Independent Directors Council (former chair); 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); Knoebel Institute for Healthy Aging, University of Denver (2017–present); former Directorships: Prisma Energy International	89	—
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)	89	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004	Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	89	—
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[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	89	Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc[2] (health care) (2009–present)
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	89	—
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)	89	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Hepsen Uzcan[6,9] (1974) President and Chief Executive Officer, 2017–present Assistant Secretary, 2013–present	Director,[3] Deutsche Asset Management; formerly: Vice President for the Deutsche funds (2016–2017)
John Millette[8] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset Management; Chief Legal Officer, Deutsche Investment Management Americas Inc. (2015–present); and Director and Vice President, Deutsche AM Trust Company (since 2016); formerly: Secretary, Deutsche Investment Management Americas Inc. (2015–2017)
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset Management, and Chairman, Director and President, Deutsche AM Trust Company (since 2013); Vice President, Deutsche AM Distributors, Inc. (since 2016); Director, Deutsche AM Service Company (since 2017); Director and President, DB Investment Managers, Inc. (since 2017); formerly: Director, Deutsche AM Trust Company (2004–2013)
Caroline Pearson[8] (1962) Chief Legal Officer, 2010–present	Managing Director,[3] Deutsche Asset Management; formerly: Secretary, Deutsche AM Distributors, Inc.; and Secretary, Deutsche AM Service Company
Scott D. Hogan[8] (1970) Chief Compliance Officer, 2016–present	Director,[3] Deutsche Asset Management
Wayne Salit[7] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Sheila Cadogan[8] (1966) Assistant Treasurer, since July 12, 2017	Director,[3] Deutsche Asset Management
Paul Antosca[8] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management
Diane Kenneally[8] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

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

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

3 Executive title, not a board directorship.

4 As a result of their respective positions held with the Advisor, these individuals are considered "interested persons" of the Advisor within the meaning of the 1940 Act. Interested persons receive no compensation from the Fund.

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

6 Address: 345 Park Avenue, New York, NY 10154.

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

8 Address: One International Place, Boston, MA 02110.

9 Appointed President and Chief Executive Officer effective December 1, 2017.

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-025828-7 2/18)

Deutsche
Asset Management

December 31, 2017

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

Performance Summary

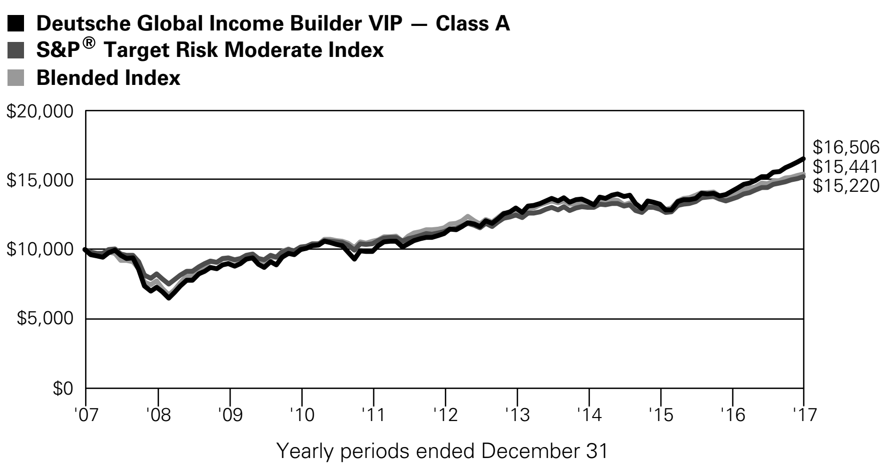
December 31, 2017 (Unaudited)

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, 2017 is 0.66% 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	$11,654	$12,268	$14,856	$16,506
	Average annual total return	16.54%	7.05%	8.24%	5.14%
S&P® Target Risk Moderate Index	Growth of $10,000	$11,178	$11,698	$13,502	$15,220
	Average annual total return	11.78%	5.37%	6.19%	4.29%
Blended Index	Growth of $10,000	$11,093	$11,689	$13,362	$15,441
	Average annual total return	10.93%	5.34%	5.97%	4.44%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2017 (Unaudited)

The Fund returned 16.54% during the 12 months ended December 31, 2017 (Class A shares, unadjusted for contract charges), outperforming the 11.78% return of S&P® Target Risk Moderate Index. Its other benchmark — the Blended Index — gained 10.93%.

Our preference for equities over bonds was a key factor in the Fund's outperformance. We held an average weighting of 65% of assets in stocks through the past 12 months, with a peak of 77% in November. This aspect of our positioning added meaningful value versus the 50-50 benchmark given that stocks outperformed bonds. The rationale for the overweight in equities was our view that the asset class offered a better risk/reward profile than bonds at a time of accelerating growth, tighter monetary policy and robust investor risk appetites.

Within the equity portfolio, relative performance was helped by positive individual security selection. We added the most value in energy, telecommunications services and industrials, whereas our stock picks in consumer sectors detracted. However, we lost some ground against the benchmark from our emphasis on relatively conservative, dividend-paying stocks at a time in which the growth style outpaced the broader market by a wide margin. At year end, the Fund had a globally diversified equity portfolio with overweights in Japan, the emerging markets and higher-quality U.S. large caps. (Diversification does not protect against a loss.) Late in the year, we boosted the Fund's weighting in higher-dividend stocks both to maintain an attractive level of income and to capitalize on the relative weakness in dividend payers versus faster-growing companies. This move created more of a value tilt in the portfolio, a contrast to the growth-oriented posture it held for much of 2017.

In the bond portfolio, we maintained a focus on the credit-oriented segments of the market, including the emerging markets, high-yield bonds and the higher-yielding portions of the investment-grade space. We believed these categories offered a potential return advantage due to both the greater contribution from yield and their ability to benefit from strengthening economic growth, and that indeed proved to be the case in the past 12 months. While we continued to emphasize higher-yielding asset classes throughout the year, we moved to a more defensive approach later in the period given the meaningful decline in yield spreads since the beginning of 2016.

The Fund used derivatives in the annual period. We used equity futures and total return swaps to implement tactical decisions on equity sector overweight and underweights. These positions generated positive absolute results in the rising market. We used futures and options on the CBOE Volatility Index to manage the risk of stock-market volatility, and this strategy had a positive effect on returns. We also used credit derivatives to take tactical positions in the fixed income portfolio, and we used interest rate swaps, swaptions, and futures to help manage the Fund's interest rate exposure. These positions contributed positively. In addition, the Fund used currency forward contracts to hedge the non-dollar exposures of its non-U.S. positions, which was a small detractor. Overall, the use of derivatives was a modest contributor.

We believe the Fund's outperformance helps illustrate the value of our active strategy. Rather than simply taking a static 60/40 approach that seeks to match the weightings of the benchmarks, we actively adjust the Fund's broader allocations and use an opportunistic approach that strives to capitalize on values as they emerge. We believe this multifaceted strategy can help the Fund achieve its goals of positive relative performance and above-average income by taking advantage of opportunities across the full spectrum of the global financial markets.

John D. Ryan, Managing Director
Darwei Kung, Managing Director
Di Kumble, CFA, Managing Director
Kevin Bliss, Director
Portfolio Managers

Prior to October 25, 2017, the portfolio management team was as follows:

Di Kumble, CFA, Managing Director
Gary Russell, CFA, Managing Director
John D. Ryan, Managing Director
Darwei Kung, Managing Director
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.

Terms to Know

The **S&P® Target Risk Moderate Index** is designed to measure the performance of S&P's proprietary moderate target risk allocation model. The S&P Target Risk Moderate Index seeks to provide significant exposure to fixed income, while also allocating a smaller portion of exposure to equities in order to seek current income, some capital preservation and an opportunity for moderate-to-low capital appreciation.

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

The **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.

The **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.

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

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.

Yield spread refers to differences between yields on differing debt instruments, calculated by deducting the yield of one instrument from another. The higher the yield spread, the greater the difference between the yields offered by each instrument.

Derivatives are contracts whose values can be based on a variety of instruments, including indices, currencies or securities. They can be utilized for a variety of reasons, including for hedging purposes, for risk management; for non-hedging purposes to seek to enhance potential gains, or as a substitute for direct investment in a particular asset class or to keep cash on hand to meet shareholder redemptions. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility.

Futures contracts are contractual agreements to buy or sell a particular commodity or financial instrument at a pre-determined price in the future. The **CBOE Volatility Index (VIX Index)** is a measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. **Options** are financial derivatives that offer the right to buy or sell a security or financial asset at an agreed-upon price and during a certain period of time or on a specific date. A **swap** is a derivative in which two counterparties exchange cash flows of one party's financial instrument for those of the other party's financial instrument for a set period of time. A **swaption** is an option contract on a swap. **Currency forward contracts** are agreements between two parties to exchange two designated currencies at a specific time in the future.

Portfolio Summary (Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/17**	**12/31/16**
Equity	**62%**	**58%**
Common Stocks	56%	58%
Preferred Stocks	6%	0%
Fixed Income	**37%**	**41%**
Government & Agency Obligations	6%	13%
Convertible Bonds	0%	0%
Corporate Bonds	13%	14%
Exchange-Traded Funds	10%	10%
Collateralized Mortgage Obligations	1%	1%
Commercial Mortgage-Backed Securities	1%	1%
Asset-Backed	1%	1%
Municipal Bonds and Notes	0%	0%
Mortgage-Backed Securities Pass-Throughs	1%	1%
Short-Term U.S. Treasury Obligations	4%	0%
Cash Equivalents	**1%**	**1%**
	100%	100%

Sector Diversification (As a % of Equities, Corporate Bonds, Preferred Securities and Convertible Bonds)	**12/31/17**	**12/31/16**
Financials	17%	20%
Information Technology	14%	13%
Consumer Discretionary	14%	12%
Energy	11%	13%
Industrials	10%	10%
Telecommunication Services	7%	6%
Real Estate	7%	3%
Health Care	6%	8%
Consumer Staples	6%	7%
Materials	4%	5%
Utilities	4%	3%
	100%	100%

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 7.

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 55.1%		
Consumer Discretionary 7.4%		
Auto Components 0.3%		
Bridgestone Corp.	5,005	232,628
Nokian Renkaat Oyj	4,100	186,202
		418,830
Automobiles 1.4%		
Daimler AG (Registered)	3,013	256,722
Ford Motor Co.	30,036	375,150
General Motors Co.	7,044	288,733
Honda Motor Co., Ltd.	7,450	255,272
Nissan Motor Co., Ltd.	36,185	360,771
Subaru Corp.	5,800	184,457
Toyota Motor Corp.	4,500	287,840
		2,008,945
Hotels, Restaurants & Leisure 1.3%		
Carnival Corp.	3,620	240,259
Darden Restaurants, Inc.	2,464	236,593
Las Vegas Sands Corp.	3,860	268,232
McDonald’s Corp.	1,733	298,284
Sands China Ltd.	35,200	181,643
Starbucks Corp.	3,655	209,907
TUI AG	11,892	247,524
Yum! Brands, Inc.	2,190	178,726
		1,861,168
Household Durables 1.3%		
Barratt Developments PLC	38,156	334,121
Berkeley Group Holdings PLC	4,978	282,175
Garmin Ltd.	4,539	270,388
Leggett & Platt, Inc.	4,092	195,311
Persimmon PLC	8,252	305,283
Sekisui House Ltd.	12,954	233,996
Taylor Wimpey PLC	120,281	335,544
		1,956,818
Internet & Direct Marketing Retail 0.4%		
Amazon.com, Inc.*	200	233,894
Ctrip.com International Ltd. (ADR)*	3,700	163,170
JD.com, Inc. (ADR)*	4,200	173,964
		571,028
Media 1.5%		
Comcast Corp. “A”	6,275	251,314
Eutelsat Communications SA	8,591	198,923
Interpublic Group of Companies, Inc.	9,195	185,371
Omnicom Group, Inc.	2,609	190,013
Pearson PLC	29,510	293,406
ProSiebenSat.1 Media SE	10,190	351,725
Shaw Communications, Inc. “B”	13,387	305,547
Time Warner, Inc.	1,844	168,671
Walt Disney Co.	1,600	172,016
		2,116,986
Multiline Retail 0.5%		
Kohl’s Corp.	4,575	248,102
Marks & Spencer Group PLC	48,847	207,687
Target Corp.	3,946	257,477
		713,266
Specialty Retail 0.4%		
Hennes & Mauritz AB “B”	8,944	184,352
Home Depot, Inc.	1,454	275,577
Lowe’s Companies, Inc.	1,972	183,278
		643,207
Textiles, Apparel & Luxury Goods 0.3%		
Tapestry, Inc.	5,189	229,509
VF Corp.	3,510	259,740
		489,249
Consumer Staples 4.1%		
Beverages 0.8%		
Ambev SA (ADR)	58,202	375,985
Coca-Cola Co.	9,698	444,944
PepsiCo, Inc.	2,644	317,069
		1,137,998
Food & Staples Retailing 0.8%		
CVS Health Corp.	2,711	196,547
Lawson, Inc.	3,000	199,512
Sysco Corp.	4,011	243,588
Wal-Mart Stores, Inc.	3,201	316,099
Wesfarmers Ltd.	6,849	237,113
		1,192,859
Food Products 0.9%		
General Mills, Inc.	3,789	224,650
Kellogg Co.	3,055	207,679
Kraft Heinz Co.	2,443	189,968
Nestle SA (Registered)	5,133	441,632
The Hershey Co.	2,049	232,582
		1,296,511
Household Products 0.6%		
Colgate-Palmolive Co.	3,045	229,745
Kimberly-Clark Corp.	1,686	203,433
Procter & Gamble Co.	5,484	503,870
		937,048
Tobacco 1.0%		
Altria Group, Inc.	5,475	390,970
British American Tobacco PLC	1,018	68,982
British American Tobacco PLC (ADR)	1,864	124,869
Imperial Brands PLC	4,772	203,979
Japan Tobacco, Inc.	6,477	208,445
Philip Morris International, Inc.	4,334	457,887
		1,455,132
Energy 4.8%		
Energy Equipment & Services 0.1%		
Schlumberger Ltd.	2,488	**167,666**
Oil, Gas & Consumable Fuels 4.7%		
BP PLC	59,802	422,508
Chevron Corp.	3,662	458,446
Enagas SA	6,138	176,071
Enbridge, Inc.	5,395	210,993
Eni SpA	9,759	161,814

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

	Shares	Value ($)
Exxon Mobil Corp.	9,040	756,106
Gazprom PJSC (ADR)	93,610	412,820
JXTG Holdings, Inc.	35,685	230,220
Kinder Morgan, Inc.	9,231	166,804
LUKOIL PJSC (ADR)	9,296	535,914
Neste Oyj	2,660	170,336
Occidental Petroleum Corp.	3,666	270,038
ONEOK, Inc.	3,475	185,739
Pembina Pipeline Corp.	7,040	254,885
Phillips 66	2,753	278,466
Royal Dutch Shell PLC "A"	13,348	448,073
Royal Dutch Shell PLC "B"	11,028	374,420
Snam SpA	31,724	155,338
Statoil ASA	9,431	201,947
Suncor Energy, Inc.	4,626	169,841
TOTAL SA	4,978	274,981
TransCanada Corp.	4,710	229,242
Valero Energy Corp.	3,565	327,659
		6,872,661
Financials 7.9%		
Banks 4.9%		
Australia & New Zealand Banking Group Ltd.	10,142	227,185
Banco Bradesco SA (ADR)	16,348	167,404
Bank of Montreal	3,152	252,235
Bank of Nova Scotia	4,036	260,462
BB&T Corp.	4,217	209,669
Canadian Imperial Bank of Commerce	2,775	270,524
Commonwealth Bank of Australia	3,499	219,174
Danske Bank AS	5,876	229,024
Hang Seng Bank Ltd.	7,100	176,282
HSBC Holdings PLC	38,380	397,642
Intesa Sanpaolo SpA	47,758	159,189
Itau Unibanco Holding SA (ADR) (Preferred)	23,662	307,606
Japan Post Bank Co., Ltd.	15,900	206,702
JPMorgan Chase & Co.	3,400	363,596
KBC Group NV	2,377	203,211
Mizuho Financial Group, Inc.	118,673	215,284
National Australia Bank Ltd.	9,057	208,832
Nordea Bank AB	17,384	210,583
People's United Financial, Inc.	12,896	241,155
PNC Financial Services Group, Inc.	1,450	209,220
Royal Bank of Canada	3,234	264,097
Sberbank of Russia PJSC (ADR)	21,686	369,313
Skandinaviska Enskilda Banken AB "A"	18,731	219,988
Sumitomo Mitsui Financial Group, Inc.	5,000	215,982
SunTrust Banks, Inc.	2,471	159,602
Swedbank AB "A"	9,281	224,068
Toronto-Dominion Bank	4,734	277,374
U.S. Bancorp.	4,373	234,305
Wells Fargo & Co.	4,668	283,208
Westpac Banking Corp.	8,851	216,048
		7,198,964
Capital Markets 0.3%		
CME Group, Inc.	1,917	279,978
UBS Group AG (Registered)*	9,137	168,358
		448,336

	Shares	Value ($)
Insurance 2.5%		
Ageas	5,239	256,187
Allianz SE (Registered)	1,179	271,389
Baloise Holding AG (Registered)	1,095	170,457
Japan Post Holdings Co., Ltd.	17,500	200,670
Legal & General Group PLC	68,412	252,576
MetLife, Inc.	3,353	169,528
Muenchener Rueckversicherungs-Gesellschaft AG (Registered)	1,141	247,663
Poste Italiane SpA 144A	25,538	192,368
Power Financial Corp.	5,950	163,495
Prudential Financial, Inc.	1,340	154,073
Sampo Oyj "A"	4,491	247,046
Swiss Life Holding AG (Registered)*	692	245,179
Swiss Re AG	3,705	347,306
The Travelers Companies, Inc.	1,849	250,798
UnipolSai Assicurazioni SpA	70,321	164,205
Zurich Insurance Group AG	997	303,535
		3,636,475
Thrifts & Mortgage Finance 0.2%		
New York Community Bancorp., Inc.	16,896	**219,986**
Health Care 4.4%		
Biotechnology 0.8%		
AbbVie, Inc.	5,370	519,333
Amgen, Inc.	1,629	283,283
Gilead Sciences, Inc.	5,211	373,316
		1,175,932
Health Care Equipment & Supplies 0.1%		
Medtronic PLC	2,704	**218,348**
Health Care Providers & Services 0.1%		
UnitedHealth Group, Inc.	700	**154,322**
Pharmaceuticals 3.4%		
Astellas Pharma, Inc.	17,200	219,225
AstraZeneca PLC	3,780	261,530
Bristol-Myers Squibb Co.	4,024	246,591
Daiichi Sankyo Co., Ltd.	9,600	250,282
Eli Lilly & Co.	2,754	232,603
GlaxoSmithKline PLC	26,716	476,278
Johnson & Johnson	5,504	769,019
Merck & Co., Inc.	6,511	366,374
Mitsubishi Tanabe Pharma Corp.	9,700	200,070
Novartis AG (Registered)	4,568	385,739
Otsuka Holdings Co., Ltd.	4,900	215,101
Pfizer, Inc.	16,243	588,321
Roche Holding AG (Genusschein)	1,160	293,619
Sanofi	2,245	193,491
Takeda Pharmaceutical Co., Ltd.	4,400	249,990
		4,948,233
Industrials 6.5%		
Aerospace & Defense 1.0%		
BAE Systems PLC	26,571	205,821
Boeing Co.	908	267,779
Harris Corp.	1,245	176,354
Lockheed Martin Corp.	856	274,819
Raytheon Co.	1,353	254,161
United Technologies Corp.	1,844	235,239
		1,414,173

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

	Shares	Value ($)
Air Freight & Logistics 0.3%		
Royal Mail PLC	31,817	194,563
United Parcel Service, Inc. "B"	2,074	247,117
		441,680
Building Products 0.1%		
Johnson Controls International PLC	5,340	**203,507**
Commercial Services & Supplies 0.4%		
Republic Services, Inc.	3,946	266,789
Waste Management, Inc.	3,418	294,974
		561,763
Construction & Engineering 0.5%		
Kajima Corp.	21,000	202,144
Obayashi Corp.	21,200	256,772
Taisei Corp.	5,200	258,884
		717,800
Electrical Equipment 0.5%		
ABB Ltd. (Registered)	9,637	258,456
Eaton Corp. PLC	2,948	232,922
Emerson Electric Co.	3,883	270,606
		761,984
Industrial Conglomerates 0.6%		
3M Co.	1,514	356,350
General Electric Co.	14,596	254,700
Honeywell International, Inc.	2,012	308,561
		919,611
Machinery 1.2%		
Caterpillar, Inc.	2,036	320,833
Cummins, Inc.	1,390	245,530
Deere & Co.	1,530	239,460
Illinois Tool Works, Inc.	1,550	258,618
Ingersoll-Rand PLC	2,470	220,299
Kone Oyj "B"	4,809	258,603
Stanley Black & Decker, Inc.	968	164,260
		1,707,603
Marine 0.2%		
Kuehne + Nagel International AG (Registered)	1,330	**235,555**
Professional Services 0.5%		
Adecco Group AG (Registered)	3,181	243,158
Nielsen Holdings PLC	6,511	237,000
SGS SA (Registered)	94	245,341
		725,499
Road & Rail 0.2%		
Union Pacific Corp.	2,029	**272,089**
Trading Companies & Distributors 1.0%		
Fastenal Co.	4,803	262,676
ITOCHU Corp.	12,139	226,708
Marubeni Corp.	35,049	253,828
Mitsubishi Corp.	8,400	232,402
Mitsui & Co., Ltd.	15,251	247,920
Sumitomo Corp.	15,966	271,485
		1,495,019
Information Technology 10.0%		
Communications Equipment 0.4%		
Cisco Systems, Inc.	7,562	289,625
Motorola Solutions, Inc.	2,148	194,050
Nokia Oyj	34,482	161,498
		645,173
Electronic Equipment, Instruments & Components 0.5%		
Corning, Inc.	5,383	172,202
FLIR Systems, Inc.	3,545	165,268
Kyocera Corp.	2,300	150,541
TE Connectivity Ltd.	1,682	159,857
		647,868
Internet Software & Services 2.1%		
Alibaba Group Holding Ltd. (ADR)*	2,039	351,585
Alphabet, Inc. "A"*	200	210,680
Alphabet, Inc. "C"*	335	350,544
Baidu, Inc. (ADR)*	1,236	289,484
Facebook, Inc. "A"*	2,598	458,443
Mixi, Inc.	3,400	152,782
NetEase, Inc. (ADR)	1,552	535,549
Tencent Holdings Ltd. (ADR) (a)	10,493	544,796
Yahoo Japan Corp.	51,600	236,179
		3,130,042
IT Services 2.0%		
Accenture PLC "A"	1,920	293,933
Automatic Data Processing, Inc.	2,305	270,123
Broadridge Financial Solutions, Inc.	3,043	275,635
DXC Technology Co.	1,701	161,425
Fidelity National Information Services, Inc.	2,626	247,080
Fiserv, Inc.*	1,250	163,913
International Business Machines Corp.	2,825	433,411
Mastercard, Inc. "A"	1,930	292,125
Paychex, Inc.	3,801	258,772
Visa, Inc. "A"	2,753	313,897
Western Union Co.	11,379	216,315
		2,926,629
Semiconductors & Semiconductor Equipment 1.8%		
Analog Devices, Inc.	2,410	214,562
Disco Corp.	1,100	244,463
Intel Corp.	9,334	430,857
KLA-Tencor Corp.	2,178	228,842
Maxim Integrated Products, Inc.	4,828	252,408
Microchip Technology, Inc.	1,896	166,621
QUALCOMM, Inc.	4,181	267,668
Texas Instruments, Inc.	2,796	292,014
Tokyo Electron Ltd.	1,600	288,092
Xilinx, Inc.	3,397	229,026
		2,614,553
Software 1.5%		
CA, Inc.	6,883	229,066
Dell Technologies, Inc. "V"*	2,065	167,843
Intuit, Inc.	1,676	264,439
Microsoft Corp.	14,014	1,198,758
Oracle Corp.	6,029	285,051
		2,145,157
Technology Hardware, Storage & Peripherals 1.7%		
Apple, Inc.	7,790	1,318,302
Canon, Inc.	6,474	241,527
FUJIFILM Holdings Corp.	4,100	167,569

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

	Shares	Value ($)
HP, Inc.	7,776	163,374
Samsung Electronics Co., Ltd. (GDR)	226	270,748
Seagate Technology PLC	3,900	163,176
Xerox Corp.	5,338	155,603
		2,480,299
Materials 1.6%		
Chemicals 0.9%		
Air Products & Chemicals, Inc.	1,544	253,339
DowDuPont, Inc.	6,004	427,605
GEO Specialty Chemicals, Inc.* (b)	19,324	6,524
Givaudan SA (Registered)	107	247,378
LyondellBasell Industries NV "A"	2,544	280,654
Praxair, Inc.	1,304	201,703
		1,417,203
Containers & Packaging 0.2%		
International Paper Co.	4,234	**245,318**
Metals & Mining 0.3%		
MMC Norilsk Nickel PJSC (ADR)	21,913	**414,375**
Paper & Forest Products 0.2%		
UPM-Kymmene Oyj	8,215	**255,704**
Real Estate 2.8%		
Equity Real Estate Investment Trusts (REITs)		
AvalonBay Communities, Inc.	1,111	198,214
Brixmor Property Group, Inc.	10,900	203,394
Crown Castle International Corp.	2,299	255,212
HCP, Inc.	6,254	163,104
Iron Mountain, Inc.	7,907	298,331
Japan Retail Fund Investment Corp.	101	185,258
Kimco Realty Corp.	10,900	197,835
National Retail Properties, Inc.	5,594	241,269
Prologis, Inc.	3,915	252,557
Public Storage	1,081	225,929
Realty Income Corp.	5,057	288,350
RioCan Real Estate Investment Trust	10,979	212,767
Simon Property Group, Inc.	1,000	171,740
Stockland	45,744	160,099
Ventas, Inc.	3,475	208,535
VEREIT, Inc.	54,591	425,264
Vicinity Centres	100,022	212,468
Welltower, Inc.	4,324	275,741
		4,176,067
Telecommunication Services 3.7%		
Diversified Telecommunication Services 2.8%		
AT&T, Inc.	21,730	844,862
BCE, Inc.	5,269	253,096
BT Group PLC	62,537	229,365
Deutsche Telekom AG (Registered)	12,163	216,529
Nippon Telegraph & Telephone Corp.	3,100	145,948
Proximus SA	4,927	161,813
Singapore Telecommunications Ltd.	85,445	228,707
Swisscom AG (Registered)	524	278,928
Telefonica Deutschland Holding AG	36,320	182,957
Telefonica SA	15,726	153,691
Telenor ASA	13,305	285,224
Telia Co. AB	52,151	232,527
TELUS Corp.	6,688	253,367
Verizon Communications, Inc.	13,133	695,130
		4,162,144
Wireless Telecommunication Services 0.9%		
NTT DoCoMo, Inc.	28,369	670,319
Tele2 AB "B"	14,364	176,585
Vodafone Group PLC	146,963	467,233
		1,314,137
Utilities 1.9%		
Electric Utilities 1.3%		
American Electric Power Co., Inc.	2,084	153,320
Duke Energy Corp.	2,621	220,452
Endesa SA	11,551	247,862
Entergy Corp.	1,950	158,710
Exelon Corp.	4,029	158,783
FirstEnergy Corp.	4,999	153,069
NextEra Energy, Inc.	986	154,003
PPL Corp.	5,688	176,044
Southern Co.	4,385	210,875
SSE PLC	11,751	209,593
		1,842,711
Multi-Utilities 0.6%		
CenterPoint Energy, Inc.	5,490	155,696
Consolidated Edison, Inc.	1,765	149,937
Dominion Energy, Inc.	1,899	153,933
National Grid PLC	13,729	162,250
Public Service Enterprise Group, Inc.	3,199	164,749
WEC Energy Group, Inc.	2,406	159,831
		946,396
Total Common Stocks (Cost $66,046,600)		**80,660,027**
Preferred Stocks 5.7%		
Financials 2.3%		
Bank of America Corp. Series Y, 6.5%	15,000	405,300
BB&T Corp. 5.625%	10,000	270,000
Capital One Financial Corp. Series G, 5.2%	10,000	250,300
Citigroup, Inc. Series S, 6.3%	15,000	403,950
Fifth Third Bancorp. Series I, 6.625%	10,000	285,000
JPMorgan Chase & Co. Series AA, 6.1%	15,000	404,550
KeyCorp Series E, 6.125%	10,000	289,200
Morgan Stanley Series K, 5.85%	10,000	271,000
The Goldman Sachs Group, Inc. Series J, 5.5%	17,000	450,670
Wells Fargo & Co. Series Y, 5.625%	15,000	389,100
		3,419,070
Industrials 0.5%		
General Electric Co. 4.7%	30,000	**748,800**
Real Estate 1.5%		
AGNC Investment Corp. Series C, 7.0% (REIT)	14,427	371,063

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

	Shares	Value ($)
AGNC Investment Corp. Series B, 7.75% (REIT)	18,000	465,120
Kimco Realty Corp. Series L, 5.125% (REIT)	15,000	371,100
Prologis, Inc. Series Q, 8.54% (REIT)	164	12,462
Simon Property Group, Inc. Series J, 8.375% (REIT)	8,000	572,080
VEREIT, Inc. Series F, 6.7% (REIT)	15,000	383,550
		2,175,375
Telecommunication Services 0.6%		
Verizon Communications, Inc. 5.9%	30,000	**791,400**
Utilities 0.8%		
Dominion Energy, Inc. Series A, 5.25%	30,000	767,100
Southern Co. 5.25%	15,000	381,750
		1,148,850
Total Preferred Stocks (Cost $8,377,556)		**8,283,495**

Right 0.0%

Consumer Staples

Safeway Casa Ley, Expiration Date 1/30/2018* (b) (Cost $7,611)	7,499	**7,611**

Warrant 0.0%

Materials

Hercules Trust II, Expiration Date 3/31/2029* (b) (Cost $30,283)	170	**4,595**

	Principal Amount ($)(c)	Value ($)
Corporate Bonds 12.9%		
Consumer Discretionary 2.8%		
1011778 B.C. Unlimited Liability Co., 144A, 5.0%, 10/15/2025	200,000	201,500
Altice Financing SA, 144A, 7.5%, 5/15/2026	400,000	426,000
American Axle & Manufacturing, Inc., 144A, 6.25%, 4/1/2025 (a)	350,000	368,375
Asbury Automotive Group, Inc., 6.0%, 12/15/2024	300,000	312,360
Cablevision Systems Corp., 5.875%, 9/15/2022	300,000	295,500
CCO Holdings LLC, 144A, 5.875%, 5/1/2027	500,000	515,000
Charter Communications Operating LLC, 3.75%, 2/15/2028	160,000	153,313
CSC Holdings LLC:		
144A, 5.5%, 4/15/2027	400,000	408,000
144A, 10.125%, 1/15/2023	200,000	225,250
Expedia, Inc., 3.8%, 2/15/2028	180,000	173,935
General Motors Co., 6.6%, 4/1/2036	30,000	36,552
Nordstrom, Inc.:		
4.0%, 3/15/2027	65,000	64,756
5.0%, 1/15/2044	100,000	96,407
SFR Group SA, 144A, 7.375%, 5/1/2026	300,000	307,875
Toll Brothers Finance Corp., 4.875%, 11/15/2025	200,000	209,000
Virgin Media Secured Finance PLC, 144A, 5.25%, 1/15/2026	350,000	353,500
		4,147,323
Consumer Staples 0.5%		
B&G Foods, Inc., 5.25%, 4/1/2025	100,000	101,715
BAT Capital Corp., 144A, 4.54%, 8/15/2047	75,000	78,968
FAGE International SA, 144A, 5.625%, 8/15/2026	300,000	289,500
Kraft Heinz Foods Co., 4.375%, 6/1/2046	210,000	208,016
Molson Coors Brewing Co., 4.2%, 7/15/2046	40,000	40,761
		718,960
Energy 3.4%		
Canadian Natural Resources Ltd., 4.95%, 6/1/2047	60,000	67,148
Cheniere Corpus Christi Holdings LLC, 5.875%, 3/31/2025	200,000	216,750
Chesapeake Energy Corp., 144A, 8.0%, 1/15/2025	65,000	65,650
Continental Resources, Inc., 5.0%, 9/15/2022	400,000	406,000
Crestwood Midstream Partners LP, 6.25%, 4/1/2023	700,000	727,440
Enbridge, Inc., 5.5%, 7/15/2077	200,000	198,750
Energy Transfer Equity LP, 5.5%, 6/1/2027	100,000	102,000
Energy Transfer LP:		
4.5%, 11/1/2023	40,000	41,358
5.95%, 10/1/2043	30,000	31,897
EnLink Midstream Partners LP, 5.45%, 6/1/2047	90,000	95,102
Halliburton Co., 4.85%, 11/15/2035	35,000	39,264
Hess Corp., 5.8%, 4/1/2047	75,000	83,459
Hilcorp Energy I LP, 144A, 5.75%, 10/1/2025	200,000	204,500
Kinder Morgan Energy Partners LP, 4.7%, 11/1/2042	110,000	106,489
MEG Energy Corp., 144A, 6.5%, 1/15/2025 (a)	200,000	197,500
Noble Energy, Inc., 3.85%, 1/15/2028	185,000	185,566
Noble Holding International Ltd., 5.75%, 3/16/2018	10,000	10,025
Oasis Petroleum, Inc., 6.875%, 3/15/2022	100,000	102,625
Plains All American Pipeline LP:		
2.85%, 1/31/2023	55,000	52,628
4.3%, 1/31/2043	95,000	83,897
Range Resources Corp., 5.0%, 8/15/2022	200,000	199,000
Southwestern Energy Co., 7.75%, 10/1/2027	100,000	106,750
State Oil Co. of the Azerbaijan Republic, REG S, 4.75%, 3/13/2023	700,000	708,772
Sunoco Logistics Partners Operations LP, 5.3%, 4/1/2044	20,000	19,738
Sunoco LP, 6.375%, 4/1/2023	100,000	105,375

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

	Principal Amount ($)(c)	Value ($)
Targa Resources Partners LP, 5.375%, 2/1/2027	200,000	205,250
Weatherford International Ltd., 9.875%, 2/15/2024	200,000	212,500
WPX Energy, Inc.:		
5.25%, 9/15/2024	200,000	199,310
6.0%, 1/15/2022	200,000	209,000
		4,983,743
Financials 2.0%		
BPCE SA, 144A, 4.875%, 4/1/2026	700,000	749,711
Everest Reinsurance Holdings, Inc., 4.868%, 6/1/2044	50,000	53,203
FS Investment Corp., 4.75%, 5/15/2022	70,000	72,064
HSBC Holdings PLC, 4.375%, 11/23/2026	200,000	208,804
KKR Group Finance Co. III LLC, 144A, 5.125%, 6/1/2044	30,000	33,255
Legg Mason, Inc., 5.625%, 1/15/2044	50,000	55,744
Nationwide Financial Services, Inc., 144A, 5.3%, 11/18/2044	40,000	47,451
Royal Bank of Scotland Group PLC, 7.5%, 8/10/2020	800,000	846,000
Swiss Re Treasury U.S. Corp., 144A, 4.25%, 12/6/2042	30,000	31,195
TC Ziraat Bankasi AS:		
144A, 5.125%, 5/3/2022	200,000	198,290
144A, 5.125%, 9/29/2023	350,000	340,854
Voya Financial, Inc., 4.8%, 6/15/2046	45,000	50,126
Westpac Banking Corp., 5.0%, 9/21/2027	300,000	299,233
		2,985,930
Health Care 0.4%		
Allergan Funding SCS, 4.75%, 3/15/2045	9,000	9,581
Celgene Corp., 5.0%, 8/15/2045	30,000	34,038
Express Scripts Holding Co., 4.8%, 7/15/2046	50,000	53,189
HCA, Inc., 4.5%, 2/15/2027	350,000	351,750
Mylan NV, 5.25%, 6/15/2046	55,000	60,264
		508,822
Industrials 0.6%		
Bombardier, Inc., 144A, 6.0%, 10/15/2022	300,000	294,750
Park Aerospace Holdings Ltd., 144A, 5.25%, 8/15/2022	175,000	173,906
United Rentals North America, Inc., 5.875%, 9/15/2026	350,000	374,500
		843,156
Information Technology 0.3%		
Dell International LLC, 144A, 8.1%, 7/15/2036	30,000	37,884
DXC Technology Co., 4.75%, 4/15/2027	210,000	223,316
Netflix, Inc., 4.375%, 11/15/2026	100,000	97,750
Pitney Bowes, Inc., 3.625%, 9/15/2020	45,000	44,550
Seagate HDD Cayman, 144A, 4.25%, 3/1/2022	90,000	91,098
		494,598
Materials 1.2%		
AK Steel Corp., 7.0%, 3/15/2027 (a)	200,000	203,500
Ardagh Packaging Finance PLC, 144A, 7.25%, 5/15/2024	200,000	217,750
CF Industries, Inc., 144A, 4.5%, 12/1/2026	20,000	20,848
Constellium NV, 144A, 6.625%, 3/1/2025	250,000	263,438
Evraz Group SA, 144A, 5.375%, 3/20/2023	300,000	312,000
Glencore Funding LLC, 144A, 4.625%, 4/29/2024	20,000	21,116
United States Steel Corp., 6.875%, 8/15/2025	200,000	208,760
Vedanta Resources PLC, 144A, 7.125%, 5/31/2023	400,000	430,520
		1,677,932
Real Estate 0.5%		
CBL & Associates LP:		
(REIT), 5.25%, 12/1/2023	45,000	42,496
(REIT), 5.95%, 12/15/2026 (a)	110,000	102,330
Government Properties Income Trust, (REIT), 4.0%, 7/15/2022	150,000	150,907
Hospitality Properties Trust, (REIT), 3.95%, 1/15/2028	100,000	97,007
Omega Healthcare Investors, Inc.:		
(REIT), 4.75%, 1/15/2028	110,000	109,039
(REIT), 4.95%, 4/1/2024	60,000	62,681
Select Income REIT:		
(REIT), 4.15%, 2/1/2022	60,000	60,673
(REIT), 4.25%, 5/15/2024	45,000	44,633
VEREIT Operating Partnership LP, (REIT), 3.95%, 8/15/2027	125,000	123,572
		793,338
Telecommunication Services 1.0%		
AT&T, Inc.:		
4.5%, 5/15/2035	105,000	104,377
5.15%, 2/14/2050	115,000	116,434
CenturyLink, Inc., Series Y, 7.5%, 4/1/2024 (a)	300,000	299,250
Intelsat Jackson Holdings SA, 7.25%, 10/15/2020	600,000	564,000
Sprint Corp., 7.625%, 2/15/2025 (a)	300,000	314,250
Verizon Communications, Inc., 4.272%, 1/15/2036	60,000	59,688
		1,457,999
Utilities 0.2%		
AmeriGas Partners LP, 5.75%, 5/20/2027	200,000	202,000
Electricite de France SA, 144A, 4.75%, 10/13/2035	95,000	104,903
Southern Power Co., Series F, 4.95%, 12/15/2046	29,000	31,810
		338,713
Total Corporate Bonds (Cost $18,930,128)		**18,950,514**

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

	Principal Amount ($)(c)	Value ($)
Asset-Backed 0.6%		
Miscellaneous		
Dell Equipment Finance Trust, "D", Series 2017-1, 144A, 3.44%, 4/24/2023	280,000	278,228
Domino's Pizza Master Issuer LLC, "A23", Series 2017-1A, 144A, 4.118%, 7/25/2047	339,150	346,503
Hilton Grand Vacations Trust, "B", Series 2014-AA, 144A, 2.07%, 11/25/2026	159,414	156,796
Wendys Funding LLC, "A2I", Series 2018-1A, 144A, 3.573%, 3/15/2048 (d)	160,000	159,950
Total Asset-Backed (Cost $938,513)		**941,477**
Mortgage-Backed Securities Pass-Throughs 1.1%		
Federal Home Loan Mortgage Corp.:		
3.5%, 5/1/2046	1,494,014	1,540,469
6.0%, 3/1/2038	4,067	4,557
Federal National Mortgage Association:		
4.5%, 9/1/2035	7,299	7,771
6.0%, 1/1/2024	12,655	14,137
Total Mortgage-Backed Securities Pass-Throughs (Cost $1,567,526)		**1,566,934**
Commercial Mortgage-Backed Securities 0.9%		
CHT Mortgage Trust, "D", Series 2017-CSMO, 144A, 1-month USD-LIBOR + 2.250%, 3.63%**, 11/15/2036	300,000	300,561
CSAIL Commercial Mortgage Trust, "A4", Series 2015-C4, 3.808%, 11/15/2048	300,000	313,630
FHLMC Multifamily Structured Pass-Through Certificates, "X1", Series K043, Interest Only, 0.546%**, 12/25/2024	4,955,820	163,213
GMAC Commercial Mortgage Securities, Inc., "G", Series 2004-C1, 144A, 5.455%, 3/10/2038	490,430	458,945
JPMBB Commercial Mortgage Securities Trust, "A3", Series 2014-C19, 3.669%, 4/15/2047	125,000	129,410
Total Commercial Mortgage-Backed Securities (Cost $1,399,434)		**1,365,759**
Collateralized Mortgage Obligations 1.5%		
Federal Home Loan Mortgage Corp.:		
"HI", Series 3979, Interest Only, 3.0%, 12/15/2026	261,886	20,397
"IK", Series 4048, Interest Only, 3.0%, 5/15/2027	383,207	35,350
"H", Series 4865, 4.0%, 8/15/2044	883,343	920,974
"LI", Series 3720, Interest Only, 4.5%, 9/15/2025	524,967	55,224
"PI", Series 3843, Interest Only, 4.5%, 5/15/2038	227,512	16,545
"C31", Series 303, Interest Only, 4.5%, 12/15/2042	1,231,140	246,835
"H", Series 2278, 6.5%, 1/15/2031	120	123
Federal National Mortgage Association:		
"WO", Series 2013-27, Principal Only, Zero Coupon, 12/25/2042	220,000	142,445
"4", Series 406, Interest Only, 4.0%, 9/25/2040	107,895	21,279
"I", Series 2003-84, Interest Only, 6.0%, 9/25/2033	119,600	20,180
Government National Mortgage Association:		
"QI", Series 2011-112, Interest Only, 4.0%, 5/16/2026	191,917	17,681
"PI", Series 2015-40, Interest Only, 4.0%, 4/20/2044	267,923	30,956
"BI", Series 2010-30, Interest Only, 4.5%, 7/20/2039	38,023	4,044
"PI", Series 2014-108, Interest Only, 4.5%, 12/20/2039	70,221	12,170
"IP", Series 2014-11, Interest Only, 4.5%, 1/20/2043	186,245	23,571
"IQ", Series 2011-18, Interest Only, 5.5%, 1/16/2039	78,731	7,299
"IV", Series 2009-69, Interest Only, 5.5%, 8/20/2039	204,480	34,615
"IN", Series 2009-69, Interest Only, 5.5%, 8/20/2039	209,327	38,278
"IJ", Series 2009-75, Interest Only, 6.0%, 8/16/2039	147,414	25,774
RESIMAC, "A2", Series 2017-2, 1-month Bank Bill Swap Rate + 1.200%, 2.89%**, 1/15/2049	AUD 600,000	469,112
Total Collateralized Mortgage Obligations (Cost $1,850,875)		**2,142,852**
Government & Agency Obligations 5.7%		
Other Government Related (e) 0.1%		
Sberbank of Russia, 144A, 5.125%, 10/29/2022	200,000	**206,420**
Sovereign Bonds 4.9%		
Export Credit Bank of Turkey, 144A, 5.375%, 10/24/2023	350,000	353,692

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

	Principal Amount ($)(c)	Value ($)
Government of Indonesia, Series FR56, 8.375%, 9/15/2026	IDR 21,340,000,000	1,777,127
Mexican Udibonos Inflation-Linked Bond, Series S, 2.0%, 6/9/2022	MXN 8,924,378	426,927
Republic of Angola, 144A, 9.5%, 11/12/2025	650,000	748,593
Republic of Argentina, Series NY, Step-up Coupon, 2.5% to 3/31/2019, 3.75% to 3/31/2029, 5.25% to 12/31/2038	1,500,000	1,102,725
Republic of Hungary, Series 19/A, 6.5%, 6/24/2019	HUF 16,900,000	71,468
Republic of Namibia, 144A, 5.25%, 10/29/2025	550,000	560,395
Republic of Nigeria, 144A, 6.5%, 11/28/2027	200,000	208,405
Republic of Senegal, 144A, 6.25%, 7/30/2024	800,000	863,454
Republic of Zambia, 144A, 5.375%, 9/20/2022	500,000	487,780
United Mexican States, Series M, 5.75%, 3/5/2026	MXN 13,525,200	608,048
		7,208,614

U.S. Treasury Obligation 0.7%

U.S. Treasury Note, 0.75%, 4/30/2018	1,000,000	**997,813**
Total Government & Agency Obligations (Cost $8,053,727)		**8,412,847**

Municipal Bonds and Notes 0.1%

Kentucky, Asset/Liability Commission, General Fund Revenue, 3.165%, 4/1/2018 (Cost $64,810)	64,810	**65,043**

Convertible Bond 0.2%

Materials

GEO Specialty Chemicals, Inc., 3-month USD-LIBOR + 14.0%, 15.709% PIK, 10/18/2025 (b) (Cost $247,405)	248,767	**314,566**

	Principal Amount ($)	Value ($)

Short-Term U.S. Treasury Obligations 4.3%

U.S. Treasury Bills:		
1.18%***, 8/16/2018 (f)	3,338,000	3,304,891
1.381%***, 10/11/2018 (f) (g)	3,056,000	3,016,142
Total Short-Term U.S. Treasury Obligations (Cost $6,336,061)		**6,321,033**

	Shares	Value ($)

Exchange-Traded Funds 9.8%

SPDR Bloomberg Barclays High Yield Bond ETF (a)	115,000	4,222,800
VanEck Vectors JPMorgan EM Local Currency Bond ETF	270,000	5,124,600
Vanguard REIT ETF	60,500	5,020,290
Total Exchange-Traded Funds (Cost $14,182,078)		**14,367,690**

Securities Lending Collateral 2.2%

Deutsche Government & Agency Securities Portfolio "Deutsche Government Cash Institutional Shares", 1.21% (h) (i) (Cost $3,253,298)	3,253,298	**3,253,298**

Cash Equivalents 1.1%

Deutsche Central Cash Management Government Fund, 1.30% (h) (Cost $1,616,434)	1,616,434	**1,616,434**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $132,902,339)	101.2	**148,274,175**
Other Assets and Liabilities, Net	(1.2)	**(1,754,932)**
Net Assets	100.0	**146,519,243**

* Non-income producing security.

** Variable or floating rate security. These securities are shown at their current rate as of December 31, 2017. For securities based on a published reference rate and spread, the reference rate and spread are indicated within the description above. Certain variable rate securities are not based on a published reference rate and spread but adjust periodically based on current market conditions, prepayment of underlying positions and/or other variables.

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

(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, 2017 amounted to $3,154,529, which is 2.2% of net assets.

(b) Investment was valued using significant unobservable inputs.

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

(d) When-issued security.

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

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

(f) At December 31, 2017, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures and centrally cleared swap contracts.

(g) At December 31, 2017, this security has been pledged, in whole or in part, as collateral for open over-the-counter derivatives.

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

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

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

ADR: American Depositary Receipt

ASX: Australian Securities Exchange

CBOE: Chicago Board Options Exchange

EM: Emerging Markets

GDR: Global Depositary Receipt

Interest Only: Interest Only (IO) bonds represent the "interest only" portion of payments on a pool of underlying mortgages or mortgage-backed securities. IO securities are subject to prepayment risk of the pool of underlying mortgages.

PIK: Denotes that all or a portion of the income is paid in-kind in the form of additional principal.

PJSC: Public Joint Stock Company

Principal Only: Principal Only (PO) bonds represent the "principal only" portion of payments on a pool of underlying mortgages or mortgage-backed securities.

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

REIT: Real Estate Investment Trust

SPDR: Standard & Poor's Depositary Receipt

At December 31, 2017, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Amount ($)	Notional Value ($)	Unrealized Appreciation (Depreciation) ($)
10 Year U.S. Treasury Note	USD	3/20/2018	39	4,870,639	4,837,828	(32,811)
Mini MSCI Emerging Market Index	USD	3/16/2018	169	9,489,440	9,833,265	343,825
Nikkei 225 Index	JPY	3/8/2018	405	8,106,290	8,177,280	70,990
U.S. Treasury Long Bond	USD	3/20/2018	5	766,416	765,000	(1,416)
Ultra 10 Year U.S. Treasury Note	USD	3/20/2018	73	9,793,557	9,750,062	(43,495)
Ultra Long U.S. Treasury Bond	USD	3/20/2018	11	1,832,985	1,844,219	11,234
Total net unrealized appreciation						**348,327**

At December 31, 2017, open futures contracts sold were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Amount ($)	Notional Value ($)	Unrealized Appreciation (Depreciation) ($)
2 Year U.S. Treasury Note	USD	3/29/2018	31	6,651,381	6,637,390	13,991
3 Month Euro Euribor Interest Rate	EUR	12/17/2018	7	2,105,288	2,104,776	512
3 Month Euro Swiss Franc (Euroswiss) Interest Rate	CHF	12/17/2018	8	2,064,537	2,064,549	(12)
3 Month Euroyen	JPY	12/17/2018	10	2,216,868	2,216,996	(128)
3 Month Sterling (Short Sterling) Interest Rate	GBP	12/19/2018	13	2,174,449	2,176,881	(2,432)
5 Year U.S. Treasury Note	USD	3/29/2018	68	7,941,447	7,899,156	42,291
90 Day Eurodollar	USD	12/17/2018	9	2,202,840	2,201,738	1,102
ASX 90 Day Bank Accepted Bills	AUD	12/13/2018	11	8,541,660	8,540,007	1,653
CBOE SPX Volatility Index	USD	1/17/2018	90	1,264,355	1,032,750	231,605
Federal Republic of Germany Euro-Bund	EUR	3/8/2018	12	2,345,303	2,327,900	17,403
Total net unrealized appreciation						**305,985**

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

At December 31, 2017, open credit default swap contracts sold were as follows:

Centrally Cleared Swaps

Underlying Reference Obligation	Fixed Cash Flows Received/ Frequency	Expiration Date	Notional Amount (j)	Currency	Value ($)	Upfront Payments Paid ($)	Unrealized Appreciation ($)
Markit CDX North America High Yield Index	5.0%/ Quarterly	6/20/2017 6/20/2022	5,375,700	USD	480,544	335,694	**144,850**

(j) 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, 2017, open interest rate swap contracts were as follows:

Centrally Cleared Swaps

Cash Flows Paid by the Fund/Frequency	Cash Flows Received by the Fund/ Frequency	Effective/ Expiration Date	Notional Amount	Currency	Value ($)	Upfront Payments Paid/ (Received) ($)	Unrealized Appreciation/ (Depreciation) ($)
Floating — 3-Month LIBOR/Quarterly	Fixed — 2.25%/ Semi-Annually	12/20/2017 12/20/2022	11,800,000	USD	774	258,887	(258,113)
Fixed — 2.5%/ Semi-Annually	Floating — 3-Month LIBOR/Quarterly	12/20/2017 12/20/2027	12,600,000	USD	(95,225)	(494,876)	399,651
Fixed — 1.75%/ Semi-Annually	Floating — 3-Month LIBOR/Quarterly	12/20/2017 12/20/2018	1,900,000	USD	2,243	(3,933)	6,176
Fixed — 2.75%/ Semi-Annually	Floating — 3-Month LIBOR/Quarterly	12/20/2017 12/20/2047	3,000,000	USD	(119,832)	(78,275)	(41,557)
Fixed — 2.75%/ Semi-Annually	Floating — 3-Month LIBOR/Quarterly	12/20/2017 12/20/2037	200,000	USD	(6,256)	(14,426)	8,170
Total net unrealized appreciation							**114,327**

LIBOR: London Interbank Offered Rate; 3-Month LIBOR rate at September 30, 2017 is 1.694%.

At December 31, 2017, open total return swap contracts were as follows:

Bilateral Swaps — Long

Pay/Receive Return of the Reference Index	Fixed Cash Flows Paid	Frequency	Counterparty/ Expiration Date	Notional Amount ($)	Value ($)	Upfront Payments Paid ($)	Unrealized Appreciation ($)
MSCI World Net Total Return USD Index	1.339%	At Expiration	Goldman Sachs & Co. 3/14/2018	7,201,805	457,662	—	457,662
MSCI World Net Total Return USD Index	1.259%	At Expiration	Citigroup, Inc. 3/14/2018	7,301,985	459,405	—	459,405
Total unrealized appreciation							**917,067**

As of December 31, 2017, the Fund had the following open forward foreign currency contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
USD	699,276	EUR	600,000	1/10/2018	20,934	Credit Agricole
USD	2,896,512	EUR	2,430,000	1/10/2018	20,337	State Street Bank & Trust Co.
MXN	12,800,000	USD	664,083	1/24/2018	15,579	HSBC Holdings PLC
USD	2,831,128	CAD	3,600,000	1/29/2018	34,042	Canadian Imperial Bank of Commerce
USD	4,614,618	EUR	3,860,000	2/28/2018	31,750	Credit Agricole
Total unrealized appreciation					**122,642**	

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
EUR	600,000	USD	703,690	1/10/2018	(16,520)	Credit Agricole
EUR	2,430,000	USD	2,865,993	1/10/2018	(50,856)	State Street Bank & Trust Co.
CAD	3,600,000	USD	2,802,653	1/29/2018	(62,516)	Citigroup, Inc.
AUD	600,000	USD	462,750	2/6/2018	(5,410)	National Australia Bank Ltd.

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

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
GBP	2,250,000	USD	2,987,269	2/28/2018	(55,973)	JPMorgan Chase Securities, Inc.
EUR	3,860,000	USD	4,565,828	2/28/2018	(80,541)	Credit Agricole
AUD	2,910,000	USD	2,202,058	3/1/2018	(68,279)	Citigroup, Inc.
EUR	2,750,000	USD	3,304,542	4/3/2018	(13,359)	Barclays Bank PLC
Total unrealized depreciation					**(353,454)**	

Currency Abbreviations

AUD	Australian Dollar	GBP	British Pound	MXN	Mexican Peso
CAD	Canadian Dollar	HUF	Hungarian Forint	USD	United States Dollar
CHF	Swiss Franc	IDR	Indonesian Rupiah		
EUR	Euro	JPY	Japanese Yen		

For information on the Fund's policy and additional disclosures regarding futures contracts, credit default swap contracts, interest rate swap contracts, total return swap contracts and forward foreign currency 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, 2017 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 (k)				
Consumer Discretionary	$ 5,859,226	$ 4,920,271	$ —	$ 10,779,497
Consumer Staples	4,659,885	1,359,663	—	6,019,548
Energy	4,424,619	2,615,708	—	7,040,327
Financials	5,107,628	6,396,133	—	11,503,761
Health Care	3,751,510	2,745,325	—	6,496,835
Industrials	5,864,643	3,591,640	—	9,456,283
Information Technology	12,947,070	1,642,651	—	14,589,721
Materials	1,822,994	503,082	6,524	2,332,600
Real Estate	3,618,242	557,825	—	4,176,067
Telecommunication Services	2,046,455	3,429,826	—	5,476,281
Utilities	2,169,402	619,705	—	2,789,107
Preferred Stocks (k)	8,283,495	—	—	8,283,495
Right	—	—	7,611	7,611
Warrant	—	—	4,595	4,595
Fixed Income Investments (k)				
Corporate Bonds	—	18,950,514	—	18,950,514
Asset-Backed	—	941,477	—	941,477
Mortgage-Backed Securities Pass-Throughs	—	1,566,934	—	1,566,934
Commercial Mortgage-Backed Securities	—	1,365,759	—	1,365,759
Collateralized Mortgage Obligations	—	2,142,852	—	2,142,852
Government & Agency Obligations	—	8,412,847	—	8,412,847
Municipal Bonds and Notes	—	65,043	—	65,043
Convertible Bond	—	—	314,566	314,566
Short-Term U.S. Treasury Obligations	—	6,321,033	—	6,321,033
Exchange-Traded Funds	14,367,690	—	—	14,367,690
Short-Term Investments (k)	4,869,732	—	—	4,869,732
Derivatives (l)				
Futures Contracts	734,606	—	—	734,606
Credit Default Swap Contracts	—	144,850	—	144,850
Interest Rate Swap Contracts	—	413,997	—	413,997
Total Return Swap Contracts	—	917,067	—	917,067
Forward Foreign Currency Contracts	—	122,642	—	122,642
Total	**$ 80,527,197**	**$69,746,844**	**$333,296**	**$150,607,337**

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

Liabilities		Level 1		Level 2		Level 3		Total
Derivatives (l)								
Futures Contracts	$	(80,294)	$	—	$	—	$	(80,294)
Interest Rate Swap Contracts		—		(299,670)		—		(299,670)
Forward Foreign Currency Contracts		—		(353,454)		—		(353,454)
Total	**$**	**(80,294)**	**$**	**(653,124)**	**$**	**—**	**$**	**(733,418)**

There have been no transfers between fair value measurement levels during the year ended December 31, 2017.

(k) See Investment Portfolio for additional detailed categorizations.

(l) Derivatives include unrealized appreciation (depreciation) on open futures contracts, credit default swap contracts, interest rate swap contracts, 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, 2017

Assets	
Investments in non-affiliated securities, at value (cost $128,032,607) — including $3,154,529 of securities loaned	$143,404,443
Investment in Deutsche Government & Agency Securities Portfolio (cost $3,253,298)*	3,253,298
Investments in Deutsche Central Cash Management Government Fund (cost $1,616,434)	1,616,434
Cash	146,198
Foreign currency, at value (cost $373,775)	369,831
Cash held as collateral for bilateral swap contracts	290,000
Receivable for Fund shares sold	1,472
Dividends receivable	232,231
Interest receivable	453,873
Receivable for variation margin on futures contracts	9,933
Unrealized appreciation on bilateral swap contracts	917,067
Unrealized appreciation on forward foreign currency exchange contracts	122,642
Foreign taxes recoverable	94,383
Other assets	3,305
Total assets	150,915,110
Liabilities	
Payable upon return of securities loaned	3,253,298
Payable for investments purchased — when-issued security	160,000
Payable upon return of deposit for bilateral swap contracts	290,000
Payable for Fund shares redeemed	97,746
Payable for variation margin on centrally cleared swaps	18,407
Unrealized depreciation on forward foreign currency exchange contracts	353,454
Accrued management fee	45,845
Accrued Trustees' fees	2,798
Other accrued expenses and payables	174,319
Total liabilities	4,395,867
Net assets, at value	**$146,519,243**
Net Assets Consist of	
Undistributed net investment income	4,363,984
Net unrealized appreciation (depreciation) on: Investments	15,371,836
Swap contracts	1,176,244
Futures	654,312
Foreign currency	(1,130)
Forward foreign currency contracts	(230,812)
Accumulated net realized gain (loss)	11,838,154
Paid-in capital	113,346,655
Net assets, at value	**$146,519,243**
Class A	
Net Asset Value, offering and redemption price per share ($146,519,243 ÷ 5,517,134 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 26.56**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2017

Investment Income	
Income: Dividends (net of foreign taxes withheld of $181,510)	$ 4,250,725
Interest (net of foreign taxes withheld of $11,747)	1,864,014
Income distributions — Deutsche Central Cash Management Government Fund	35,123
Securities lending income, net of borrower rebates	71,713
Total income	6,221,575
Expenses: Management fee	662,352
Administration fee	179,014
Services to shareholders	823
Custodian fee	55,014
Professional fees	99,398
Reports to shareholders	32,255
Trustees' fees and expenses	11,142
Pricing Service fee	67,051
Other	15,103
Total expenses	1,122,152
Net investment income	**5,099,423**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from: Investments	15,344,722
Swap contracts	1,303,473
Futures	2,313,924
Written options	89,550
Forward foreign currency contracts	(126,399)
Foreign currency	13,180
	18,938,450
Change in net unrealized appreciation (depreciation) on: Investments	4,190,563
Swap contracts	(269,564)
Futures	869,583
Forward foreign currency contracts	(1,421,320)
Foreign currency	8,320
	3,377,582
Net gain (loss)	**22,316,032**
Net increase (decrease) in net assets resulting from operations	**$27,415,455**

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, 2017	2016
Operations:		
Net investment income	$ 5,099,423	$ 5,058,747
Net realized gain (loss)	18,938,450	(200,045)
Change in net unrealized appreciation (depreciation)	3,377,582	7,339,499
Net increase (decrease) in net assets resulting from operations	27,415,455	12,198,201
Distributions to shareholders from:		
Net investment income:		
Class A	(5,628,068)	(7,851,269)
Fund share transactions:		
Class A		
Proceeds from shares sold	3,259,753	3,626,943
Shares issued to shareholders in reinvestment of distributions	5,628,068	7,851,269
Payments for shares redeemed	(69,176,010)	(32,401,979)
Net increase (decrease) in net assets from Class A share transactions	(60,288,189)	(20,923,767)
Increase (decrease) in net assets	(38,500,802)	(16,576,835)
Net assets at beginning of period	185,020,045	201,596,880
Net assets at end of period (including undistributed net investment income of $4,363,984 and $4,038,796, respectively)	**$146,519,243**	**$185,020,045**

Other Information		
Class A		
Shares outstanding at beginning of period	7,873,905	8,792,358
Shares sold	130,993	157,470
Shares issued to shareholders in reinvestment of distributions	233,530	348,017
Shares redeemed	(2,721,294)	(1,423,940)
Net increase (decrease) in Class A shares	(2,356,771)	(918,453)
Shares outstanding at end of period	**5,517,134**	**7,873,905**

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

Financial Highlights

Class A	2017	Years Ended December 31, 2016	2015	2014	2013
Selected Per Share Data					
Net asset value, beginning of period	**$23.50**	**$22.93**	**$24.62**	**$27.30**	**$23.90**
Income (loss) from investment operations:					
Net investment income[a]	.71	.61	.68	.72	.78
Net realized and unrealized gain (loss)	3.10	.91	(.97)	.25	3.14
Total from investment operations	3.81	1.52	(.29)	.97	3.92
Less distributions from:					
Net investment income	(.75)	(.95)	(.76)	(.85)	(.52)
Net realized gains	—	—	(.64)	(2.80)	—
Total distributions	(.75)	(.95)	(1.40)	(3.65)	(.52)
Net asset value, end of period	**$26.56**	**$23.50**	**$22.93**	**$24.62**	**$27.30**
Total Return (%)	16.54	6.81	(1.44)[b]	3.83	16.63
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	147	185	202	247	269
Ratio of expenses before expense reductions (%)[c]	.63	.62	.60	.62	.60
Ratio of expenses after expense reductions (%)[c]	.63	.62	.58	.62	.60
Ratio of net investment income (loss) (%)	2.85	2.66	2.85	2.83	3.07
Portfolio turnover rate (%)	122	135	92	88	182

a Based on average shares outstanding during the period.

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

c Expense ratio does not reflect charges and 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.

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, 2017, 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, 2017, the Fund invested the cash collateral in Deutsche Government & Agency Securities Portfolio. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.13% annualized effective rate as of December 31, 2017) on the cash collateral invested in Deutsche 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, 2017, 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, 2017

	Overnight and Continuous	<30 days	Between 30 & 90 days	>90 days	Total
Securities Lending Transactions					
Common Stocks	$ 561,215	$ —	$ —	$ —	$ 561,215
Corporate Bonds	1,435,833	—	—	—	1,435,833
Exchange-Traded Fund	1,256,250	—	—	—	1,256,250
Total Borrowings	**$3,253,298**	**$ —**	**$ —**	**$ —**	**$3,253,298**

Gross amount of recognized liabilities for securities lending transactions: $3,253,298

When-Issued/Delayed Delivery Securities. The Fund may purchase or sell securities with delivery or payment to occur at a later date beyond the normal settlement period. At the time the Fund enters into a commitment to purchase or sell a security, the transaction is recorded and the value of the transaction is reflected in the net asset value. The price of such security and the date when the security will be delivered and paid for are fixed at the time the transaction is negotiated. The value of the security may vary with market fluctuations. At the time the Fund enters into a purchase transaction it is required to segregate cash or other liquid assets at least equal to the amount of the commitment. Additionally, the Fund may be required to post securities and/or cash collateral in accordance with the terms of the commitment.

Certain risks may arise upon entering into when-issued or delayed delivery transactions from the potential inability of counterparties to meet the terms of their contracts or if the issuer does not issue the securities due to political, economic or other factors. Additionally, losses may arise due to changes in the value of the underlying securities.

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

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

The Fund has reviewed the tax positions for the open tax years as of December 31, 2017 and has determined that no provision for income tax and/or uncertain tax positions 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, 2017, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 9,638,614
Undistributed Long-Term Capital Gains	$ 8,282,808
Unrealized appreciation (depreciation) on investments	$ 15,203,530

At December 31, 2017, the aggregate cost of investments for federal income tax purposes was $133,213,485. The net unrealized appreciation for all investments based on tax cost was $15,203,530. This consisted of aggregate gross unrealized appreciation for all investments in which there was an excess of value over tax cost of $17,066,142 and aggregate gross unrealized depreciation for all investments in which there was an excess of tax cost over value of $1,862,612.

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

	Years Ended December 31, 2017	2016
Distributions from ordinary income*	$ 5,628,068	$ 7,851,269

* 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, 2017, 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, 2017 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2017, the investment in interest rate swap contracts had a total notional amount generally indicative of a range from $27,000,000 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, 2017, 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 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, 2017 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2017, the investment on the credit default swap contracts sold had a total notional value of generally indicative of a range from approximately $376,000 to $7,700,000.

Total Return Swap Contracts. Total return swaps involve commitments to pay interest in exchange for a market-linked return based on a notional amount. 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, 2017, 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, 2017 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2017, the investment in total return swap contracts had a total notional amount generally indicative of a range from $0 to approximately $18,005,000.

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, 2017, 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. In addition, the Fund entered into equity index futures as a means of gaining exposure to the equity asset class without investing directly into such asset class and to manage the risk of stock market volatility.

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, 2017 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2017, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $28,712,000 to $57,111,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from approximately $5,939,000 to $45,430,000.

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, 2017, the Fund entered into options contracts in order to manage the risk of stock market volatility. In addition, 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, 2017. For the year ended December 31, 2017, the investment in written option contracts had a total value generally indicative of a range from $0 to $346,000 and purchased option contracts with total values ranging from $0 to $206,000.

Forward Foreign Currency Contracts. A forward foreign currency 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, 2017, 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, 2017 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2017, the investment in forward currency contracts short vs. U.S. dollars had a total contract value generally indicative of a range from approximately $20,559,000 to $74,338,000, and the investment in forward currency contracts long vs. U.S. dollars had a total contract value generally indicative of a range from approximately $11,042,000 to $60,988,000.

The following tables summarize the value of the Fund's derivative instruments held as of December 31, 2017 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**
Equity Contracts (a)(b)	$ —	$ 917,067	$ 646,420	$ 1,563,487
Interest Rate Contracts (a)	—	413,997	88,186	502,183
Credit Contracts (a)	—	144,850	—	144,850
Foreign Exchange Contracts (b)	122,642	—	—	122,642
	$ 122,642	**$ 1,475,914**	**$ 734,606**	**$ 2,333,162**

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 contracts and bilateral swap contracts

Liability Derivatives	Forward Contracts	Swap Contracts	Futures Contracts	Total
Interest Rate Contracts (c)	$ —	$ (299,670)	$ (80,294)	$ (379,964)
Foreign Exchange Contracts (d)	(353,454)	—	—	(353,454)
	$ (353,454)	**$ (299,670)**	**$ (80,294)**	**$ (733,418)**

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

(c) 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.

(d) Unrealized depreciation on forward foreign currency contracts

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the year ended December 31, 2017 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	Purchased Options	Written Options	Forward Contracts	Swap Contracts	Futures Contracts	Total
Equity Contracts (e)	$ (98,354)	$ (123,200)	$ —	$ —	$ 2,170,721	$ 1,949,167
Interest Rate Contracts (e)	—	212,750	—	745,242	143,203	1,101,195
Credit Contracts (e)	—	—	—	558,231	—	558,231
Foreign Exchange Contracts (f)	—	—	(126,399)	—	—	(126,399)
	$ (98,354)	**$ 89,550**	**$ (126,399)**	**$ 1,303,473**	**$ 2,313,924**	**$ 3,482,194**

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

(e) Net realized gain (loss) from investments (includes purchased options), written options, swap contracts and futures, respectively

(f) Net realized gain (loss) from forward foreign currency contracts

Change in Net Unrealized Appreciation (Depreciation)	Forward Contracts	Swap Contracts	Futures Contracts	Total
Equity Contracts (g)	$ —	$ 917,067	$ 701,962	$ 1,619,029
Interest Rate Contracts (g)	—	(1,085,115)	167,621	(917,494)
Credit Contracts (g)	—	(101,516)	—	(101,516)
Foreign Exchange Contracts (h)	(1,421,320)	—	—	(1,421,320)
	$ (1,421,320)	**$ (269,564)**	**$ 869,583**	**$ (821,301)**

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

(g) Change in net unrealized appreciation (depreciation) on swap contracts and futures, respectively

(h) Change in net unrealized appreciation (depreciation) on forward foreign currency contracts

As of December 31, 2017, the Fund has transactions subject to enforceable master netting agreements which govern the terms of certain transactions, and reduce the counterparty risk associated with such transactions. Master netting agreements allow a Fund to close out and net total exposure to a counterparty in the event of a deterioration in the credit quality or contractual default with respect to all of the transactions with a counterparty. As defined by the master netting agreement, the Fund may have collateral agreements with certain counterparties to mitigate risk. For financial reporting purposes the Statement of Assets and Liabilities generally shows derivatives assets and liabilities on a gross basis, which reflects the full risks and exposures prior to netting. A reconciliation of the gross amounts on the Statement of Assets and Liabilities to the net amounts by a 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 (i)	Net Amount of Derivative Assets
Canadian Imperial Bank of Commerce	$ 34,042	$ —	$ —	$ 34,042
Citigroup, Inc.	459,405	(130,795)	—	328,610
Credit Agricole	52,684	(52,684)	—	—
Goldman Sachs & Co.	457,662	—	(290,000)	167,662
HSBC Holdings PLC	15,579	—	—	15,579
State Street Bank & Trust Co.	20,337	(20,337)	—	—
	$ 1,039,709	**$ (203,816)**	**$ (290,000)**	**$ 545,893**

Counterparty	Gross Amounts of Liabilities Presented in the Statement of Assets and Liabilities	Financial Instruments and Derivatives Available for Offset	Non-Cash Collateral Pledged (i)	Net Amount of Derivative Liabilities
Barclays Bank PLC	$ 13,359	$ —	$ —	$ 13,359
Citigroup, Inc.	130,795	(130,795)	—	—
Credit Agricole	97,061	(52,684)	—	44,377
JPMorgan Chase Securities, Inc.	55,973	—	(45,400)	10,573
National Australia Bank Ltd.	5,410	—	—	5,410
State Street Bank & Trust Co.	50,856	(20,337)	—	30,519
	$ 353,454	**$ (203,816)**	**$ (45,400)**	**$ 104,238**

(i) The actual collateral received and/or pledged may be more than the amounts shown.

C. Purchases and Sales of Securities

During the year ended December 31, 2017, purchases and sales of investment transactions (excluding short-term investments and U.S. Treasury obligations) aggregated $177,815,611 and $225,761,653, respectively. Purchases and sales of U.S. Treasury obligations aggregated $28,865,086 and $42,437,313, respectively.

D. Related Parties

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

Effective March 1, 2017, Deutsche Alternative Asset Management (Global) Limited (DAAM Global), also an indirect, wholly owned subsidiary of Deutsche Bank AG, serves as subadvisor for the Fund and, as such, provides portfolio manager services to the Fund. Pursuant to a sub-advisory agreement between DIMA and DAAM Global, DIMA, not the Fund, compensates DAAM Global for the services it provides to 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, 2017, the fee pursuant to the Investment Management Agreement was equivalent to an annual rate (exclusive of any applicable waiver/reimbursements) of 0.37% of the Fund's average daily net assets.

For the period from January 1, 2017 through September 30, 2017, 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 0.73%.

Effective October 1, 2017 through September 30, 2018, 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 0.69%.

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, 2017, the Administration Fee was $179,014, of which $12,391 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, 2017, the amounts charged to the Fund by DSC aggregated $428, of which $106 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing certain pre-press and regulatory filing services to the Fund. For the year ended December 31, 2017, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $12,948, of which $4,819 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, 2017, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $5,398.

E. Ownership of the Fund

At December 31, 2017, one participating insurance company was owner of record of 10% or more of the total outstanding shares of the Fund, owning 71%.

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, 2017.

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

Opinion on the Financial Statements

We have audited the accompanying statement of assets and liabilities of Deutsche Global Income Builder VIP (the "Fund") (one of the funds constituting the Deutsche Variable Series II) (the "Trust"), including the schedule of investments, as of December 31, 2017, 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, the financial highlights for each of the five years in the period then ended and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund (one of the funds constituting the Deutsche Variable Series II) at December 31, 2017, 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 its financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on the Fund's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Trust in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Trust is not required to have, nor were we engaged to perform, an audit of the Trust's internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2017, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received.

Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Ernst + Young LLP

We have served as the auditor of one or more investment companies in the Deutsche family of funds since at least 1979, but we are unable to determine the specific year.

Boston, Massachusetts
February 15, 2018

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, 2017 to December 31, 2017).

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, 2017

Actual Fund Return	**Class A**
Beginning Account Value 7/1/17	$ 1,000.00
Ending Account Value 12/31/17	$ 1,084.50
Expenses Paid per $1,000*	$ 3.31

Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 7/1/17	$ 1,000.00
Ending Account Value 12/31/17	$ 1,022.03
Expenses Paid per $1,000*	$ 3.21

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

Annualized Expense Ratio	**Class A**
Deutsche Variable Series II — Deutsche Global Income Builder VIP	.63%

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

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

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

Tax Information **(Unaudited)**

Pursuant to Section 852 of the Internal Revenue Code, the Fund designates $9,111,000 as capital gain dividends for its year ended December 31, 2017.

For corporate shareholders, 18% of the ordinary dividends (i.e., income dividends plus short-term capital gains) paid during the Fund's fiscal year ended December 31, 2017 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 2017. DIMA has also entered into a sub-advisory agreement with Deutsche Alternative Asset Management (Global) Limited ("DAAM Global"), an affiliate of DIMA, that has an initial term through September 30, 2018.

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"). 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.

— The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly met 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.

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 and DAAM Global are 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.

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 DAAM Global's personnel and administrative support services provided by DIMA, such 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 DIMA and DAAM Global 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 fund sub-advisers, including DAAM Global. 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 "Funds in Review" (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, 2016, the Fund's performance (Class A shares) was in the 2nd quartile, 2nd quartile and 1st quartile, respectively, of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has outperformed its benchmark in the one-, three- and five-year periods ended December 31, 2016.

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, 2016). The Board noted that DIMA pays a sub-advisory fee to DAAM Global out of its fee. 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, 2016, 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 and DAAM Global.

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs to DIMA, 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 transfer agency 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. In addition, the Board considered 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, 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)	89	—
Kenneth C. Froewiss (1945) Vice Chairperson since 2017, and Board Member since 2001	Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); Member, Finance Committee, Association for Asian Studies (2002–present); Director, Mitsui Sumitomo Insurance Group (US) (2004–present); prior thereto, Managing Director, J.P. Morgan (investment banking firm) (until 1996)	92	—
John W. Ballantine (1946) Board Member since 1999	Retired; formerly, Executive Vice President and Chief Risk Management Officer, First Chicago NBD Corporation/The First National Bank of Chicago (1996–1998); Executive Vice President and Head of International Banking (1995–1996); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (population well-being and wellness services) (2003–2014); Stockwell Capital Investments PLC (private equity); Enron Corporation; FNB Corporation; Tokheim Corporation; First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International. Not-for-Profit Director, Trustee: Palm Beach Civic Association; Public Radio International; Window to the World Communications (public media); Harris Theater for Music and Dance (Chicago)	89	Portland General Electric[2] (utility company) (2003–present)
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); The Pew Charitable Trusts (charitable organization); former Directorships: Becton Dickinson and Company[2] (medical technology company); Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College; North Bennett Street School (Boston)	89	—
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)	89	—

Name, Year of Birth, Position with the Fund and Length of Time Served[1]	Business Experience and Directorships During the Past Five Years	Number of Funds in Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Paul K. Freeman (1950) Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Independent Directors Council (former chair); 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); Knoebel Institute for Healthy Aging, University of Denver (2017–present); former Directorships: Prisma Energy International	89	—
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)	89	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004	Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	89	—
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[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	89	Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc[2] (health care) (2009–present)
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	89	—
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)	89	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Hepsen Uzcan[6,9] (1974) President and Chief Executive Officer, 2017–present Assistant Secretary, 2013–present	Director,[3] Deutsche Asset Management; formerly: Vice President for the Deutsche funds (2016–2017)
John Millette[8] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset Management; Chief Legal Officer, Deutsche Investment Management Americas Inc. (2015–present); and Director and Vice President, Deutsche AM Trust Company (since 2016); formerly: Secretary, Deutsche Investment Management Americas Inc. (2015–2017)
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset Management, and Chairman, Director and President, Deutsche AM Trust Company (since 2013); Vice President, Deutsche AM Distributors, Inc. (since 2016); Director, Deutsche AM Service Company (since 2017); Director and President, DB Investment Managers, Inc. (since 2017); formerly: Director, Deutsche AM Trust Company (2004–2013)
Caroline Pearson[8] (1962) Chief Legal Officer, 2010–present	Managing Director,[3] Deutsche Asset Management; formerly: Secretary, Deutsche AM Distributors, Inc.; and Secretary, Deutsche AM Service Company
Scott D. Hogan[8] (1970) Chief Compliance Officer, 2016–present	Director,[3] Deutsche Asset Management
Wayne Salit[7] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Sheila Cadogan[8] (1966) Assistant Treasurer, since July 12, 2017	Director,[3] Deutsche Asset Management
Paul Antosca[8] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management
Diane Kenneally[8] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

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

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

3 Executive title, not a board directorship.

4 As a result of their respective positions held with the Advisor, these individuals are considered "interested persons" of the Advisor within the meaning of the 1940 Act. Interested persons receive no compensation from the Fund.

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

6 Address: 345 Park Avenue, New York, NY 10154.

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

8 Address: One International Place, Boston, MA 02110.

9 Appointed President and Chief Executive Officer effective December 1, 2017.

The Fund's Statement of Additional Information ("SAI") includes additional information about the Board Members. The SAI is available, without charge, upon request. If you would like to request a copy of the SAI, you may do so by calling the following toll-free number: (800) 728-3337.

Deutsche
Asset Management

VS2GIB-2 (R-025825-7 2/18)

Deutsche
Asset Management

December 31, 2017

Annual Report

Deutsche Variable Series I

Deutsche Global Small Cap 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. The Fund may lend securities to approved institutions. Please read 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

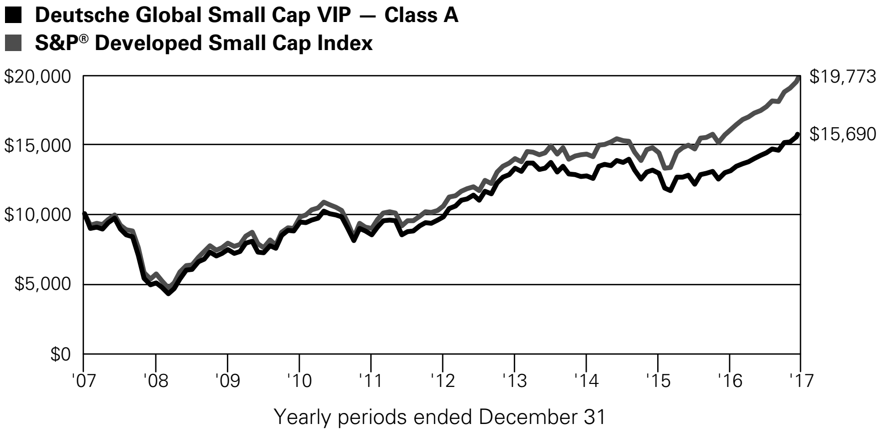
December 31, 2017

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 October 1, 2017, as revised, are 1.08% and 1.38% 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 Index 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	$12,002	$12,332	$16,073	$15,690
	Average annual total return	20.02%	7.24%	9.96%	4.61%
S&P Developed Small Cap Index	Growth of $10,000	$12,331	$13,849	$18,769	$19,773
	Average annual total return	23.31%	11.47%	13.42%	7.05%
Deutsche Global Small Cap VIP		**1-Year**	**3-Year**	**5-Year**	**10-Year**
Class B	Growth of $10,000	$11,960	$12,225	$15,867	$15,261
	Average annual total return	19.60%	6.92%	9.67%	4.32%
S&P Developed Small Cap Index	Growth of $10,000	$12,331	$13,849	$18,769	$19,773
	Average annual total return	23.31%	11.47%	13.42%	7.05%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2017 (Unaudited)

Deutsche Global Small Cap VIP returned 20.02% in 2017 (Class A shares, unadjusted for contract charges), underperforming the 23.31% return of its benchmark, the S&P Developed SmallCap World Index.

A highly supportive investment environment helped fuel substantial gains for small-cap stocks in the annual period. Economic growth accelerated across the world, raising hopes for a synchronized global expansion. Rising corporate profits also contributed to the favorable underpinning for the market and enabled valuations to remain above their historical averages. These trends proved very advantageous for both the growth style and small-cap stocks. International small-caps performed particularly well on the year, helping the S&P Developed SmallCap World Index exceed the 14.65% return of the domestic Russell 2000® Index by a comfortable margin.

Given our global mandate and emphasis on faster-growing small companies, this backdrop helped propel the Fund to a robust absolute return in the past 12 months. However, the Fund's performance fell short of the benchmark due to the impact of individual stock selection. The adverse effect was most pronounced in the technology sector, where much of the underperformance stemmed from an investment in Cardtronics PLC.* A U.K.-based operator of automatic teller machines (ATMs), Cardtronics moved lower due to a potentially negative regulatory review in the United Kingdom and the move to no-fee ATMs by banks in Australia. We chose to eliminate the position. Criteo SA (France) and Inphi Corp. (United States) also detracted from performance in the tech sector. Outside of technology, key detractors included the auto-equipment producer Horizon Global Corp. and the building-materials manufacturer Gibraltar Industries, Inc.*

On the positive side, UT Group Co., Ltd. was the Fund's top contributor for the year. A provider of temporary and contracted staffing services in Japan, UT Group produced robust earnings growth due to the rising demand for short-term employment solutions created by Japan's aging population and shrinking workforce. Moncler SpA, an Italian luxury outdoor-apparel producer that is evolving into a lifestyle brand, rallied on the strength of better-than-expected profits and made a meaningful contribution to results. Techtronic Industries Co., Ltd., a manufacturer of power tools and floor-care products, also performed very well as its large presence in Home Depot has enabled it to capitalize on the latter company's sales growth.

Our stock selection decisions resulted in some notable changes at both the regional and sector levels. We reduced the extent of the portfolio's underweight in North America, but we continued to have a lower weighting than the benchmark as of December 31, 2017. We added to the Fund's holdings in Europe over the year, and we remained slightly above the index weighting at the close of the period. Many European growth companies trade at more attractive valuations than their global peers, and we sought to take advantage of what we saw as the growing opportunity in the region. We funded these moves by reducing the portfolio's allocation to non-Japan Asia.

At the sector level, we made additions to information technology, industrials and energy. Companies with a higher degree of economic sensitivity experienced rising earnings prospects amid the improvement in global growth, so these sectors began to feature to a larger representation of the types of growth companies we seek. The Fund's weighting in health care declined, but this was largely the result of three holdings receiving buyout offers. We remain overweight in the sector overall, as we believe it is fertile ground in which to find dynamic, young companies. The Fund was also overweight in consumer discretionary, technology and industrials, and it was underweight in financials and the slower-growing utilities and real estate sectors.

Small-cap stocks performed very well in 2017, but the gains were fueled in large part by the improvement in economic growth and corporate profits. We therefore believed valuations remained at reasonable levels at year-end, particularly in cyclical areas with the potential for accelerating earnings growth. We would also note that small-cap stocks typically outperform when the economy is expanding and when interest rates are rising, which may provide further support for the asset class. With this as background, we continued to find a broad opportunity set in the global small-cap space as 2017 drew to a close despite the robust gain for the overall market in the past year.

Joseph Axtell, CFA, Managing Director
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.

Terms to Know

The **S&P Developed SmallCap Index** comprises the stocks representing the lowest 15% of float-adjusted market cap in each developed country.

The **Russell 2000® Index** is an unmanaged, capitalization-weighted measure of approximately 2,000 of the smallest companies in the Russell 3000® Index.

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

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

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, 2017.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/17**	**12/31/16**
Common Stocks	98%	97%
Cash Equivalents	2%	3%
Convertible Preferred Stock	0%	0%
Warrant	0%	0%
	100%	100%

Geographical Diversification

(As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/17**	**12/31/16**
United States	55%	55%
Japan	10%	10%
United Kingdom	6%	8%
Germany	4%	4%
Italy	4%	2%
France	4%	3%
Canada	3%	2%
Ireland	2%	3%
Hong Kong	2%	1%
Other	10%	12%
	100%	100%

Sector Diversification

(As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/17**	**12/31/16**
Industrials	22%	19%
Consumer Discretionary	19%	23%
Information Technology	19%	19%
Health Care	12%	12%
Financials	10%	11%
Energy	7%	5%
Materials	6%	5%
Consumer Staples	3%	5%
Real Estate	2%	1%
	100%	100%

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 7.

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, 2017

	Shares	Value ($)
Common Stocks 97.8%		
Austria 1.0%		
Lenzing AG (Cost $1,157,436)	7,095	**901,263**
Bermuda 1.0%		
Lazard Ltd. "A" (a) (Cost $393,880)	16,636	**873,390**
Canada 2.5%		
Linamar Corp.	10,135	590,281
Quebecor, Inc. "B"	47,906	903,240
SunOpta, Inc.*	96,487	747,774
(Cost $1,696,718)		**2,241,295**
Finland 0.5%		
Cramo Oyj (Cost $405,684)	19,549	**464,136**
France 3.6%		
Altran Technologies SA	68,060	1,135,779
Criteo SA (ADR)* (b)	14,334	373,114
SMCP SAS 144A	25,790	595,674
SPIE SA	29,690	773,156
Synergie SA	5,081	267,864
(Cost $3,292,766)		**3,145,587**
Germany 4.0%		
Deutz AG	100,599	916,352
M.A.X. Automation AG	16,907	165,127
PATRIZIA Immobilien AG*	45,518	1,056,897
Rational AG	306	197,461
United Internet AG (Registered)	17,475	1,205,112
(Cost $1,333,920)		**3,540,949**
Hong Kong 1.5%		
Techtronic Industries Co., Ltd. (Cost $243,124)	197,541	**1,292,653**
India 0.9%		
WNS Holdings Ltd. (ADR)* (Cost $536,650)	19,146	**768,329**
Indonesia 0.2%		
PT Arwana Citramulia Tbk (Cost $335,343)	5,415,409	**136,162**
Ireland 2.2%		
Avadel Pharmaceuticals PLC (ADR)*	71,014	582,315
Dalata Hotel Group PLC*	124,112	941,027
Ryanair Holdings PLC*	24,221	436,990
(Cost $1,489,929)		**1,960,332**
Israel 0.7%		
Kornit Digital Ltd.* (a) (b) (Cost $641,718)	38,655	**624,278**
Italy 3.7%		
Buzzi Unicem SpA	24,742	669,092
Moncler SpA	49,229	1,541,566
Prysmian SpA	33,063	1,076,552
(Cost $2,066,879)		**3,287,210**
Japan 9.4%		
Ai Holdings Corp.	33,717	814,131
Anicom Holdings, Inc.	23,400	755,275
Daikyonishikawa Corp.	63,300	1,024,206
Kura Corp.	5,200	304,923
Kusuri No Aoki Holdings Co., Ltd.	11,558	612,091
MISUMI Group, Inc.	14,874	433,790
Nippon Seiki Co., Ltd.	21,664	464,973
Optex Group Co., Ltd.	9,400	496,817
Syuppin Co., Ltd.	48,400	657,132
Topcon Corp.	24,600	531,289
UT Group Co., Ltd.*	46,224	1,346,646
Zenkoku Hosho Co., Ltd.	20,800	894,556
(Cost $4,047,969)		**8,335,829**
Korea 1.1%		
i-SENS, Inc.	17,473	412,934
Vieworks Co., Ltd.	14,657	559,966
(Cost $1,353,028)		**972,900**
Luxembourg 1.1%		
B&M European Value Retail SA (Cost $782,972)	168,711	**965,595**
Netherlands 1.0%		
SBM Offshore NV (Cost $567,848)	48,582	**856,634**
Panama 0.7%		
Banco Latinoamericano de Comercio Exterior SA "E" (Cost $555,143)	23,433	**630,348**
Spain 1.4%		
Talgo SA 144A	157,354	803,851
Telepizza Group SA 144A*	73,497	415,442
(Cost $1,329,257)		**1,219,293**
Sweden 1.4%		
Nobina AB 144A (Cost $762,937)	180,346	**1,188,715**
Switzerland 0.6%		
Transocean Ltd.* (Cost $531,902)	49,958	**533,552**
Taiwan 0.4%		
Basso Industry Corp. (Cost $423,114)	156,000	**349,986**
United Kingdom 5.5%		
accesso Technology Group PLC*	26,563	704,157
Arrow Global Group PLC	116,852	625,288
Clinigen Healthcare Ltd.*	35,663	496,526
Domino's Pizza Group PLC	98,992	462,366
Electrocomponents PLC	122,443	1,036,589
Meggitt PLC	111,667	727,203
Scapa Group PLC	134,345	795,447
(Cost $3,072,162)		**4,847,576**
United States 53.4%		
Advanced Disposal Services, Inc.*	28,244	676,161
Affiliated Managers Group, Inc.	5,449	1,118,407
Ambarella, Inc.* (b)	7,450	437,688
Amicus Therapeutics, Inc.*	15,773	226,973
Arena Pharmaceuticals, Inc.*	7,317	248,559
athenahealth, Inc.*	3,381	449,808
Belden, Inc.	11,682	901,500
Berry Global Group, Inc.*	12,123	711,256

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

	Shares	Value ($)
BioScrip, Inc.* (b)	192,938	561,450
Blucora, Inc.*	15,263	337,312
Cardiovascular Systems, Inc.*	32,056	759,407
Casey’s General Stores, Inc.	7,836	877,162
Cognex Corp.	8,972	548,728
CommerceHub, Inc. “C”*	35,600	733,004
Contango Oil & Gas Co.*	106,062	499,552
Cypress Semiconductor Corp.	53,790	819,760
Del Taco Restaurants, Inc.*	66,261	803,083
Deluxe Corp.	6,072	466,573
Diamondback Energy, Inc.*	7,711	973,514
Dolby Laboratories, Inc. “A”	15,705	973,710
Dril-Quip, Inc.*	19,440	927,288
Ducommun, Inc.*	6,733	191,554
FCB Financial Holdings, Inc. “A”*	14,753	749,452
Five9, Inc.*	21,480	534,422
Fox Factory Holding Corp.*	19,984	776,378
Gentherm, Inc.*	16,282	516,954
Hain Celestial Group, Inc.*	17,361	735,933
Helen of Troy Ltd.*	8,287	798,452
Horizon Global Corp.*	13,283	186,228
Hyster-Yale Materials Handling, Inc.	7,712	656,754
Inphi Corp.* (b)	13,874	507,788
Integra LifeSciences Holdings Corp.*	8,732	417,914
Jack in the Box, Inc.	7,390	725,033
Kennametal, Inc.	20,722	1,003,152
KMG Chemicals, Inc.	13,215	873,247
Knowles Corp.*	39,102	573,235
Leucadia National Corp.	26,217	694,488
Ligand Pharmaceuticals, Inc.*	3,853	527,591
Masonite International Corp.*	5,514	408,863
Matador Resources Co.*	29,044	904,140
Molina Healthcare, Inc.*	18,694	1,433,456
National Storage Affiliates Trust (REIT)	35,904	978,743
NETGEAR, Inc.*	10,937	642,549
Neurocrine Biosciences, Inc.*	10,463	811,824
Oil States International, Inc.*	35,603	1,007,565
Pacira Pharmaceuticals, Inc.*	21,005	958,878
Providence Service Corp.*	14,640	868,738
QAD, Inc. “A”	8,070	313,520
Retrophin, Inc.*	49,374	1,040,310
Rush Enterprises, Inc. “A”*	36,340	1,846,435
Samsonite International SA (c)	166,200	767,666
SEACOR Marine Holdings, Inc.*	31,162	364,595
Sinclair Broadcast Group, Inc. “A” (b)	25,649	970,815
South State Corp.	8,435	735,110
Super Micro Computer, Inc.*	19,719	412,620
Tenneco, Inc.	10,181	595,996
Thermon Group Holdings, Inc.*	36,596	866,227
TiVo Corp.	26,456	412,714
Trinseo SA	10,224	742,262
TriState Capital Holdings, Inc.*	20,744	477,112
UniFirst Corp.	3,886	640,801
Varonis Systems, Inc.*	11,265	546,916
WABCO Holdings, Inc.*	7,607	1,091,605
Welbilt, Inc.*	55,777	1,311,317
WEX, Inc.*	5,266	743,717
Zions Bancorp.	14,441	734,036
(Cost $35,116,312)		**47,148,000**
Total Common Stocks (Cost $62,136,691)		**86,284,012**

Convertible Preferred Stock 0.3%

United States

	Shares	Value ($)
Providence Service Corp. (d) (Cost $196,900)	1,969	**292,980**

Warrants 0.0%

France

	Shares	Value ($)
Parrot SA, Expiration Date (d) 12/15/2022*	13,230	3,104
Parrot SA, Expiration Date (d) 12/22/2022*	13,230	3,562
Total Warrants (Cost $0)		**6,666**

Securities Lending Collateral 3.4%

	Shares	Value ($)
Deutsche Government & Agency Securities Portfolio “Deutsche Government Cash Institutional Shares”, 1.21% (e) (f) (Cost $2,980,179)	2,980,179	**2,980,179**

Cash Equivalents 1.8%

	Shares	Value ($)
Deutsche Central Cash Management Government Fund, 1.30% (e) (Cost $1,563,917)	1,563,917	**1,563,917**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $66,877,687)	103.3	**91,127,754**
Other Assets and Liabilities, Net	(3.3)	**(2,883,930)**
Net Assets	100.0	**88,243,824**

* Non-income producing security.

(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, 2017 amounted to $2,893,177, which is 3.3% of net assets.

(c) Listed on the Hong Kong Stock Exchange.

(d) Investment was valued using significant unobservable inputs.

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

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

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

ADR: American Depositary Receipt

REIT: Real Estate Investment Trust

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

Fair Value Measurements

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

The following is a summary of the inputs used as of December 31, 2017 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				
Austria	$ —	$ 901,263	$ —	$ 901,263
Bermuda	873,390	—	—	873,390
Canada	2,241,295	—	—	2,241,295
Finland	—	464,136	—	464,136
France	968,788	2,176,799	—	3,145,587
Germany	—	3,540,949	—	3,540,949
Hong Kong	—	1,292,653	—	1,292,653
India	768,329	—	—	768,329
Indonesia	—	136,162	—	136,162
Ireland	582,315	1,378,017	—	1,960,332
Israel	624,278	—	—	624,278
Italy	—	3,287,210	—	3,287,210
Japan	—	8,335,829	—	8,335,829
Korea	972,900	—	—	972,900
Luxembourg	—	965,595	—	965,595
Netherlands	—	856,634	—	856,634
Panama	630,348	—	—	630,348
Spain	—	1,219,293	—	1,219,293
Sweden	—	1,188,715	—	1,188,715
Switzerland	533,552	—	—	533,552
Taiwan	—	349,986	—	349,986
United Kingdom	—	4,847,576	—	4,847,576
United States	46,380,334	767,666	—	47,148,000
Convertible Preferred Stock	—	—	292,980	292,980
Warrants (g)	—	—	6,666	6,666
Short-Term Investments (g)	4,544,096	—	—	4,544,096
Total	**$59,119,625**	**$31,708,483**	**$299,646**	**$91,127,754**

As a result of the fair valuation model utilized by the Fund, certain international equity securities transferred from Level 2 to Level 1. During the year ended December 31, 2017, the amount of transfers between Level 2 and Level 1 was $942,219.

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

(g) See Investment Portfolio for additional detailed categorizations.

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

Statement of Assets and Liabilities

as of December 31, 2017

Assets	
Investments in non-affiliated securities, at value (cost $62,333,591) — including $2,893,177 of securities loaned	$86,583,658
Investment in Deutsche Government & Agency Securities Portfolio (cost $2,980,179)*	2,980,179
Investment in Deutsche Central Cash Management Government Fund (cost $1,563,917)	1,563,917
Foreign currency, at value (cost $266,060)	271,047
Receivable for investments sold	67,230
Receivable for Fund shares sold	268
Dividends receivable	26,095
Interest receivable	3,155
Foreign taxes recoverable	18,977
Other assets	2,149
Total assets	91,516,675
Liabilities	
Payable upon return of securities loaned	2,980,179
Payable for investments purchased	102,068
Payable for Fund shares redeemed	58,466
Accrued management fee	29,060
Accrued Trustees' fees	2,215
Other accrued expenses and payables	100,863
Total liabilities	3,272,851
Net assets, at value	**$88,243,824**
Net Assets Consist of	
Distributions in excess of net investment income	(204,731)
Net unrealized appreciation (depreciation) on: Investments	24,250,067
Foreign currency	4,675
Accumulated net realized gain (loss)	10,524,842
Paid-in capital	53,668,971
Net assets, at value	**$88,243,824**
Net Asset Value	
Class A **Net Asset Value,** offering and redemption price per share ($85,344,205 ÷ 6,616,392 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 12.90**
Class B **Net Asset Value,** offering and redemption price per share ($2,899,619 ÷ 232,496 outstanding shares of beneficial interest, $.01 par value, unlimited number of shares authorized)	**$ 12.47**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2017

Investment Income	
Income: Dividends (net of foreign taxes withheld of $53,776)	$ 827,233
Income distributions — Deutsche Central Cash Management Government Fund	26,219
Securities lending income, net of borrower rebates	40,035
Total income	893,487
Expenses: Management fee	800,363
Administration fee	92,183
Services to Shareholders	2,148
Record keeping fee (Class B)	906
Distribution service fee (Class B)	6,841
Custodian fee	36,568
Professional fees	76,354
Reports to shareholders	23,037
Trustees' fees and expenses	6,699
Other	26,034
Total expenses before expense reductions	1,071,133
Expense reductions	(197,678)
Total expenses after expense reductions	873,455
Net investment income	**20,032**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from: Investments	11,389,698
Foreign currency	19,974
	11,409,672
Change in net unrealized appreciation (depreciation) on: Investments	5,237,007
Foreign currency	15,412
	5,252,419
Net gain (loss)	**16,662,091**
Net increase (decrease) in net assets resulting from operations	**$16,682,123**

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

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets	Year Ended December 31, 2017	2016
Operations:		
Net investment income (loss)	$ 20,032	$ 191,099
Net realized gain (loss)	11,409,672	8,666,143
Change in net unrealized appreciation (depreciation)	5,252,419	(8,347,993)
Net increase (decrease) in net assets resulting from operations	16,682,123	509,249
Distributions to shareholders from:		
Net investment income:		
Class A	—	(351,519)
Class B	—	(3,345)
Net realized gains:		
Class A	(8,009,441)	(10,844,338)
Class B	(245,528)	(308,285)
Total distributions	(8,254,969)	(11,507,487)
Fund share transactions:		
Class A		
Proceeds from shares sold	3,744,539	4,096,927
Reinvestment of distributions	8,009,441	11,195,858
Payments for shares redeemed	(23,622,010)	(19,689,215)
Net increase (decrease) in net assets from Class A share transactions	(11,868,030)	(4,396,430)
Class B		
Proceeds from shares sold	289,787	238,868
Reinvestment of distributions	245,528	311,629
Payments for shares redeemed	(451,769)	(366,666)
Net increase (decrease) in net assets from Class B share transactions	83,546	183,831
Increase (decrease) in net assets	(3,357,330)	(15,210,837)
Net assets at beginning of period	91,601,154	106,811,991
Net assets at end of period (including distributions in excess of net investment income of $204,731 and $433,580, respectively)	**$ 88,243,824**	**$ 91,601,154**

Other Information		
Class A		
Shares outstanding at beginning of period	7,559,752	7,905,300
Shares sold	308,643	354,371
Shares issued to shareholders in reinvestment of distributions	695,868	973,553
Shares redeemed	(1,947,871)	(1,673,472)
Net increase (decrease) in Class A shares	(943,360)	(345,548)
Shares outstanding at end of period	**6,616,392**	**7,559,752**
Class B		
Shares outstanding at beginning of period	224,620	207,982
Shares sold	24,779	20,941
Shares issued to shareholders in reinvestment of distributions	22,020	27,824
Shares redeemed	(38,923)	(32,127)
Net increase (decrease) in Class B shares	7,876	16,638
Shares outstanding at end of period	**232,496**	**224,620**

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

Financial Highlights

Class A	2017	Years Ended December 31, 2016	2015	2014	2013
Selected Per Share Data					
Net asset value, beginning of period	**$11.78**	**$13.17**	**$14.61**	**$17.31**	**$13.78**
Income (loss) from investment operations: Net investment income (loss)[a]	.00*	.03	.06	.04	.04
Net realized and unrealized gain (loss)	2.21	.15	.21	(.69)	4.66
Total from investment operations	2.21	.18	.27	(.65)	4.70
Less distributions from: Net investment income	—	(.05)	(.14)	(.15)	(.10)
Net realized gains	(1.09)	(1.52)	(1.57)	(1.90)	(1.07)
Total distributions	(1.09)	(1.57)	(1.71)	(2.05)	(1.17)
Net asset value, end of period	**$12.90**	**$11.78**	**$13.17**	**$14.61**	**$17.31**
Total Return (%)[b]	20.02	1.57	1.16	(4.13)	35.94
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	85	89	104	135	154
Ratio of expenses before expense reductions (%)[c]	1.15	1.17	1.12	1.13	1.14
Ratio of expenses after expense reductions (%)[c]	.94	1.02	.99	.97	.94
Ratio of net investment income (loss) (%)	.03	.22	.41	.27	.28
Portfolio turnover rate (%)	42	41	27	33	39

a Based on average shares outstanding during the period.
b Total return would have been lower had certain expenses not been reduced.
c Expense ratio does not reflect charges and 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.
* Amount is less than $.005.

Class B	2017	Years Ended December 31, 2016	2015	2014	2013
Selected Per Share Data					
Net asset value, beginning of period	**$11.45**	**$12.85**	**$14.29**	**$16.97**	**$13.52**
Income (loss) from investment operations: Net investment income (loss)[a]	(.03)	(.03)	.02	.00*	.01
Net realized and unrealized gain (loss)	2.14	.17	.21	(.67)	4.57
Total from investment operations	2.11	.14	.23	(.67)	4.58
Less distributions from: Net investment income	—	(.02)	(.10)	(.11)	(.06)
Net realized gains	(1.09)	(1.52)	(1.57)	(1.90)	(1.07)
Total distributions	(1.09)	(1.54)	(1.67)	(2.01)	(1.13)
Net asset value, end of period	**$12.47**	**$11.45**	**$12.85**	**$14.29**	**$16.97**
Total Return (%)[b]	19.60	1.34	.86	(4.33)	35.67
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	3	3	3	3	3
Ratio of expenses before expense reductions (%)[c]	1.44	1.47	1.41	1.41	1.34
Ratio of expenses after expense reductions (%)[c]	1.22	1.30	1.24	1.25	1.15
Ratio of net investment income (loss) (%)	(.26)	(.23)	.15	.02	.07
Portfolio turnover rate (%)	42	41	27	33	39

a Based on average shares outstanding during the period.
b Total return would have been lower had certain expenses not been reduced.
c Expense ratio does not reflect charges and 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.
* 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, 2017, 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, 2017, the Fund invested the cash collateral in Deutsche Government & Agency Securities Portfolio. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.13% annualized effective rate as of December 31, 2017) on the cash collateral invested in Deutsche 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, 2017, 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, 2017 and has determined that no provision for income tax and/or uncertain tax positions 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, 2017, the Fund's components of distributable earnings (accumulated losses) on a tax basis are as follows:

Undistributed ordinary income*	$ 1,144,417
Undistributed long-term capital gains	$ 9,859,442
Net unrealized appreciation (depreciation) on investments	$ 23,566,319

At December 31, 2017, the aggregate cost of investments for federal income tax purposes was $67,561,435. The net unrealized appreciation for all investments based on tax cost was $23,566,319. This consisted of aggregate gross unrealized appreciation for all investments in which there was an excess of value over tax cost of $26,727,511 and aggregate gross unrealized depreciation for all investments in which there was an excess of tax cost over value of $3,161,192.

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

	Years Ended December 31, 2017	2016
Distributions from ordinary Income*	$ —	$ 325,380
Distributions from long-term capital gains	$ 8,254,969	$ 11,182,107

* 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, 2017, purchases and sales of investment securities (excluding short-term investments) aggregated $37,002,117 and $56,009,862, 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.

Prior to October 1, 2017, pursuant to the Investment Management Agreement with the Advisor, the Fund paid 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%

Effective October 1, 2017, 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 annual rate (exclusive of any applicable waivers/reimbursements) of 0.80%.

Accordingly, for the year ended December 31, 2017, the fee pursuant to the Investment Management Agreement was equivalent to an annual rate (exclusive of any applicable waivers/reimbursements) of 0.87% of the Fund's average daily net assets.

For the period from January 1, 2017 through September 30, 2017, 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	1.27%

Effective October 1, 2017 through September 30, 2018, 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 certain classes as follows:

Class A	.78%
Class B	1.06%

For the year ended December 31, 2017, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 191,484
Class B	6,194
	$ 197,678

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, 2017, the Administration Fee was $92,183, of which $7,415 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, 2017, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	**Total Aggregated**	**Unpaid at December 31, 2017**
Class A	$ 499	$ 124
Class B	182	45
	$ 681	**$ 169**

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, 2017, the Distribution Service Fee aggregated $6,841, of which $606 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing certain pre-press and regulatory filing services to the Fund. For the year ended December 31, 2017, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $11,814, of which $4,862 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, 2017, four participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 35%, 21%, 17% 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 70% and 18%, respectively.

E. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if the one-month LIBOR exceeds the Federal Funds Rate, the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at December 31, 2017.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Deutsche Variable Series I and Shareholders of Deutsche Global Small Cap VIP

Opinion on the Financial Statements

We have audited the accompanying statement of assets and liabilities, including the investment portfolio, of Deutsche Global Small Cap VIP (one of the funds constituting Deutsche Variable Series I, referred to hereafter as the "Fund") as of December 31, 2017, the related statement of operations for the year ended December 31, 2017, the statement of changes in net assets for each of the two years in the period ended December 31, 2017, including the related notes, and the financial highlights for each of the five years in the period ended December 31, 2017 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2017, 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 ended December 31, 2017 and the financial highlights for each of the five years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on the Fund's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Fund in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our procedures included confirmation of securities owned as of December 31, 2017 by correspondence with the custodian, transfer agent and brokers; when replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

Boston, Massachusetts
February 14, 2018

PricewaterhouseCoopers LLP

We have served as the auditor of one or more investment companies in the Deutsche family of funds since 1930.

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, 2017 to December 31, 2017).

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, 2017

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/17	$ 1,000.00	$ 1,000.00
Ending Account Value 12/31/17	$ 1,091.40	$ 1,090.00
Expenses Paid per $1,000*	$ 4.69	$ 6.11

Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/17	$ 1,000.00	$ 1,000.00
Ending Account Value 12/31/17	$ 1,020.72	$ 1,019.36
Expenses Paid per $1,000*	$ 4.53	$ 5.90

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

Annualized Expense Ratios	**Class A**	**Class B**
Deutsche Variable Series I — Deutsche Global Small Cap VIP	.89%	1.16%

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

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

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 $1.09 per share from net long-term capital gains during its year ended December 31, 2017.

Pursuant to Section 852 of the Internal Revenue Code, the Fund designates $10,878,000 as capital gain dividends for its year ended December 31, 2017.

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 2017.

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"). 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.

— The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly met 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.

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.

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 administrative support services provided by DIMA, such 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 "Funds in Review" (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, 2016, 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, 2016. The Board observed that there were 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. 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, 2016). The Board noted that, effective October 1, 2017, in connection with the 2017 contract renewal process, DIMA agreed to reduce the Fund's contractual management fee rate to an annual rate of 0.80%. 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, 2016, 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 to DIMA, 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. In this regard, the Board observed that while the Fund's current investment management fee schedule does not include breakpoints, 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, any fees received by an affiliate of DIMA for transfer agency 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. In addition, the Board considered 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, 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)	89	—
Kenneth C. Froewiss (1945) Vice Chairperson since 2017, and Board Member since 2001	Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); Member, Finance Committee, Association for Asian Studies (2002–present); Director, Mitsui Sumitomo Insurance Group (US) (2004–present); prior thereto, Managing Director, J.P. Morgan (investment banking firm) (until 1996)	92	—
John W. Ballantine (1946) Board Member since 1999	Retired; formerly, Executive Vice President and Chief Risk Management Officer, First Chicago NBD Corporation/The First National Bank of Chicago (1996–1998); Executive Vice President and Head of International Banking (1995–1996); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (population well-being and wellness services) (2003–2014); Stockwell Capital Investments PLC (private equity); Enron Corporation; FNB Corporation; Tokheim Corporation; First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International. Not-for-Profit Director, Trustee: Palm Beach Civic Association; Public Radio International; Window to the World Communications (public media); Harris Theater for Music and Dance (Chicago)	89	Portland General Electric[2] (utility company) (2003–present)
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); The Pew Charitable Trusts (charitable organization); former Directorships: Becton Dickinson and Company[2] (medical technology company); Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College; North Bennett Street School (Boston)	89	—
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)	89	—

Name, Year of Birth, Position with the Fund and Length of Time Served[1]	Business Experience and Directorships During the Past Five Years	Number of Funds in Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Paul K. Freeman (1950) Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Independent Directors Council (former chair); 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); Knoebel Institute for Healthy Aging, University of Denver (2017–present); former Directorships: Prisma Energy International	89	—
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)	89	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004	Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	89	—
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[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	89	Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc[2] (health care) (2009–present)
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	89	—
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)	89	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Hepsen Uzcan[6,9] (1974) President and Chief Executive Officer, 2017–present Assistant Secretary, 2013–present	Director,[3] Deutsche Asset Management; formerly: Vice President for the Deutsche funds (2016–2017)
John Millette[8] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset Management; Chief Legal Officer, Deutsche Investment Management Americas Inc. (2015–present); and Director and Vice President, Deutsche AM Trust Company (since 2016); formerly: Secretary, Deutsche Investment Management Americas Inc. (2015–2017)
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset Management, and Chairman, Director and President, Deutsche AM Trust Company (since 2013); Vice President, Deutsche AM Distributors, Inc. (since 2016); Director, Deutsche AM Service Company (since 2017); Director and President, DB Investment Managers, Inc. (since 2017); formerly: Director, Deutsche AM Trust Company (2004–2013)
Caroline Pearson[8] (1962) Chief Legal Officer, 2010–present	Managing Director,[3] Deutsche Asset Management; formerly: Secretary, Deutsche AM Distributors, Inc.; and Secretary, Deutsche AM Service Company
Scott D. Hogan[8] (1970) Chief Compliance Officer, 2016–present	Director,[3] Deutsche Asset Management
Wayne Salit[7] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Sheila Cadogan[8] (1966) Assistant Treasurer, since July 12, 2017	Director,[3] Deutsche Asset Management
Paul Antosca[8] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management
Diane Kenneally[8] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

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

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

3 Executive title, not a board directorship.

4 As a result of their respective positions held with the Advisor, these individuals are considered "interested persons" of the Advisor within the meaning of the 1940 Act. Interested persons receive no compensation from the Fund.

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

6 Address: 345 Park Avenue, New York, NY 10154.

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

8 Address: One International Place, Boston, MA 02110.

9 Appointed President and Chief Executive Officer effective December 1, 2017.

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

VS1glosc-2 (R-025821-7 2/18)

Deutsche
Asset Management

December 31, 2017

Annual Report

Deutsche Variable Series II

Deutsche Government & Agency Securities VIP

Contents

Performance Summary

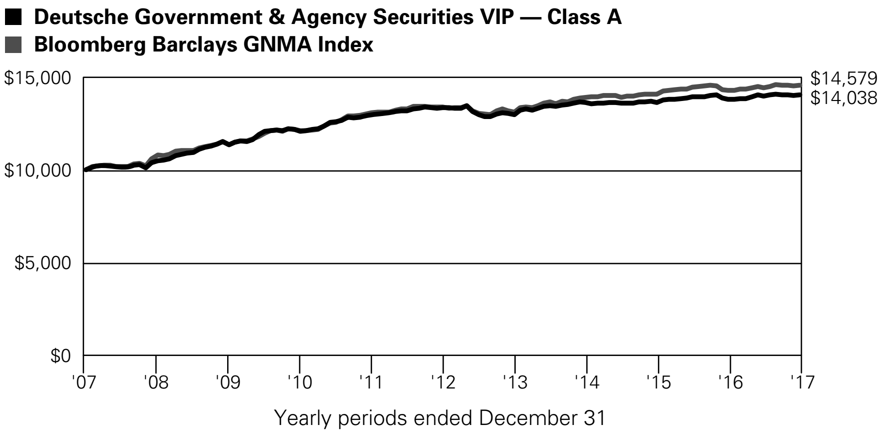
December 31, 2017 (Unaudited)

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, 2017 are 0.86% and 1.21% 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	$10,167	$10,282	$10,497	$14,038
	Average annual total return	1.67%	0.93%	0.97%	3.45%
Bloomberg Barclays GNMA Index	Growth of $10,000	$10,186	$10,489	$10,879	$14,579
	Average annual total return	1.86%	1.60%	1.70%	3.84%

Deutsche Government & Agency Securities VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,131	$10,173	$10,330	$13,576
	Average annual total return	1.31%	0.57%	0.65%	3.10%
Bloomberg Barclays GNMA Index	Growth of $10,000	$10,186	$10,489	$10,879	$14,579
	Average annual total return	1.86%	1.60%	1.70%	3.84%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2017 (Unaudited)

During the 12-month period ended December 31, 2017, the Fund provided a total return of 1.67% (Class A shares, unadjusted for contract charges) compared with the 1.86% return of its benchmark, the Bloomberg Barclays GNMA Index.

Entering 2017, investor sentiment was supported by optimism over the prospects for higher growth with Republicans holding the White House and both houses of Congress. Economically sensitive, credit-oriented segments of the bond market outperformed more interest rate-sensitive, higher-quality issues for much of the year. In October 2017, the U.S. Federal Reserve (the Fed) begin the gradual tapering of its mortgage-backed security and Treasury holdings. The plan to reduce the Fed's balance sheet had been extensively foreshadowed, so the actual launch of tapering had a muted impact on longer-term bond yields. As 2017 drew to a close, against a backdrop of strengthened employment conditions and robust corporate profits, the passage of a tax reform bill that included a significant reduction in corporate tax rates led to stepped up expectations for Fed rate hikes. In December, the Fed implemented its third quarter-point rate hike of the year by increasing the upper band of its benchmark short-term lending rate from 1.25% to 1.50%.

For the 12 months ended December 31, 2017, the U.S. Treasury yield curve flattened as short term yields rose and longer-term rates declined. To illustrate, the two-year Treasury yield went from 1.20% to 1.91%, the five-year from 1.93% to 2.23%, the 10-year from 2.45% to 2.43%, the 20-year from 2.79% to 2.60% and the 30-year from 3.05% to 2.75%.

2017 was a difficult year for the GNMA sector, as faster prepayment and heavy supply undermined sentiment. We reduced GNMA exposure throughout the year in exchange for conventional mortgage-backed securities and other high-quality, out-of-benchmark sectors such as U.S. Treasuries, which proved beneficial to performance.

The Fund also maintained a position in collateralized mortgage obligations with favorable prepayment characteristics, which helped drive incremental yield for the Fund. The Fund tactically shifted its positioning along the yield curve throughout the period, while maintaining a strategic bias toward a flattening yield curve that favored longer maturities. High-coupon GNMAs lagged over the 12 months, and we reduced the Fund's overweight to the sector while maintaining exposure to bonds that we believe could have upside potential if interest rate levels rise. Derivatives, which were used for tactical positioning with respect to non-U.S. dollar exposures, had a positive effect on performance when coupled with corresponding currency hedges. Derivatives were also used for hedging U.S. interest rate exposure with minimal impact on performance.

We expect a continued flattening of the yield curve given that the Fed is hinting at three or four hikes in the coming year. The positive sentiment is expected to carry forward into the new year, possibly suppressing demand for GNMA securities as investors seek higher yields in a steadily improving economy. However, with spreads having narrowed across asset classes, the relative value equation is pointing back in favor of the high-quality segments of the U.S. fixed income market. The backdrop is further complicated by the Fed's tapering and ultimately vanishing reinvestment into the mortgage-backed securities market. We therefore believe maintaining off-index exposures to liquid instruments such as sovereign bonds, agency CMOs and ABS securities could help mitigate volatility in the coming year.

Gregory M. Staples, CFA, Managing Director
Scott Agi, CFA, Director
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.

Terms to Know

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.

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.

Mortgage-backed securities (MBS) are bonds that are secured by mortgage debt. **Collateralized mortgage obligations (CMOs)** are mortgage-backed securities with separate pools for different classes of bondholders. **Asset-backed securities (ABS)** are bonds backed by receivables from consumer debt such as credit cards, home equity loans and auto loans.

Coupon is the interest rate, expressed as an annual percentage of face value, which a bond issuer promises to pay until maturity.

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.

Derivatives are contracts whose values can be based on a variety of instruments including indices, currencies or securities. They can be utilized for a variety of reasons including for hedging purposes; for risk management; for non-hedging purposes to seek to enhance potential gains; or as a substitute for direct investment in a particular asset class or to keep cash on hand to meet shareholder redemptions. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility.

Portfolio Summary (Unaudited)

Asset Allocation (As a % of Net Assets)	**12/31/17**	**12/31/16**
Mortgage-Backed Securities Pass-Throughs	80%	94%
Collateralized Mortgage Obligations	22%	16%
Government & Agency Obligations	16%	7%
Asset-Backed	5%	—
Commercial Mortgage-Backed Securities	3%	1%
Corporate Bonds	1%	2%
Cash Equivalents and Other Assets and Liabilities, net	–27%	–20%
	100%	100%

Coupons*	**12/31/17**	**12/31/16**
Less than 3.5%	35%	27%
3.5%–4.49%	42%	35%
4.5%–5.49%	15%	20%
5.5%–6.49%	5%	17%
6.5%–7.49%	3%	1%
7.5% and Greater	0%	0%
	100%	100%

Interest Rate Sensitivity	**12/31/17**	**12/31/16**
Effective Maturity	9.9 years	9.9 years
Effective Duration	4.0 years	4.2 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 79.9%		
Federal Home Loan Mortgage Corp.:		
3.0%, with various maturities from 9/1/2047 until 1/1/2048 (b)	3,175,532	3,176,080
3.5%, 1/1/2048 (b)	1,500,000	1,540,391
Federal National Mortgage Association:		
3.0%, 10/1/2047	989,643	990,147
3.5%, with various maturities from 3/1/2045 until 1/1/2048 (b)	4,883,906	5,023,618
Government National Mortgage Association:		
3.0%, 1/1/2048 (b)	2,900,000	2,926,281
3.5%, with various maturities from 4/15/2042 until 1/1/2048 (b)	8,952,364	9,285,020
4.0%, with various maturities from 9/20/2040 until 8/15/2047 (b)	3,317,415	3,500,974
4.5%, with various maturities from 6/20/2033 until 6/20/2047	3,345,367	3,562,313
4.55%, 1/15/2041	154,256	163,348
4.625%, 5/15/2041	99,772	105,623
5.0%, with various maturities from 12/15/2032 until 8/15/2040	885,521	961,290
5.5%, with various maturities from 1/15/2034 until 6/15/2042	1,421,926	1,580,577
6.0%, with various maturities from 5/20/2034 until 12/20/2038	401,050	451,867
6.5%, with various maturities from 9/15/2036 until 2/15/2039	326,796	369,347
7.0%, with various maturities from 2/20/2027 until 11/15/2038	97,847	100,187
7.5%, 10/20/2031	3,416	3,859
Total Mortgage-Backed Securities Pass-Throughs (Cost $34,006,374)		**33,740,922**
Asset-Backed 4.9%		
Automobile Receivables 0.4%		
AmeriCredit Automobile Receivables Trust, "A3", Series 2017-1, 1.87%, 8/18/2021	170,000	**169,455**
Credit Card Receivables 0.7%		
Chase Issuance Trust, "A", Series 2017-A2, 1-month USD-LIBOR + 0.400%, 1.877%*, 3/15/2024	300,000	**301,729**
Miscellaneous 3.8%		
Atrium XIII, "A1", Series 13A, 144A, 3-month USD-LIBOR + 1.180%, 2.621%*, 11/21/2030	310,000	310,181
Carbone CLO Ltd., "A1", Series 2017-1A, 144A, 3-month USD-LIBOR + 1.140%, 2.809%*, 1/20/2031	380,000	380,148
Domino's Pizza Master Issuer LLC, "A23", Series 2017-1A, 144A, 4.118%, 7/25/2047	448,875	458,606
Goldentree Loan Management U.S. CLO Ltd., "A", Series 2017-2A, 144A, 3-month USD-LIBOR + 1.150%, 2.724%*, 11/28/2030	450,000	451,356
		1,600,291
Total Asset-Backed (Cost $2,058,869)		**2,071,475**
Collateralized Mortgage Obligations 22.1%		
Federal Home Loan Mortgage Corp.:		
"OA", Series 3179, Principal Only, Zero Coupon, 7/15/2036	80,585	71,416
"22", Series 243, Interest Only, 2.589%*, 6/15/2021	16,070	198
"YI", Series 3936, Interest Only, 3.0%, 6/15/2025	18,087	340
"AI", Series 4016, Interest Only, 3.0%, 9/15/2025	413,351	17,262
"WI", Series 3939, Interest Only, 3.0%, 10/15/2025	124,962	4,373
"EI", Series 3953, Interest Only, 3.0%, 11/15/2025	194,824	6,575
"IO", Series 3974, Interest Only, 3.0%, 12/15/2025	78,663	4,445
"DI", Series 4010, Interest Only, 3.0%, 2/15/2027	68,655	5,211
"IK", Series 4048, Interest Only, 3.0%, 5/15/2027	766,414	70,701
"CZ", Series 4113, 3.0%, 9/15/2042	314,642	294,297
"PL", Series 4627, 3.0%, 10/15/2046	500,000	486,898
"IK", Series 3754, Interest Only, 3.5%, 6/15/2025	321,530	16,727
"PI", Series 3940, Interest Only, 4.0%, 2/15/2041	289,976	42,897
"C1", Series 329, Interest Only, 4.0%, 12/15/2041	855,852	161,532
"UA", Series 4298, 4.0%, 2/15/2054	76,882	76,246
"C32", Series 303, Interest Only, 4.5%, 12/15/2042	876,617	172,100
"C28", Series 303, Interest Only, 4.5%, 1/15/2043	1,044,120	226,636
"MI", Series 3871, Interest Only, 6.0%, 4/15/2040	42,658	3,356
"IJ", Series 4472, Interest Only, 6.0%, 11/15/2043	356,720	81,864
"A", Series 172, Interest Only, 6.5%, 1/1/2024	7,619	1,043

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

	Principal Amount ($)(a)	Value ($)
"C22", Series 324, Interest Only, 6.5%, 4/15/2039	492,382	125,211
Federal National Mortgage Association:		
"DI", Series 2011-136, Interest Only, 3.0%, 1/25/2026	67,676	3,588
"IB", Series 2013-35, Interest Only, 3.0%, 4/25/2033	526,350	74,144
"Z", Series 2013-44, 3.0%, 5/25/2043	96,441	90,444
"HI", Series 2010-123, Interest Only, 3.5%, 3/25/2024	23,966	188
"KI", Series 2011-72, Interest Only, 3.5%, 3/25/2025	55,450	230
"IO", Series 2012-146, Interest Only, 3.5%, 1/25/2043	1,116,661	212,914
"4", Series 406, Interest Only, 4.0%, 9/25/2040	215,791	42,558
"25", Series 351, Interest Only, 4.5%, 5/25/2019	15,922	282
"21", Series 334, Interest Only, 5.0%, 3/25/2018	10	0
"20", Series 334, Interest Only, 5.0%, 3/25/2018	28	0
"23", Series 339, Interest Only, 5.0%, 6/25/2018	1,027	3
"26", Series 381, Interest Only, 5.0%, 12/25/2020	9,550	394
"IO", Series 2016-26, Interest Only, 5.0%, 5/25/2046	951,380	186,591
"30", Series 381, Interest Only, 5.5%, 11/25/2019	41,359	1,470
"PI", Series 2009-14, Interest Only, 5.5%, 3/25/2024	1,291,661	77,282
"UI", Series 2010-126, Interest Only, 5.5%, 10/25/2040	379,043	75,407
"IO", Series 2014-70, Interest Only, 5.5%, 10/25/2044	502,789	109,674
"BI", Series 2015-97, Interest Only, 5.5%, 1/25/2046	422,543	92,878
"WI", Series 2011-59, Interest Only, 6.0%, 5/25/2040	67,171	3,246
"101", Series 383, Interest Only, 6.5%, 9/25/2022	314,297	29,701
"YT", Series 2013-35, 6.5%, 9/25/2032	543,786	622,616
Government National Mortgage Association:		
"WF", Series 2015-80, 1-month USD-LIBOR + 0.250%, 1.741%* , 1/16/2044	1,711,468	1,713,585
"PB", Series 2012-90, 2.5%, 7/20/2042	515,988	460,443
"ZB", Series 2016-161, 3.0%, 11/20/2046	842,107	800,582
"JI", Series 2013-10, Interest Only, 3.5%, 1/20/2043	512,861	102,935
"ID", Series 2013-70, Interest Only, 3.5%, 5/20/2043	244,486	44,922
"BI", Series 2014-22, Interest Only, 4.0%, 2/20/2029	430,319	40,847
"IP", Series 2015-50, Interest Only, 4.0%, 9/20/2040	916,440	72,343
"PI", Series 2015-40, Interest Only, 4.0%, 4/20/2044	267,923	30,957
"LI", Series 2009-104, Interest Only, 4.5%, 12/16/2018	13,339	121
"NI", Series 2010-44, Interest Only, 4.5%, 10/20/2037	10,295	9
"CI", Series 2010-87, Interest Only, 4.5%, 11/20/2038	1,251,588	65,659
"PI", Series 2014-108, Interest Only, 4.5%, 12/20/2039	217,067	37,619
"MI", Series 2010-169, Interest Only, 4.5%, 8/20/2040	266,082	31,356
"IP", Series 2014-115, Interest Only, 4.5%, 2/20/2044	148,002	27,302
"GZ", Series 2005-24, 5.0%, 3/20/2035	632,896	727,207
"MZ", Series 2009-98, 5.0%, 10/16/2039	1,277,578	1,518,363
"AI", Series 2008-46, Interest Only, 5.5%, 5/16/2023	15,389	331
"GI", Series 2003-19, Interest Only, 5.5%, 3/16/2033	337,891	65,412
"IB", Series 2010-130, Interest Only, 5.5%, 2/20/2038	82,459	14,722
"IA", Series 2012-64, Interest Only, 5.5%, 5/16/2042	202,447	49,085
"DI", Series 2009-10, Interest Only, 6.0%, 4/16/2038	127,495	19,509
"IP", Series 2009-118, Interest Only, 6.5%, 12/16/2039	34,557	8,903
"IC", Series 1997-4, Interest Only, 7.5%, 3/16/2027	281,457	2,085
Total Collateralized Mortgage Obligations (Cost $8,875,907)		**9,327,235**

Commercial Mortgage-Backed Securities 2.7%

	Principal Amount ($)(a)	Value ($)
CHT Mortgage Trust, "A", Series 2017-CSMO,144A, 1-month USD-LIBOR + 0.880%, 2.31%*, 11/15/2036	400,000	400,623
Fannie Mae Grantor Trust, "A", Series 2017-T1, 2.898%, 6/25/2027	499,893	496,577
FHLMC Multifamily Structured Pass-Through Securities, "X1", Series K055, Interest Only, 1.368%*, 3/25/2026	2,483,267	229,097
Total Commercial Mortgage-Backed Securities (Cost $1,128,914)		**1,126,297**

Corporate Bond 1.2%

Financials

	Principal Amount ($)(a)	Value ($)
Bank of Montreal, 144A, 2.5%, 1/11/2022 (Cost $498,554)	500,000	**499,305**

Government & Agency Obligations 11.6%

Sovereign Bonds 2.2%

	Principal Amount ($)(a)	Value ($)
French Republic Government Bond OAT, 144A, REG S, 1.75%, 5/25/2066	EUR 370,262	420,571
Kingdom of Sweden, Series 1053, 3.5%, 3/30/2039	SEK 3,090,000	516,874
		937,445

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

	Principal Amount ($)(a)	Value ($)
U.S. Government Sponsored Agency 5.9%		
Federal Home Loan Bank, 1.875%, 11/29/2021	2,500,000	**2,479,115**
U.S. Treasury Obligations 3.5%		
U.S. Treasury Inflation-Indexed Bond, 0.875%, 2/15/2047	370,012	384,497
U.S. Treasury Note, 2.25%, 11/15/2027	1,100,000	1,084,488
		1,468,985
Total Government & Agency Obligations (Cost $4,823,676)		**4,885,545**

	Principal Amount ($)(a)	Value ($)
Short-Term U.S. Treasury Obligations 4.4%		
U.S. Treasury Bills:		
1.18% **, 8/16/2018 (c)	880,000	871,271
1.378% **, 10/11/2018 (c) (d)	1,000,000	986,958
Total Short-Term U.S. Treasury Obligations (Cost $1,862,624)		**1,858,229**

	Shares	Value ($)
Cash Equivalents 0.0%		
Deutsche Central Cash Management Government Fund, 1.30% (e) (Cost $10,252)	10,252	**10,252**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $53,265,170)	126.8	**53,519,260**
Other Assets and Liabilities, Net	(26.8)	**(11,297,006)**
Net Assets	100.0	**42,222,254**

* Variable or floating rate security. These securities are shown at their current rate as of December 31, 2017. For securities based on a published reference rate and spread, the reference rate and spread are indicated within the description above. Certain variable rate securities are not based on a published reference rate and spread but adjust periodically based on current market conditions, prepayment of underlying positions and/or other variables.

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

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

(b) When-issued, delayed delivery or forward commitment securities included.

(c) At December 31, 2017, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

(d) At December 31, 2017, this security has been pledged, in whole or in part, to cover initial margin requirements for open centrally cleared swap contracts.

(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.

CLO: Collateralized Loan Obligation

Interest Only: Interest Only (IO) bonds represent the "interest only" portion of payments on a pool of underlying mortgages or mortgage-backed securities. IO securities are subject to prepayment risk of the pool of underlying mortgages.

LIBOR: London Interbank Offered Rate

Principal Only: Principal Only (PO) bonds represent the "principal only" portion of payments on a pool of underlying mortgages or mortgage-backed securities.

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

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, 2017, open futures contracts purchased were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Amount ($)	Notional Value ($)	Unrealized Appreciation (Depreciation) ($)
10 Year U.S. Treasury Note	USD	3/20/2018	3	374,507	372,141	(2,366)
Ultra 10 Year U.S. Treasury Note	USD	3/20/2018	16	2,133,472	2,137,000	3,528
Total net unrealized appreciation						**1,162**

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

At December 31, 2017, open futures contracts sold were as follows:

Futures	Currency	Expiration Date	Contracts	Notional Amount ($)	Notional Value ($)	Unrealized Appreciation ($)
Euro-OAT French Government Bond	EUR	3/8/2018	9	1,695,265	1,675,734	19,531
Federal Republic of Germany Euro-Bund	EUR	3/8/2018	8	1,563,919	1,551,933	11,986
U.S. Treasury Long Bond	USD	3/20/2018	5	766,357	765,000	1,357
Total unrealized appreciation						**32,874**

At December 31, 2017, open interest rate swap contracts were as follows:

Centrally Cleared Swaps

Cash Flows Paid by the Fund/Frequency	Cash Flows Received by the Fund/Frequency	Effective/ Expiration Date	Notional Amount	Currency	Upfront Payments Paid ($)	Value ($)	Unrealized Appreciation/ (Depreciation) ($)
Fixed — 0.228% Annually	Floating — 3-Month STIBOR Quarterly	7/18/2017 7/18/2021	16,600,000	SEK	—	(7,002)	(7,002)
Fixed — 2.239% Semi-Annually	Floating — 3-Month LIBOR Quarterly	3/21/2018 3/21/2023	1,700,000	USD	—	3,065	3,065
Fixed — 2.589% Semi-Annually	Floating — 3-Month LIBOR Quarterly	3/21/2018 3/21/2038	400,000	USD	—	(3,142)	(3,142)
Fixed — 1.698% Semi-Annually	Floating — 3-Month LIBOR Quarterly	12/20/2017 12/20/2019	5,700,000	USD	—	40,066	40,066
Fixed — 2.34% Semi-Annually	Floating — 3-Month LIBOR Quarterly	12/20/2017 12/20/2027	1,300,000	USD	1,682	5,920	4,238
Fixed — 2.45% Semi-Annually	Floating — 3-Month LIBOR Quarterly	12/20/2017 12/20/2032	1,100,000	USD	—	4,658	4,658
Fixed — 2.522% Semi-Annually	Floating — 3-Month LIBOR Quarterly	12/20/2017 12/20/2037	700,000	USD	—	420	420
Total net unrealized appreciation							**42,303**

LIBOR: London Interbank Offered Rate; 3-Month LIBOR rate at December 31, 2017 is 1.694%.
STIBOR: Stockholm Interbank Offered Rate 3-Month; STIBOR rate at December 31, 2017 is -0.47%.

At December 31, 2017, open total return swap contracts were as follows:

Bilateral Swaps

Pay/Receive Return of the Reference Index	Fixed Cash Flows Received/ Frequency	Counterparty/ Expiration Date	Notional Amount	Currency	Upfront Payments Paid ($)	Value ($)	Unrealized Appreciation ($)
Long Positions							
Markit IOS INDEX FN30.400.10	4.0%/Monthly	Goldman Sachs & Co. 1/12/2041	401,623	USD	—	480	**480**

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

As of December 31, 2017, the Fund had the following open forward foreign currency contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Appreciation ($)	Counterparty
USD	1,036,536	EUR	879,000	1/4/2018	18,383	Citigroup, Inc.
SEK	4,185,000	USD	518,452	1/18/2018	7,696	Danske Bank AS
USD	929,103	EUR	796,031	1/24/2018	27,459	JPMorgan Chase Securities, Inc.
CAD	526,422	NZD	600,000	1/30/2018	6,057	Canadian Imperial Bank of Commerce
Total unrealized appreciation					**59,595**	

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
EUR	879,000	USD	1,038,007	1/4/2018	(16,912)	Citigroup, Inc.
EUR	348,000	USD	412,509	1/24/2018	(5,670)	HSBC Holdings PLC
EUR	789,719	USD	935,688	1/24/2018	(13,290)	JPMorgan Chase Securities, Inc.
Total unrealized depreciation					**(35,872)**	

Currency Abbreviations

CAD Canadian Dollar
EUR Euro
NZD New Zealand Dollar
SEK Swedish Krona
USD United States Dollar

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 contracts, please refer to the Derivatives section of Note A 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, 2017 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Fixed Income Investments (f)				
Mortgage-Backed Securities Pass-Throughs	$ —	$ 33,740,922	$ —	$ 33,740,922
Asset-Backed	—	2,071,475	—	2,071,475
Collateralized Mortgage Obligations	—	9,327,235	—	9,327,235
Commercial Mortgage-Backed Securities	—	1,126,297	—	1,126,297
Corporate Bond	—	499,305	—	499,305
Government & Agency Obligations	—	4,885,545	—	4,885,545
Short-Term U.S. Treasury Obligations	—	1,858,229	—	1,858,229
Short-Term Investments	10,252	—	—	10,252
Derivatives (g)				
Futures Contracts	36,402	—	—	36,402
Interest Rate Swap Contracts	—	52,447	—	52,447
Total Return Swap Contracts	—	480	—	480
Forward Foreign Currency Contracts	—	59,595	—	59,595
Total	**$ 46,654**	**$ 53,621,530**	**$ —**	**$ 53,668,184**

Liabilities	Level 1	Level 2	Level 3	Total
Derivatives (g)				
Futures Contracts	$ (2,366)	$ —	$ —	$ (2,366)
Interest Rate Swap Contracts	—	(10,144)	—	(10,144)
Forward Foreign Currency Contracts	—	(35,872)	—	(35,872)
Total	**$ (2,366)**	**$ (46,016)**	**$ —**	**$ (48,382)**

There have been no transfers between fair value measurement levels during the year ended December 31, 2017.

(f) See Investment Portfolio for additional detailed categorizations.

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

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

Statement of Assets and Liabilities

as of December 31, 2017

Assets	
Investments in non-affiliated securities, at value (cost $53,254,918)	$53,509,008
Investment in Deutsche Central Cash Management Government Fund (cost $10,252)	10,252
Cash	1,887,920
Foreign currency, at value (cost $23,582)	23,641
Receivable for investments sold — forward commitments	5,204,018
Receivable for Fund shares sold	9,251
Interest receivable	253,428
Receivable for variation margin on futures contracts	20,008
Unrealized appreciation on bilateral swap contracts	480
Unrealized appreciation on forward foreign currency exchange contracts	59,595
Other assets	1,106
Total assets	60,978,707
Liabilities	
Payable for investments purchased — forward commitments	17,516,123
Line of credit loan payable	1,050,000
Payable for Fund shares redeemed	6,478
Payable for variation margin on centrally cleared swaps	24,267
Unrealized depreciation on forward foreign currency exchange contracts	35,872
Accrued management fee	7,196
Accrued Trustees' fees	1,569
Other accrued expenses and payables	114,948
Total liabilities	18,756,453
Net assets, at value	**$42,222,254**
Net Assets Consist of	
Undistributed net investment income	1,051,322
Unrealized appreciation (depreciation) on:	
Investments	254,090
Swap contracts	42,783
Futures	34,036
Foreign currency	231
Forward foreign currency contracts	23,723
Accumulated net realized gain (loss)	(65,240)
Paid-in capital	40,881,309
Net assets, at value	**$42,222,254**
Class A	
Net Asset Value, offering and redemption price per share ($40,373,381 ÷ 3,619,812 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 11.15**
Class B	
Net Asset Value, offering and redemption price per share ($1,848,873 ÷ 165,975 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 11.14**

Statement of Operations

for the year ended December 31, 2017

Investment Income	
Income:	
Interest	$ 1,256,209
Income distributions — Deutsche Central Cash Management Government Fund	36,267
Securities lending income, net of borrower rebates	78
Total income	1,292,554
Expenses:	
Management fee	220,390
Administration fee	48,976
Services to shareholders	801
Record keeping fees (Class B)	2,047
Distribution service fees (Class B)	5,337
Custodian fee	24,284
Professional fees	83,328
Reports to shareholders	20,469
Trustees' fees and expenses	4,712
Interest expense	510
Other	20,335
Total expenses before expense reductions	431,189
Expense reductions	(126,723)
Total expenses after expense reductions	304,466
Net investment income	**988,088**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from:	
Investments	1,268,050
Swap contracts	(116,392)
Futures	(316,318)
Forward foreign currency contracts	17,199
Foreign currency	(1,221)
Payments by affiliates (see Note G)	480
	851,798
Change in net unrealized appreciation (depreciation) on:	
Investments	(1,172,326)
Swap contracts	148,395
Futures	25,841
Forward foreign currency contracts	18,968
Foreign currency	101
	(979,021)
Net gain (loss)	**(127,223)**
Net increase (decrease) in net assets resulting from operations	**$ 860,865**

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, 2017	2016
Operations:		
Net investment income	$ 988,088	$ 1,359,001
Net realized gain (loss)	851,798	(370,572)
Change in net unrealized appreciation (depreciation)	(979,021)	(170,481)
Net increase (decrease) in net assets resulting from operations	860,865	817,948
Distributions to shareholders from:		
Net investment income:		
Class A	(1,241,081)	(1,846,498)
Class B	(46,826)	(72,152)
Total distributions	(1,287,907)	(1,918,650)
Fund share transactions:		
Class A		
Proceeds from shares sold	3,259,096	2,898,041
Reinvestment of distributions	1,241,081	1,846,498
Payments for shares redeemed	(15,457,312)	(18,364,955)
Net increase (decrease) in net assets from Class A share transactions	(10,957,135)	(13,620,416)
Class B		
Proceeds from shares sold	67,053	226,087
Reinvestment of distributions	46,826	72,152
Payments for shares redeemed	(642,815)	(503,123)
Net increase (decrease) in net assets from Class B share transactions	(528,936)	(204,884)
Increase (decrease) in net assets	(11,913,113)	(14,926,002)
Net assets at beginning of period	54,135,367	69,061,369
Net assets at end of period (including undistributed net investment income of $1,051,322 and $1,284,868, respectively)	**$ 42,222,254**	**$ 54,135,367**

Other Information		
Class A		
Shares outstanding at beginning of period	4,598,638	5,786,470
Shares sold	291,446	253,037
Shares issued to shareholders in reinvestment of distributions	112,315	163,697
Shares redeemed	(1,382,587)	(1,604,566)
Net increase (decrease) in Class A shares	(978,826)	(1,187,832)
Shares outstanding at end of period	**3,619,812**	**4,598,638**
Class B		
Shares outstanding at beginning of period	213,112	231,100
Shares sold	6,013	19,740
Shares issued to shareholders in reinvestment of distributions	4,234	6,391
Shares redeemed	(57,384)	(44,119)
Net increase (decrease) in Class B shares	(47,137)	(17,988)
Shares outstanding at end of period	**165,975**	**213,112**

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

Financial Highlights

Class A

	Years Ended December 31, 2017	2016	2015	2014	2013
Selected Per Share Data					
Net asset value, beginning of period	**$11.25**	**$11.48**	**$11.80**	**$11.47**	**$12.69**
Income (loss) from investment operations:					
Net investment income[a]	.23	.25	.27	.29	.24
Net realized and unrealized gain (loss)	(.04)	(.13)	(.26)	.31	(.59)
Total from investment operations	.19	.12	.01	.60	(.35)
Less distributions from:					
Net investment income	(.29)	(.35)	(.33)	(.27)	(.37)
Net realized gains	—	—	—	—	(.50)
Total distributions	(.29)	(.35)	(.33)	(.27)	(.87)
Net asset value, end of period	**$11.15**	**$11.25**	**$11.48**	**$11.80**	**$11.47**
Total Return (%)[b]	1.67	1.06	.06	5.29	(3.04)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	40	52	66	87	96
Ratio of expenses before expense reductions (%)[c]	.87	.86	.74	.72	.71
Ratio of expenses after expense reductions (%)[c]	.61	.58	.68	.70	.67
Ratio of net investment income (%)	2.03	2.22	2.33	2.49	2.05
Portfolio turnover rate (%)	588	521	376	393	794

a Based on average shares outstanding during the period.

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

c Expense ratio does not reflect charges and 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.

Class B

	Years Ended December 31, 2017	2016	2015	2014	2013
Selected Per Share Data					
Net asset value, beginning of period	**$11.24**	**$11.46**	**$11.79**	**$11.46**	**$12.67**
Income (loss) from investment operations:					
Net investment income[a]	.19	.21	.23	.25	.20
Net realized and unrealized gain (loss)	(.04)	(.12)	(.27)	.31	(.59)
Total from investment operations	.15	.09	(.04)	.56	(.39)
Less distributions from:					
Net investment income	(.25)	(.31)	(.29)	(.23)	(.32)
Net realized gains	—	—	—	—	(.50)
Total distributions	(.25)	(.31)	(.29)	(.23)	(.82)
Net asset value, end of period	**$11.14**	**$11.24**	**$11.46**	**$11.79**	**$11.46**
Total Return (%)[b]	1.31	.79	(.36)	4.95	(3.25)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	2	2	3	3	4
Ratio of expenses before expense reductions (%)[c]	1.21	1.21	1.09	1.06	1.06
Ratio of expenses after expense reductions (%)[c]	.95	.93	1.03	1.03	.99
Ratio of net investment income (%)	1.69	1.88	1.99	2.16	1.71
Portfolio turnover rate (%)	588	521	376	393	794

a Based on average shares outstanding during the period.

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

c Expense ratio does not reflect charges and 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.

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

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.

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, 2017, the Fund invested the cash collateral into a joint trading account in affiliated money market funds, including Deutsche Government & Agency Securities Portfolio, managed by Deutsche Investment Management Americas Inc. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.13% annualized effective rate as of December 31, 2017) on the cash collateral invested in Deutsche 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, 2017, the Fund had no securities on loan.

Forward Commitments. The Fund may purchase or sell securities on a when-issued, delayed delivery or forward commitment basis 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 Fund may sell the forward commitment security before the settlement date or enter into a new commitment to extend the delivery date into the future. 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, delayed delivery or forward commitment 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. Such transactions may also have the effect of leverage on the Fund and may cause the Fund to be more volatile. 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, 2017, the Fund had net tax basis capital loss carryforwards of approximately $29,000 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, 2017 and has determined that no provision for income tax and/or uncertain tax positions 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, forward currency 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, 2017, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 1,070,799
Capital loss carryforward	$ (29,000)
Unrealized appreciation (depreciation) on investments	$ 299,145

At December 31, 2017, the aggregate cost of investments for federal income tax purposes was $53,267,143. The net unrealized appreciation for all investments based on tax cost was $299,145. This consisted of aggregate gross unrealized appreciation for all investments in which there was an excess of value over tax cost of $973,045 and aggregate gross unrealized depreciation for all investments in which there was an excess of tax cost over value of $673,900.

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

	Years Ended December 31, 2017	2016
Distributions from ordinary income*	$ 1,287,907	$ 1,918,650

* 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, 2017, 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, 2017 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2017, the investment in total return swap contracts had a total notional amount generally indicative of a range from $402,000 to $963,000.

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, 2017, the Fund entered into interest rate swap agreements 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.

A summary of the open interest rate swap contracts as of December 31, 2017 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2017, the investment in interest rate swap contracts had a total USD equivalent notional amount generally indicative of a range from $2,396,000 to $13,364,000.

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, 2017, 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, 2017, is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2017, the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $1,632,000 to

$7,595,000 and the investment in futures contracts sold had a total notional value generally indicative of a range from approximately $3,993,000 to $11,623,000.

Forward Foreign Currency Contracts. A forward foreign currency 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, 2017, 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, 2017 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2017, the investment in forward currency contracts short vs. U.S. dollars had a total contract value generally indicative of a range from approximately $1,646,000 to $6,789,000 and the investment in forward currency contracts long vs. U.S. dollars had a total contract value generally indicative of a range from approximately $962,000 to $2,884,000. 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 $4,050,000.

The following tables summarize the value of the Fund's derivative instruments held as of December 31, 2017 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) (b)	$ —	$ 52,927	$ 36,402	$ 89,329
Foreign Exchange Contracts (c)	59,595	—	—	59,595
	$ 59,595	**$ 52,927**	**$ 36,402**	**$ 148,924**

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

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

(b) Unrealized appreciation on bilateral swap contracts

(c) Unrealized appreciation on forward foreign currency contracts

Liability Derivatives	**Forward Contracts**	**Swap Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (d)	$ —	$ (10,144)	$ (2,366)	$ (12,510)
Foreign Exchange Contracts (e)	(35,872)	—	—	(35,872)
	$ (35,872)	**$ (10,144)**	**$ (2,366)**	**$ (48,382)**

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

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

(e) Unrealized depreciation on forward foreign currency contracts

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the year ended December 31, 2017 and the related location in the accompanying Statement of Operations is summarized in the following tables by primary underlying risk exposure:

Realized Gain (Loss)	**Forward Contracts**	**Swap Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (f)	$ —	$ (116,392)	$ (316,318)	$ (432,710)
Foreign Exchange Contracts (g)	17,199	—	—	17,199
	$ 17,199	**$ (116,392)**	**$ (316,318)**	**$ (415,511)**

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

(f) Net realized gain (loss) on swap contracts and futures, respectively

(g) Net realized gain (loss) from forward foreign currency contracts

Change in Net Unrealized Appreciation (Depreciation)	Forward Contracts	Swap Contracts	Futures Contracts	Total
Interest Rate Contracts (h)	$ —	$ 148,395	$ 25,841	$ 174,236
Foreign Exchange Contracts (i)	18,968	—	—	18,968
	$ 18,968	**$ 148,395**	**$ 25,841**	**$ 193,204**

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

(h) Change in net unrealized appreciation (depreciation) from swap contracts and futures, respectively

(i) Change in net unrealized appreciation (depreciation) on forward foreign currency contracts

As of December 31, 2017, the Fund has transactions subject to enforceable master netting agreements which govern the terms of certain transactions, and reduce the counterparty risk associated with such transactions. Master netting agreements allow a Fund to close out and net total exposure to a counterparty in the event of a deterioration in the credit quality or contractual default with respect to all of the transactions with a counterparty. As defined by the master netting agreement, the Fund may have collateral agreements with certain counterparties to mitigate risk. For financial reporting purposes the Statement of Assets and Liabilities generally shows derivatives assets and liabilities on a gross basis, which reflects the full risks and exposures prior to netting. A reconciliation of the gross amounts on the Statement of Assets and Liabilities to the net amounts by a 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
Canadian Imperial Bank of Commerce	$ 6,057	$ —	$ —	$ 6,057
Citigroup, Inc.	18,383	(16,912)	—	1,471
Danske Bank AS	7,696	—	—	7,696
Goldman Sachs & Co.	480	—	—	480
JPMorgan Chase Securities, Inc.	27,459	(13,290)	—	14,169
	$ 60,075	**$ (30,202)**	**$ —**	**$ 29,873**

Counterparty	Gross Amounts of Liabilities Presented in the Statement of Assets and Liabilities	Financial Instruments and Derivatives Available for Offset	Collateral Pledged	Net Amount of Derivative Liabilities
Citigroup, Inc.	$ 16,912	$ (16,912)	$ —	$ —
HSBC Holdings PLC	5,670	—	—	5,670
JPMorgan Chase Securities, Inc.	13,290	(13,290)	—	—
	$ 35,872	**$ (30,202)**	**$ —**	**$ 5,670**

C. Purchases and Sales of Securities

During the year ended December 31, 2017, purchases and sales of investment securities (excluding short-term investments and U.S. Treasury securities) aggregated $354,519,795 and $361,479,195, respectively. Purchases and sales of U.S. Treasury securities aggregated $8,167,615 and $7,686,425, 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	.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, 2017, 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, 2017 through April 30, 2017, 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	.58%
Class B	.93%

For the period from May 1, 2017 through September 30, 2017, 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	.65%
Class B	1.00%

Effective October 1, 2017 through September 30, 2018, 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	.56%
Class B	.91%

For the year ended December 31, 2017, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 121,210
Class B	5,513
	$ 126,723

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, 2017, the Administration Fee was $48,976, of which $3,579 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, 2017, the amounts charged to the Fund by DSC were as follows:

	Total Aggregated	Unpaid at December 31, 2017
Class A	$ 251	$ 63
Class B	51	13
	$ 302	**$ 76**

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, 2017, the Distribution Service Fee aggregated $5,337, of which $392 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing certain pre-press and regulatory filing services to the Fund. For the year ended December 31, 2017, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $12,999, of which $5,907 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, 2017, the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $6.

E. Ownership of the Fund

At December 31, 2017, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 48% and 37%. One participating insurance company was the owner of record of 10% or more of the total outstanding Class B shares of the Fund, owning 94%.

F. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if the one-month LIBOR exceeds the Federal Funds Rate, the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement.

At December 31, 2017, the Fund had a $1,050,000 outstanding loan. Interest expense incurred on the borrowings was $510 for the period ended December 31, 2017. The average dollar amount of the borrowings was $503,846 the weighted average interest rate on these borrowings was 2.84%, and the Fund had a loan outstanding for thirteen days throughout the period. The borrowings were valued at cost, which approximates fair value.

G. Payments by Affiliates

During the year ended December 31, 2017, the Advisor agreed to reimburse the Fund $480 for losses incurred on trades executed incorrectly. The amount reimbursed was less than .01% of the Fund's average net assets, thus having no impact on the Fund's total return.

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:

Opinion on the Financial Statements

We have audited the accompanying statement of assets and liabilities of Deutsche Government & Agency Securities VIP (the "Fund") (one of the funds constituting the Deutsche Variable Series II) (the "Trust"), including the schedule of investments, as of December 31, 2017, 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, the financial highlights for each of the five years in the period then ended and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund (one of the funds constituting the Deutsche Variable Series II) at December 31, 2017, 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 its financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on the Fund's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Trust in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Trust is not required to have, nor were we engaged to perform, an audit of the Trust's internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2017, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received.

Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Ernst & Young LLP

We have served as the auditor of one or more investment companies in the Deutsche family of funds since at least 1979, but we are unable to determine the specific year.

Boston, Massachusetts
February 15, 2018

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, 2017 to December 31, 2017).

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, 2017

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/17	$ 1,000.00	$ 1,000.00
Ending Account Value 12/31/17	$ 1,004.50	$ 1,002.70
Expenses Paid per $1,000*	$ 3.08	$ 4.85

Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/17	$ 1,000.00	$ 1,000.00
Ending Account Value 12/31/17	$ 1,022.13	$ 1,020.37
Expenses Paid per $1,000*	$ 3.11	$ 4.89

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

Annualized Expense Ratios	**Class A**	**Class B**
Deutsche Variable Series II — Deutsche Government & Agency Securities VIP	.61%	.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)

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 2017.

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"). 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.

— The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly met 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.

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.

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 administrative support services provided by DIMA, such 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 "Funds in Review" (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, 2016, the Fund's performance (Class A shares) was in the 3rd quartile of the applicable Morningstar universe (the 1st quartile being the best performers and the 4th quartile being the worst performers). The Board also observed that the Fund has underperformed its benchmark in the one-, three- and five-year periods ended December 31, 2016.

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, 2016). 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, 2016, 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 to DIMA, 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, any fees received by an affiliate of DIMA for transfer agency 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. In addition, the Board considered 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, 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)	89	—
Kenneth C. Froewiss (1945) Vice Chairperson since 2017, and Board Member since 2001	Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); Member, Finance Committee, Association for Asian Studies (2002–present); Director, Mitsui Sumitomo Insurance Group (US) (2004–present); prior thereto, Managing Director, J.P. Morgan (investment banking firm) (until 1996)	92	—
John W. Ballantine (1946) Board Member since 1999	Retired; formerly, Executive Vice President and Chief Risk Management Officer, First Chicago NBD Corporation/The First National Bank of Chicago (1996–1998); Executive Vice President and Head of International Banking (1995–1996); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (population well-being and wellness services) (2003–2014); Stockwell Capital Investments PLC (private equity); Enron Corporation; FNB Corporation; Tokheim Corporation; First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International. Not-for-Profit Director, Trustee: Palm Beach Civic Association; Public Radio International; Window to the World Communications (public media); Harris Theater for Music and Dance (Chicago)	89	Portland General Electric[2] (utility company) (2003–present)
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); The Pew Charitable Trusts (charitable organization); former Directorships: Becton Dickinson and Company[2] (medical technology company); Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College; North Bennett Street School (Boston)	89	—
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)	89	—

Name, Year of Birth, Position with the Fund and Length of Time Served[1]	Business Experience and Directorships During the Past Five Years	Number of Funds in Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Paul K. Freeman (1950) Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Independent Directors Council (former chair); 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); Knoebel Institute for Healthy Aging, University of Denver (2017–present); former Directorships: Prisma Energy International	89	—
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)	89	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004	Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	89	—
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[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	89	Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc[2] (health care) (2009–present)
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	89	—
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)	89	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Hepsen Uzcan[6,9] (1974) President and Chief Executive Officer, 2017–present Assistant Secretary, 2013–present	Director,[3] Deutsche Asset Management; formerly: Vice President for the Deutsche funds (2016–2017)
John Millette[8] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset Management; Chief Legal Officer, Deutsche Investment Management Americas Inc. (2015–present); and Director and Vice President, Deutsche AM Trust Company (since 2016); formerly: Secretary, Deutsche Investment Management Americas Inc. (2015–2017)
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset Management, and Chairman, Director and President, Deutsche AM Trust Company (since 2013); Vice President, Deutsche AM Distributors, Inc. (since 2016); Director, Deutsche AM Service Company (since 2017); Director and President, DB Investment Managers, Inc. (since 2017); formerly: Director, Deutsche AM Trust Company (2004–2013)
Caroline Pearson[8] (1962) Chief Legal Officer, 2010–present	Managing Director,[3] Deutsche Asset Management; formerly: Secretary, Deutsche AM Distributors, Inc.; and Secretary, Deutsche AM Service Company
Scott D. Hogan[8] (1970) Chief Compliance Officer, 2016–present	Director,[3] Deutsche Asset Management
Wayne Salit[7] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Sheila Cadogan[8] (1966) Assistant Treasurer, since July 12, 2017	Director,[3] Deutsche Asset Management
Paul Antosca[8] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management
Diane Kenneally[8] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

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

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

3 Executive title, not a board directorship.

4 As a result of their respective positions held with the Advisor, these individuals are considered “interested persons” of the Advisor within the meaning of the 1940 Act. Interested persons receive no compensation from the Fund.

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

6 Address: 345 Park Avenue, New York, NY 10154.

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

8 Address: One International Place, Boston, MA 02110.

9 Appointed President and Chief Executive Officer effective December 1, 2017.

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

VS2GAS-2 (R-025831-7 2/18)

Deutsche
Asset Management

December 31, 2017

Annual Report

Deutsche Variable Series II

Deutsche Government 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.

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. 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. Please read 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

Performance Summary

December 31, 2017 (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.

	7-Day Current Yield
December 31, 2017	.83%
December 31, 2016	.04%*

* The investment advisor has agreed to waive fees/reimburse expenses. Without such fee waivers/expense reimbursements, the 7-day current yield would have been lower.

Yields are historical, will fluctuate and do not guarantee future performance. The 7-day current yield refers to the income paid by the Fund over a 7-day period expressed as an annual percentage rate of the Fund's shares outstanding.

Management Summary

December 31, 2017 (Unaudited)

During the 12-month period ended December 31, 2017, the Fund provided a total return of 0.45% (Class A shares, unadjusted for contract charges). All performance is historical and does not guarantee future results. Yields fluctuate and are not guaranteed.

Over the past 12 months ended December 31, 2017, short-term rates moved up based on a growing U.S. economy and evolving U.S. Federal Reserve Board (the Fed) statements and actions. Following a tumultuous election season in 2016, the first quarter of 2017 saw continued market improvements in anticipation of economically friendly fiscal policy initiatives from the incoming administration. While these policy expectations were eventually tempered, equity markets continued to climb, and hawkish statements from the Fed had investors pricing in a more aggressive Fed rate policy in 2017. Though the Fed did raise short-term rates at its March meeting, the accompanying statement was more restrained in tone, and short-term rate expectations moderated. Despite softening inflation data in the second quarter, a strong U.S. labor market prompted the Fed to raise short-term rates again in June, keeping its forward rate forecast unchanged and stating that the central bank would soon begin to unwind its significant holdings in Treasury and mortgage securities. By the end of the summer, the money market yield curve had flattened in reaction to political uncertainty in Washington, D.C. and the lack of any sign of an uptick in U.S. inflation. As we moved into the fourth quarter, concerns were expressed regarding the expiration of the government's debt ceiling, with accompanying volatility in rates in October, but Congress was able to keep the government operating with a short-term agreement with the administration. This cleared the way for the market to increase its projection for economic growth in 2018. The economy continued to perform well, with unemployment at 4.1%. Yields moved higher in reaction to the Fed's December rate hike, its third such move in 2017.

We were able to maintain what we believe to be a competitive yield for the Fund during the annual period ended December 31, 2017. The Fund held a large percentage of portfolio assets in agency and Treasury floating-rate securities linked to LIBOR to take advantage of an incremental rise in those rates. At the same time, the Fund invested in overnight agency repurchase agreements for liquidity and looked for yield opportunities from three- to six-month agency and Treasury securities.

In 2018, a number of factors could combine to push short-term rates higher. First, under the new federal tax law approved late last year, we may see some repatriation of corporate assets back to the United States, which could cause a decline in demand for money market instruments and push rates higher in response. Second, a tightening U.S. labor market could cause inflation to reawaken to some degree, and thus exert additional upward pressure on rates. Our current forecast is for two to three short-term rate hikes by the Fed in 2018. However, some analysts believe that Jerome Powell's assumption of the Fed Chairmanship in March may tilt the U.S. central bank into a more hawkish stance regarding the normalization of 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.

Terms to Know

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.

Floating-rate securities are debt instruments with floating-rate coupons that generally reset every 30 to 90 days. While floating-rate securities are senior to equity and fixed-income securities, there is no guaranteed return of principal in case of default. Floating-rate issues often have less interest-rate risk than other fixed-income investments. Floating-rate securities are most often secured assets, generally senior to a company's secured debt, and can be transferred to debt holders, resulting in potential downside risk.

LIBOR, or the London Interbank Offered Rate, is a widely used benchmark for short-term taxable interest rates.

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

December 31, 2017 (Unaudited)

Asset Allocation (As a % of Investment Portfolio)	**12/31/17**	**12/31/16**
Government & Agency Obligations	76%	58%
Repurchase Agreements	24%	42%
	100%	100%

Weighted Average Maturity	**12/31/17**	**12/31/16**
Deutsche Variable Series II — Deutsche Government Money Market VIP	26 days	29 days
Government & Agency Retail Money Fund Average*	30 days	36 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 7.

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, 2017

	Principal Amount ($)	Value ($)
Government & Agency Obligations 76.0%		
U.S. Government Sponsored Agencies 51.1%		
Federal Farm Credit Bank:		
1-month LIBOR minus 0.180%, 1.192%*, 3/2/2018	1,000,000	1,000,000
1-month LIBOR minus 0.065%, 1.436%*, 7/20/2018	1,200,000	1,200,000
1-month LIBOR minus 0.115%, 1.437%*, 7/23/2018	1,500,000	1,499,965
1-month LIBOR minus 0.130%, 1.439%*, 4/29/2019	3,500,000	3,500,000
1-month LIBOR minus 0.095%, 1.44%*, 7/25/2019	1,000,000	999,980
1-month LIBOR plus 0.040%, 1.472%*, 1/10/2019	500,000	500,362
3-month Treasury Money Market Yield plus 0.280%, 1.73%*, 11/13/2018	1,500,000	1,500,000
Federal Home Loan Bank:		
3-month LIBOR minus 0.380%, 1.023%*, 2/9/2018	2,000,000	2,000,000
1.156%**, 1/31/2018	1,000,000	999,050
1-month LIBOR minus 0.170%, 1.191%*, 2/1/2018	4,500,000	4,500,000
1-month LIBOR minus 0.180%, 1.192%*, 2/2/2018	1,500,000	1,500,000
1-month LIBOR minus 0.160%, 1.247%*, 2/8/2018	1,000,000	999,994
3-month LIBOR minus 0.150%, 1.269%*, 2/16/2018	1,750,000	1,749,955
1-month LIBOR minus 0.080%, 1.292%*, 2/4/2019	800,000	800,000
1-month LIBOR minus 0.190%, 1.301%*, 2/16/2018	2,750,000	2,749,956
3-month LIBOR minus 0.160%, 1.302%*, 2/26/2018	1,000,000	1,000,064
1.305%**, 2/2/2018	1,000,000	998,856
1-month LIBOR minus 0.160%, 1.317%*, 5/15/2018	600,000	600,000
1.318%**, 3/5/2018	500,000	498,863
3-month LIBOR minus 0.160%, 1.321%*, 5/30/2018	1,000,000	1,000,000
1-month LIBOR minus 0.110%, 1.322%*, 10/11/2018	3,500,000	3,501,048
1-month LIBOR minus 0.145%, 1.332%*, 8/15/2018	600,000	600,000
1-month LIBOR minus 0.160%, 1.335%*, 7/19/2018	1,500,000	1,500,000
1-month LIBOR minus 0.150%, 1.341%*, 7/16/2018	2,000,000	2,000,000
1-month LIBOR minus 0.135%, 1.356%*, 5/17/2018	2,500,000	2,500,000
1.375%, 3/9/2018	1,185,000	1,185,382
1-month LIBOR minus 0.125%, 1.376%*, 8/20/2018	2,000,000	2,000,000
1-month LIBOR minus 0.025%, 1.382%*, 3/8/2018	750,000	750,000
1-month LIBOR minus 0.165%, 1.387%*, 1/23/2018	1,000,000	1,000,000
1.489%**, 6/8/2018	500,000	496,776
Federal Home Loan Mortgage Corp.:		
1.095%**, 2/6/2018	1,200,000	1,198,704
3-month LIBOR minus 0.250%, 1.1%*, 10/10/2018	1,000,000	1,000,000
1.125%**, 2/20/2018	1,500,000	1,497,687
3-month LIBOR minus 0.280%, 1.13%*, 8/10/2018	500,000	500,000
1.186%**, 3/14/2018	1,000,000	997,660
3-month LIBOR minus 0.200%, 1.246%*, 2/22/2018	1,000,000	1,000,000
1-month LIBOR minus 0.170%, 1.302%*, 6/14/2018	1,000,000	1,000,000
1-month LIBOR minus 0.080%, 1.392%*, 2/14/2019	2,000,000	2,000,000
Federal National Mortgage Association:		
1.308%**, 3/22/2018	1,000,000	997,133
3-month LIBOR minus 0.030%, 1.326%*, 1/11/2018	1,500,000	1,500,131
		56,821,566
U.S. Treasury Obligations 24.9%		
U.S. Treasury Bills:		
Zero Coupon**, 4/5/2018	650,000	647,657
Zero Coupon**, 4/5/2018	650,000	647,655
1.118%**, 2/22/2018	2,000,000	1,996,814
1.151%**, 3/8/2018	2,500,000	2,494,798
1.156%**, 3/15/2018	1,000,000	997,415
1.291%**, 3/22/2018	750,000	747,874
1.293%**, 3/15/2018	1,000,000	997,688
1.293%**, 3/15/2018	1,000,000	997,415
1.294%**, 3/22/2018	2,250,000	2,243,623
1.305%**, 3/8/2018	2,000,000	1,995,281
3.022%**, 5/31/2018	1,200,000	1,192,692
U.S. Treasury Floating Rate Notes:		
3-month Treasury Money Market Yield plus 0.070%, 1.52%*, 4/30/2019	1,000,000	1,000,249
3-month Treasury Money Market Yield plus 0.170%, 1.62%*, 10/31/2018	2,050,000	2,053,803
3-month Treasury Money Market Yield plus 0.190%, 1.64%*, 4/30/2018	3,225,000	3,225,663
3-month Treasury Money Market Yield plus 0.272%, 1.722%*, 1/31/2018	6,500,000	6,501,080
		27,739,707
Total Government & Agency Obligations (Cost $84,561,273)		**84,561,273**
Repurchase Agreements 24.0%		
Wells Fargo Bank, 1.41%, dated 12/29/2017, to be repurchased at $26,650,175 on 1/2/2018(a) (Cost $26,646,000)	26,646,000	**26,646,000**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $111,207,273)	100.0	**111,207,273**
Other Assets and Liabilities, Net	0.0	**12,689**
Net Assets	100.0	**111,219,962**

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

* Floating rate security. These securities are shown at their current rate as of December 31, 2017.
** Annualized yield at time of purchase; not a coupon rate.
(a) Collateralized by:

Principal Amount ($)	Security	Rate (%)	Maturity Date	Collateral Value ($)
21,021,823	Federal Home Loan Mortgage Corp.	3.0-4.0	12/1/2032-11/1/2047	21,821,638
5,211,755	Federal National Mortgage Association	3.0-3.5	12/1/2032-11/1/2047	5,357,282
Total Collateral Value				**27,178,920**

LIBOR: London Interbank Offered Rate

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, 2017 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Investments in Securities (b)	$ —	$ 84,561,273	$ —	$ 84,561,273
Repurchase Agreement	—	26,646,000	—	26,646,000
Total	**$ —**	**$ 111,207,273**	**$ —**	**$ 111,207,273**

There have been no transfers between fair value measurement levels during the year ended December 31, 2017.
(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, 2017

Assets	
Investments in securities, valued at amortized cost	$ 84,561,273
Repurchased agreement, valued at amortized cost	26,646,000
Cash	729
Receivable for investments sold	1,292,303
Receivable for Fund shares sold	167,590
Interest receivable	85,375
Other assets	2,229
Total assets	112,755,499

Liabilities	
Payable for investments purchased	1,295,312
Payable for Fund shares redeemed	38,476
Distributions payable	35,080
Accrued management fee	22,112
Accrued Trustees' fees	2,709
Other accrued expenses and payables	141,848
Total liabilities	1,535,537
Net assets, at value	**$111,219,962**

Net Assets Consist of	
Undistributed net investment income	14,912
Accumulated net realized gain (loss)	53
Paid-in capital	111,204,997
Net assets, at value	**$111,219,962**

Class A	
Net Asset Value	
Net asset value, offering and redemption price per share ($111,219,962 ÷ 111,288,713 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 1.00**

Statement of Operations

For the year ended December 31, 2017

Investment Income	
Income: Interest	$1,131,133
Expenses: Management fee	284,839
Administration fee	121,208
Services to shareholders	2,878
Custodian fee	9,259
Professional fees	55,902
Reports to shareholders	94,217
Trustees' fees and expenses	8,430
Other	6,574
Total expenses	583,307
Net investment income	**547,826**
Net realized gain (loss) from investments	**53**
Net increase (decrease) in net assets resulting from operations	**$ 547,879**

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, 2017	2016
Operations:		
Net investment income (loss)	$ 547,826	$ 63,700
Net realized gain (loss)	53	14,243
Net increase (decrease) in net assets resulting from operations	547,879	77,943
Distributions to shareholders from:		
Net investment income		
Class A	(547,829)	(63,706)
Fund share transactions:		
Class A		
Proceeds from shares sold	111,220,770	122,352,015
Reinvestment of distributions	514,778	62,278
Cost of shares redeemed	(122,921,320)	(134,243,063)
Net increase (decrease) in net assets from Class A share transactions	(11,185,772)	(11,828,770)
Increase (decrease) in net assets	(11,185,722)	(11,814,533)
Net assets at beginning of period	122,405,684	134,220,217
Net assets at end of year (including undistributed net investment income of $14,912 and $ 14,915, respectively)	**$ 111,219,962**	**$ 122,405,684**
Other Information		
Class A		
Shares outstanding at beginning of period	122,474,485	134,303,255
Shares sold	111,220,770	122,352,015
Shares issued to shareholders in reinvestment of distributions	514,778	62,278
Shares redeemed	(122,921,320)	(134,243,063)
Net increase (decrease) in Class A shares	(11,185,772)	(11,828,770)
Shares outstanding at end of period	**111,288,713**	**122,474,485**

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

Financial Highlights

Class A	2017	2016	2015	2014	2013
			Years Ended December 31,		
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	.005*	.001[b]	.000*	.000*	.000*
Net realized gain (loss)	.000*	.000*	(.000)*	.000*	.000*
Total from investment operations	.005*	.001	.000*	.000*	.000*
Less distributions from: Net investment income	(.005)*	(.001)	(.000)*	(.000)*	(.000)*
Net asset value, end of period	**$ 1.00**	**$ 1.00**	**$ 1.00**	**$ 1.00**	**$ 1.00**
Total Return (%)	.45	.05[a,b]	.01[a]	.01[a]	.01[a]
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	111	122	134	177	174
Ratio of expenses before expense reductions (%)[c]	.48	.51	.49	.49	.49
Ratio of expenses after expense reductions (%)[c]	.48	.44	.25	.18	.20
Ratio of net investment income (%)	.45	.05[b]	.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.

c Expense ratio does not reflect charges and 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.

* Amount is less than $.0005.

Notes to Financial Statements

A. Organization and Significant Accounting Policies

Deutsche Government 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, 2017 the Fund held repurchase agreements with a gross value of $26,646,000. 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.

From November 1, 2017 through December 31, 2017, the Fund elects to defer qualified late year losses of $53 of net short-term realized capital losses and treat them as arising in the fiscal year ending December 31, 2018.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2017 and has determined that no positions for income tax and/or uncertain tax positions 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, 2017, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income	$ 14,912

At December 31, 2017, the aggregate cost of investments for federal income tax purposes was $111,207,273.

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

	Years Ended December 31, 2017	2016
Distributions from ordinary income	$ 547,829	$ 63,706

Expenses. Expenses of the Trust arising in connection with a specific fund are allocated to that fund. Other Trust expenses which cannot be directly attributed to a fund are apportioned among the funds in the Trust based upon the relative net assets or other appropriate measures.

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

Other. Investment transactions are accounted for on a trade date. Interest income is recorded on the accrual basis. Realized gains and losses from investment transactions are recorded on an identified cost basis. All discounts and premiums are accreted/amortized for both tax and financial reporting purposes.

B. Related Parties

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

Pursuant to the Investment Management Agreement with the Advisor, the Fund pays 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, 2017 through September 30, 2018, 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%.

Accordingly, for the year ended December 31, 2017 the fee pursuant to the Investment Management Agreement aggregated $284,839, of which $22,112 is unpaid, resulting in an annual effective rate of 0.235% 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, 2017 the Administration Fee was $121,208, of which $9,409 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, 2017 the amounts charged to the Fund by DSC aggregated $2,613, of which $609 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing certain pre-press and regulatory filing services to the Fund. For the year ended December 31, 2017 the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $8,734, of which $4,009 is unpaid.

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

C. Ownership of the Fund

At December 31, 2017 three participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 47%, 20% and 16%.

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, 2017.

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:

Opinion on the Financial Statements

We have audited the accompanying statement of assets and liabilities of Deutsche Government Money Market VIP (the "Fund") (one of the funds constituting the Deutsche Variable Series II) (the "Trust"), including the schedule of investments, as of December 31, 2017, 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, the financial highlights for each of the five years in the period then ended and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund (one of the funds constituting the Deutsche Variable Series II) at December 31, 2017, 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 its financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on the Fund's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Trust in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Trust is not required to have, nor were we engaged to perform, an audit of the Trust's internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2017, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received.

Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Ernst & Young LLP

We have served as the auditor of one or more investment companies in the Deutsche family of funds since at least 1979, but we are unable to determine the specific year.

Boston, Massachusetts
February 15, 2018

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, 2017 to December 31, 2017).

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 December 31, 2017

Actual Fund Return	**Class A**
Beginning Account Value 7/1/17	$ 1,000.00
Ending Account Value 12/31/17	$ 1,003.20
Expenses Paid per $1,000*	$ 2.42

Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 7/1/17	$ 1,000.00
Ending Account Value 12/31/17	$ 1,022.79
Expenses Paid per $1,000*	$ 2.45

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

Annualized Expense Ratio	**Class A**
Deutsche Variable Series II — Deutsche Government Money Market VIP	.48%

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 2017.

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"). 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.

— The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly met 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.

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.

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 administrative support services provided by DIMA, such 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 "Funds in Review" (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, 2016, the Fund's gross performance (Class A shares) was in the 1st quartile of the applicable iMoneyNet universe (the 1st quartile being the best performers and the 4th quartile being the worst performers).

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, 2016). 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 in 2016. 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, 2016, 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 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 to DIMA, 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 transfer agency 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. In addition, the Board considered 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, 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)	89	—
Kenneth C. Froewiss (1945) Vice Chairperson since 2017, and Board Member since 2001	Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); Member, Finance Committee, Association for Asian Studies (2002–present); Director, Mitsui Sumitomo Insurance Group (US) (2004–present); prior thereto, Managing Director, J.P. Morgan (investment banking firm) (until 1996)	92	—
John W. Ballantine (1946) Board Member since 1999	Retired; formerly, Executive Vice President and Chief Risk Management Officer, First Chicago NBD Corporation/The First National Bank of Chicago (1996–1998); Executive Vice President and Head of International Banking (1995–1996); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (population well-being and wellness services) (2003–2014); Stockwell Capital Investments PLC (private equity); Enron Corporation; FNB Corporation; Tokheim Corporation; First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International. Not-for-Profit Director, Trustee: Palm Beach Civic Association; Public Radio International; Window to the World Communications (public media); Harris Theater for Music and Dance (Chicago)	89	Portland General Electric[2] (utility company) (2003–present)
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); The Pew Charitable Trusts (charitable organization); former Directorships: Becton Dickinson and Company[2] (medical technology company); Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College; North Bennett Street School (Boston)	89	—
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)	89	—

Name, Year of Birth, Position with the Fund and Length of Time Served[1]	Business Experience and Directorships During the Past Five Years	Number of Funds in Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Paul K. Freeman (1950) Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Independent Directors Council (former chair); 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); Knoebel Institute for Healthy Aging, University of Denver (2017–present); former Directorships: Prisma Energy International	89	—
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)	89	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004	Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	89	—
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[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	89	Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc[2] (health care) (2009–present)
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	89	—
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)	89	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Hepsen Uzcan[6,9] (1974) President and Chief Executive Officer, 2017–present Assistant Secretary, 2013–present	Director,[3] Deutsche Asset Management; formerly: Vice President for the Deutsche funds (2016–2017)
John Millette[8] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset Management; Chief Legal Officer, Deutsche Investment Management Americas Inc. (2015–present); and Director and Vice President, Deutsche AM Trust Company (since 2016); formerly: Secretary, Deutsche Investment Management Americas Inc. (2015–2017)
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset Management, and Chairman, Director and President, Deutsche AM Trust Company (since 2013); Vice President, Deutsche AM Distributors, Inc. (since 2016); Director, Deutsche AM Service Company (since 2017); Director and President, DB Investment Managers, Inc. (since 2017); formerly: Director, Deutsche AM Trust Company (2004–2013)
Caroline Pearson[8] (1962) Chief Legal Officer, 2010–present	Managing Director,[3] Deutsche Asset Management; formerly: Secretary, Deutsche AM Distributors, Inc.; and Secretary, Deutsche AM Service Company
Scott D. Hogan[8] (1970) Chief Compliance Officer, 2016–present	Director,[3] Deutsche Asset Management
Wayne Salit[7] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Sheila Cadogan[8] (1966) Assistant Treasurer, since July 12, 2017	Director,[3] Deutsche Asset Management
Paul Antosca[8] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management
Diane Kenneally[8] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

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

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

3 Executive title, not a board directorship.

4 As a result of their respective positions held with the Advisor, these individuals are considered “interested persons” of the Advisor within the meaning of the 1940 Act. Interested persons receive no compensation from the Fund.

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

6 Address: 345 Park Avenue, New York, NY 10154.

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

8 Address: One International Place, Boston, MA 02110.

9 Appointed President and Chief Executive Officer effective December 1, 2017.

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

VS2GMM-2 (R-025834-7 2/18)

Deutsche
Asset Management

December 31, 2017

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. Please read the prospectus for details.

Performance Summary

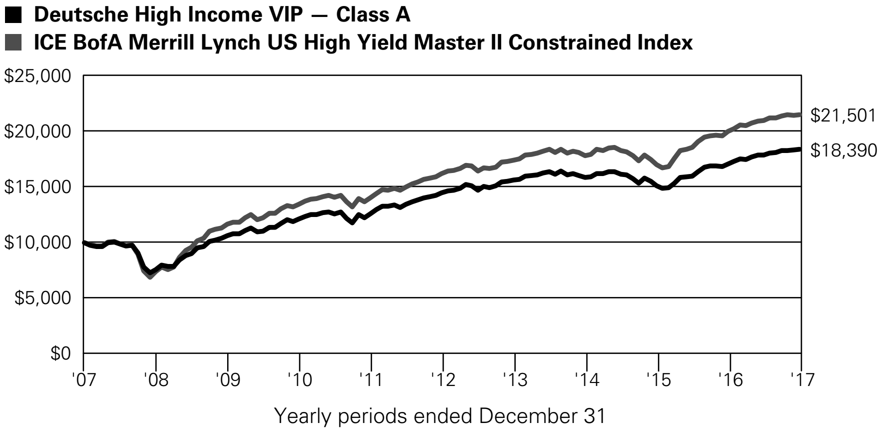
December 31, 2017 (Unaudited)

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, 2017 are 0.80% and 1.21% 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



ICE 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.

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

Comparative Results

Deutsche High Income VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,751	$11,595	$12,697	$18,390
	Average annual total return	7.51%	5.06%	4.89%	6.28%
ICE BofA Merrill Lynch US High Yield Master II Constrained Index	Growth of $10,000	$10,748	$12,046	$13,263	$21,501
	Average annual total return	7.48%	6.40%	5.81%	7.96%

Deutsche High Income VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$10,721	$11,482	$12,487	$17,860
	Average annual total return	7.21%	4.72%	4.54%	5.97%
ICE BofA Merrill Lynch US High Yield Master II Constrained Index	Growth of $10,000	$10,748	$12,046	$13,263	$21,501
	Average annual total return	7.48%	6.40%	5.81%	7.96%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2017 (Unaudited)

High-yield bonds gained 7.48% in 2017 — based on the performance of the ICE BofA Merrill Lynch US High Yield Master II Constrained Index — as the combination of synchronized global economic expansion, a continuation of accommodative central bank policies, and a further recovery in commodity prices were all broadly supportive of the high-yield market. The Fund produced a strong absolute return of 7.51% (Class A shares, unadjusted for contract charges), and finished slightly ahead the benchmark.

We continued to look for security-specific opportunities where the yields provided favorable compensation for the underlying risks. Although our primary emphasis is on bottom-up credit research and individual issue selection, the Fund's broader allocations can also have an impact on performance. During the past year, for instance, an overweight positions in the mining and chemicals industries contributed positively. However, underweights in the banking and oil field services industries detracted. From a ratings perspective, an underweight in lower-rated issues — including those rated CCC and below — detracted.

At the individual security level, the metals and mining company Teck Resources Ltd. was among the leading contributors to fund performance. The bonds were supported by a recovery in commodity prices, the company's successful debt-reduction initiative, and an upgrade to its credit rating. NRG Energy, Inc., a power generation firm, was an additional outperformer as its management cut costs and used asset sales to reduce debt, improve efficiency and cut ties to underperforming businesses. The bonds of the pharmaceutical development and distribution company Valeant Pharmaceuticals International, Inc. made a strong contribution as well. Following a change in senior management, Valeant stabilized its business lines and used the proceeds from asset sales to repay debt and reduce leverage.

The Fund's positioning in the bonds of satellite services provider Intelsat Jackson Holdings SA detracted from results. The company took a number of steps to improve its financial condition, including refinancing its near-term debt maturities. However, the prices the company's secured bonds — where the Fund had the largest position — did not improve as strongly as the company's unsecured notes, where the Fund was underweight. The wireline telecommunications services provider Frontier Communications Corp. was another notable detractor. The bonds traded weaker during the year as Frontier had higher-than-anticipated subscriber losses and diminished cash flows, which subsequently caused the rating agencies to downgrade its debt. An underweight position in Tenet Healthcare Corp., an owner and operator of hospitals and long-term care facilities, hurt performance. The debt traded stronger as the company improved its financial results and concerns about disruptive changes to the Affordable Care Act began to fade.

The Fund employed derivatives to hedge its modest euro exposure back into U.S. dollars, which detracted given the rally in the European currency. We also used credit default swaps ("CDS") to gain exposure to an individual issuer. The CDS rose in value, slightly benefiting performance, and we have since closed the position. While we use derivatives periodically for specific purposes, they are not a core aspect of our strategy.

We retain a favorable view on the high-yield market. We consider forecasts for continuing global economic growth, combined with the consistent and measured shift away from an accommodative stance by the major central banks, as being supportive for the asset class. The use of new-issuance proceeds continues to be dominated by refinancing, which has reduced concerns about near-term maturities for high-yield issuers and contributed to decreasing default expectations. Recent economic data has been largely upbeat, which has been a further positive for the default outlook. Not least, we believe absolute yields could remain attractive enough to fuel continued investor demand. Potential disruptions to this outlook include the possibility of faster-than-expected U.S. Federal Reserve tightening and lingering geopolitical/macroeconomic issues. Additionally, we are concerned about the risk that increased issuance of lower-quality debt could lead to a meaningful market disruption once the cycle turns and credit conditions tighten. With this as the backdrop, we continued to use our bottom-up, research-based approach to identify securities that we believe offer the best risk-adjusted relative values.

Gary Russell, CFA, Managing Director

Thomas R. Bouchard, Director

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.

Terms to Know

The **ICE 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.

Credit quality measures a bond issuer's ability to repay interest and principal in a timely manner. Rating agencies assign letter designations, such as AAA, AA and so forth. The lower the rating, the higher the probability of default. Credit quality does not remove market risk and is subject to change.

Overweight means a fund holds a higher weighting in a given sector or individual security compared with its benchmark index; **underweight** means a fund holds a lower weighting.

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

Derivatives are contracts whose values can be based on a variety of instruments, including indices, currencies or securities. They can be utilized for a variety of reasons, including for hedging purposes, for risk management; for non-hedging purposes to seek to enhance potential gains, or as a substitute for direct investment in a particular asset class or to keep cash on hand to meet shareholder redemptions. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility.

A **swap** is an exchange of cash flows that are dependent on the price of an underlying commodity.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/17**	**12/31/16**
Corporate Bonds	93%	93%
Cash Equivalents	4%	5%
Convertible Bond	3%	1%
Common Stocks	0%	0%
Warrant	0%	0%
Government & Agency Obligations	—	1%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/17**	**12/31/16**
Consumer Discretionary	23%	27%
Energy	23%	18%
Materials	18%	16%
Telecommunication Services	10%	13%
Health Care	7%	6%
Industrials	7%	7%
Utilities	4%	4%
Information Technology	3%	3%
Consumer Staples	2%	2%
Real Estate	2%	2%
Financials	1%	2%
	100%	100%

Quality (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/17**	**12/31/16**
AAA	—	1%
BBB	5%	9%
BB	54%	57%
B	34%	30%
CCC	3%	3%
Not Rated	4%	0%
	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 7.

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

	Principal Amount ($)(a)	Value ($)
Corporate Bonds 91.7%		
Consumer Discretionary 21.7%		
1011778 B.C. Unlimited Liability Co.:		
144A, 4.25%, 5/15/2024	135,000	134,663
144A, 5.0%, 10/15/2025	190,000	191,425
Adient Global Holdings Ltd.:		
REG S, 3.5%, 8/15/2024	EUR 285,000	364,889
144A, 4.875%, 8/15/2026	340,000	349,350
Ally Financial, Inc., 5.75%, 11/20/2025 (b)	110,000	119,900
Altice Financing SA, 144A, 7.5%, 5/15/2026	570,000	607,050
Altice U.S. Finance I Corp., 144A, 5.5%, 5/15/2026	175,000	178,281
American Axle & Manufacturing, Inc.:		
144A, 6.25%, 4/1/2025 (b)	110,000	115,775
144A, 6.5%, 4/1/2027 (b)	100,000	105,875
Asbury Automotive Group, Inc., 6.0%, 12/15/2024	320,000	333,184
Ashton Woods U.S.A. LLC, 144A, 6.75%, 8/1/2025	325,000	324,594
Boyd Gaming Corp., 6.875%, 5/15/2023	100,000	106,000
CalAtlantic Group, Inc., 5.0%, 6/15/2027	50,000	51,875
Carlson Travel, Inc., 144A, 9.5%, 12/15/2024	400,000	322,000
CCO Holdings LLC:		
144A, 5.0%, 2/1/2028	310,000	301,475
144A, 5.125%, 5/1/2027	250,000	246,250
144A, 5.5%, 5/1/2026	210,000	215,250
144A, 5.875%, 4/1/2024	170,000	177,225
144A, 5.875%, 5/1/2027	350,000	360,500
Cequel Communications Holdings I LLC, 144A, 5.125%, 12/15/2021	437,000	438,092
Clear Channel Worldwide Holdings, Inc.:		
Series A, 6.5%, 11/15/2022	180,000	181,350
Series B, 6.5%, 11/15/2022	265,000	268,975
Series A, 7.625%, 3/15/2020	80,000	78,300
CRC Escrow Issuer LLC, 144A, 5.25%, 10/15/2025	230,000	231,725
CSC Holdings LLC:		
144A, 5.5%, 4/15/2027	545,000	555,900
144A, 10.125%, 1/15/2023	200,000	225,250
144A, 10.875%, 10/15/2025	230,000	273,700
Cumberland Farms, Inc., 144A, 6.75%, 5/1/2025	48,000	50,880
Dana Financing Luxembourg Sarl:		
144A, 5.75%, 4/15/2025	315,000	331,931
144A, 6.5%, 6/1/2026	280,000	303,450
Dana, Inc., 5.5%, 12/15/2024	130,000	137,313
DISH DBS Corp.:		
5.875%, 7/15/2022	435,000	437,175
5.875%, 11/15/2024	75,000	73,031
6.75%, 6/1/2021	165,000	173,250
Eldorado Resorts, Inc., 6.0%, 4/1/2025	260,000	271,700
Fiat Chrysler Automobiles NV, 5.25%, 4/15/2023	245,000	256,490
Group 1 Automotive, Inc., 5.0%, 6/1/2022	330,000	339,900
HD Supply, Inc., 144A, 5.75%, 4/15/2024	85,000	90,313
Mattel, Inc., 144A, 6.75%, 12/31/2025	105,000	106,412
Mediacom Broadband LLC, 6.375%, 4/1/2023	165,000	169,537
NCL Corp., Ltd., 144A, 4.75%, 12/15/2021	115,000	119,025
Penn National Gaming, Inc., 144A, 5.625%, 1/15/2027	80,000	83,000
Penske Automotive Group, Inc., 5.5%, 5/15/2026	165,000	167,425
PetSmart, Inc., 144A, 5.875%, 6/1/2025	65,000	49,888
Rivers Pittsburgh Borrower LP, 144A, 6.125%, 8/15/2021	50,000	49,625
Scientific Games International, Inc., 144A, 7.0%, 1/1/2022	510,000	537,412
Seminole Hard Rock Entertainment, Inc., 144A, 5.875%, 5/15/2021	90,000	91,350
SFR Group SA, 144A, 7.375%, 5/1/2026	610,000	626,012
Sonic Automotive, Inc., 6.125%, 3/15/2027	55,000	54,588
Staples, Inc., 144A, 8.5%, 9/15/2025	110,000	101,750
Suburban Propane Partners LP, 5.75%, 3/1/2025	105,000	103,688
Tesla, Inc., 144A, 5.3%, 8/15/2025 (b)	75,000	71,625
Toll Brothers Finance Corp., 4.875%, 3/15/2027	325,000	337,187
TRI Pointe Group, Inc., 5.25%, 6/1/2027	135,000	138,470
UPCB Finance IV Ltd., 144A, 5.375%, 1/15/2025	355,000	357,449
Viking Cruises Ltd., 144A, 5.875%, 9/15/2027	155,000	157,713
Virgin Media Secured Finance PLC:		
144A, 5.25%, 1/15/2026	200,000	202,000
144A, 5.5%, 8/15/2026	215,000	220,375
WMG Acquisition Corp., 144A, 5.0%, 8/1/2023	75,000	77,625
		13,146,442
Consumer Staples 2.1%		
Chobani LLC, 144A, 7.5%, 4/15/2025	35,000	37,100
FAGE International SA, 144A, 5.625%, 8/15/2026	220,000	212,300
JBS Investments GmbH, 144A, 7.25%, 4/3/2024	296,000	290,820
JBS U.S.A. LUX SA, 144A, 5.75%, 6/15/2025	210,000	202,125
Pilgrim's Pride Corp.:		
144A, 5.75%, 3/15/2025	50,000	51,688
144A, 5.875%, 9/30/2027	150,000	154,500

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

	Principal Amount ($)(a)	Value ($)
Post Holdings, Inc.:		
144A, 5.625%, 1/15/2028	40,000	40,212
144A, 5.75%, 3/1/2027	215,000	218,762
Simmons Foods, Inc., 144A, 5.75%, 11/1/2024	100,000	99,375
		1,306,882
Energy 21.6%		
Antero Midstream Partners LP, 5.375%, 9/15/2024	125,000	128,750
Antero Resources Corp.:		
5.375%, 11/1/2021	180,000	184,500
5.625%, 6/1/2023	45,000	46,800
Blue Racer Midstream LLC, 144A, 6.125%, 11/15/2022	295,000	307,537
Carrizo Oil & Gas, Inc.:		
6.25%, 4/15/2023 (b)	85,000	88,188
8.25%, 7/15/2025	100,000	109,875
Cheniere Corpus Christi Holdings LLC:		
5.125%, 6/30/2027	230,000	237,912
5.875%, 3/31/2025	165,000	178,819
7.0%, 6/30/2024	470,000	534,919
Cheniere Energy Partners LP, 144A, 5.25%, 10/1/2025	150,000	152,625
Chesapeake Energy Corp.:		
144A, 8.0%, 12/15/2022	174,000	187,703
144A, 8.0%, 1/15/2025	165,000	166,650
144A, 8.0%, 6/15/2027 (b)	315,000	302,400
Continental Resources, Inc.:		
3.8%, 6/1/2024	290,000	286,737
144A, 4.375%, 1/15/2028	75,000	74,040
4.5%, 4/15/2023	255,000	260,100
5.0%, 9/15/2022	413,000	419,195
Crestwood Midstream Partners LP:		
5.75%, 4/1/2025	125,000	129,063
6.25%, 4/1/2023	290,000	301,368
CrownRock LP, 144A, 5.625%, 10/15/2025	165,000	165,825
Diamondback Energy, Inc., 4.75%, 11/1/2024	125,000	125,469
Endeavor Energy Resources LP:		
144A, 5.5%, 1/30/2026	35,000	35,613
144A, 5.75%, 1/30/2028	35,000	35,945
Energy Transfer Equity LP, 5.5%, 6/1/2027	420,000	428,400
Extraction Oil & Gas, Inc., 144A, 7.375%, 5/15/2024	70,000	74,725
Genesis Energy LP:		
6.25%, 5/15/2026	215,000	214,194
6.5%, 10/1/2025	305,000	309,575
Gulfport Energy Corp.:		
6.0%, 10/15/2024	60,000	60,000
6.375%, 5/15/2025	100,000	100,500
144A, 6.375%, 1/15/2026	150,000	150,375
Hess Infrastructure Partners LP, 144A, 5.625%, 2/15/2026	130,000	134,225
Hilcorp Energy I LP:		
144A, 5.0%, 12/1/2024	105,000	103,950
144A, 5.75%, 10/1/2025	245,000	250,512
Holly Energy Partners LP, 144A, 6.0%, 8/1/2024	225,000	234,562
Jonah Energy LLC, 144A, 7.25%, 10/15/2025	95,000	95,713
Laredo Petroleum, Inc.:		
5.625%, 1/15/2022	70,000	70,700
6.25%, 3/15/2023	215,000	222,589
MEG Energy Corp.:		
144A, 6.375%, 1/30/2023	215,000	182,750
144A, 6.5%, 1/15/2025 (b)	234,000	231,075
Murphy Oil Corp., 5.75%, 8/15/2025	110,000	112,475
Murphy Oil U.S.A., Inc., 5.625%, 5/1/2027	65,000	68,263
Nabors Industries, Inc., 5.5%, 1/15/2023 (b)	70,000	67,900
Newfield Exploration Co., 5.375%, 1/1/2026	245,000	259,087
NGPL PipeCo LLC, 144A, 4.875%, 8/15/2027	285,000	295,687
NuStar Logistics LP, 5.625%, 4/28/2027	236,000	240,130
Oasis Petroleum, Inc.:		
6.875%, 3/15/2022	145,000	148,806
6.875%, 1/15/2023	60,000	61,350
Parsley Energy LLC:		
144A, 5.25%, 8/15/2025	55,000	55,138
144A, 5.375%, 1/15/2025	85,000	85,850
144A, 5.625%, 10/15/2027	120,000	122,700
PDC Energy, Inc., 6.125%, 9/15/2024	150,000	155,250
Peabody Energy Corp.:		
144A, 6.0%, 3/31/2022	20,000	20,750
144A, 6.375%, 3/31/2025	175,000	182,000
Precision Drilling Corp., 144A, 7.125%, 1/15/2026	110,000	112,200
QEP Resources, Inc., 5.625%, 3/1/2026	130,000	131,788
Range Resources Corp.:		
4.875%, 5/15/2025	125,000	120,625
5.0%, 8/15/2022	255,000	253,725
5.875%, 7/1/2022	140,000	142,800
Seven Generations Energy Ltd., 144A, 5.375%, 9/30/2025	80,000	80,800
Southwestern Energy Co., 7.75%, 10/1/2027	215,000	229,512
Summit Midstream Holdings LLC, 5.75%, 4/15/2025	60,000	60,503
Sunoco LP, 6.375%, 4/1/2023	425,000	447,844
Targa Resources Partners LP:		
144A, 5.0%, 1/15/2028	235,000	234,412
5.375%, 2/1/2027	260,000	266,825
TerraForm Power Operating LLC, 144A, 5.0%, 1/31/2028	115,000	113,850
Trinidad Drilling Ltd., 144A, 6.625%, 2/15/2025	50,000	47,500
Weatherford International Ltd.:		
4.5%, 4/15/2022 (b)	240,000	217,200
8.25%, 6/15/2023	70,000	70,700
Whiting Petroleum Corp.:		
5.0%, 3/15/2019	100,000	102,550
5.75%, 3/15/2021 (b)	285,000	292,481
144A, 6.625%, 1/15/2026	220,000	224,400

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

	Principal Amount ($)(a)	Value ($)
WildHorse Resource Development Corp., 6.875%, 2/1/2025	50,000	51,125
WPX Energy, Inc.:		
5.25%, 9/15/2024	145,000	144,500
6.0%, 1/15/2022	215,000	224,675
7.5%, 8/1/2020	71,000	76,858
8.25%, 8/1/2023	215,000	244,025
		13,090,162
Financials 0.6%		
Lincoln Finance Ltd., 144A, 7.375%, 4/15/2021	105,000	109,463
Seminole Tribe of Florida, Inc., 144A, 7.804%, 10/1/2020	170,000	171,700
Tempo Acquisition LLC, 144A, 6.75%, 6/1/2025	75,000	75,750
		356,913
Health Care 6.7%		
Avantor, Inc., 144A, 6.0%, 10/1/2024	70,000	69,738
DaVita, Inc.:		
5.0%, 5/1/2025	110,000	109,967
5.125%, 7/15/2024	110,000	111,100
Endo Dac, 144A, 6.0%, 7/15/2023	195,000	153,075
HCA, Inc.:		
4.5%, 2/15/2027	363,000	364,815
4.75%, 5/1/2023	360,000	370,800
5.25%, 6/15/2026	280,000	296,800
5.875%, 2/15/2026	190,000	200,925
Hologic, Inc., 144A, 5.25%, 7/15/2022	65,000	67,275
LifePoint Health, Inc., 5.5%, 12/1/2021	90,000	91,800
Mallinckrodt International Finance SA, 144A, 5.625%, 10/15/2023	100,000	85,000
Tenet Healthcare Corp., 144A, 5.125%, 5/1/2025	100,000	97,500
Valeant Pharmaceuticals International, Inc.:		
144A, 5.375%, 3/15/2020	259,000	259,324
144A, 5.5%, 11/1/2025	85,000	86,487
144A, 5.875%, 5/15/2023	170,000	157,675
144A, 6.125%, 4/15/2025	150,000	137,250
144A, 6.5%, 3/15/2022	105,000	110,250
144A, 7.0%, 3/15/2024	255,000	272,850
144A, 7.5%, 7/15/2021	545,000	554,537
144A, 9.0%, 12/15/2025	375,000	390,825
West Street Merger Sub, Inc., 144A, 6.375%, 9/1/2025	70,000	70,175
		4,058,168
Industrials 6.6%		
Bombardier, Inc.:		
144A, 5.75%, 3/15/2022	230,000	225,400
144A, 6.0%, 10/15/2022	190,000	186,675
144A, 7.5%, 12/1/2024	85,000	86,275
Booz Allen Hamilton, Inc., 144A, 5.125%, 5/1/2025	25,000	25,063
Covanta Holding Corp.:		
5.875%, 3/1/2024	160,000	162,400
5.875%, 7/1/2025	85,000	85,425
DAE Funding LLC:		
144A, 4.5%, 8/1/2022	8,000	7,860
144A, 5.0%, 8/1/2024	25,000	24,688
GFL Environmental, Inc., 144A, 5.625%, 5/1/2022	85,000	88,188
Itron, Inc., 144A, 5.0%, 1/15/2026	60,000	60,225
Jeld-Wen, Inc.:		
144A, 4.625%, 12/15/2025	70,000	70,525
144A, 4.875%, 12/15/2027	105,000	106,050
Masonite International Corp., 144A, 5.625%, 3/15/2023	195,000	203,833
Moog, Inc., 144A, 5.25%, 12/1/2022	120,000	124,200
Novelis Corp.:		
144A, 5.875%, 9/30/2026	230,000	234,600
144A, 6.25%, 8/15/2024	140,000	146,650
Oshkosh Corp., 5.375%, 3/1/2025	20,000	21,225
Park Aerospace Holdings Ltd.:		
144A, 4.5%, 3/15/2023	310,000	296,050
144A, 5.25%, 8/15/2022	180,000	178,875
144A, 5.5%, 2/15/2024	245,000	243,162
Ply Gem Industries, Inc., 6.5%, 2/1/2022	200,000	206,500
Prime Security Services Borrower LLC, 144A, 9.25%, 5/15/2023	20,000	22,200
RBS Global, Inc., 144A, 4.875%, 12/15/2025	70,000	70,700
Standard Industries, Inc., 144A, 4.75%, 1/15/2028	155,000	155,358
Summit Materials LLC:		
144A, 5.125%, 6/1/2025	30,000	30,600
6.125%, 7/15/2023	200,000	208,000
8.5%, 4/15/2022	70,000	77,525
Tennant Co., 144A, 5.625%, 5/1/2025	30,000	31,500
The Brink's Co., 144A, 4.625%, 10/15/2027	125,000	122,500
United Rentals North America, Inc.:		
4.875%, 1/15/2028	310,000	311,550
5.5%, 5/15/2027	40,000	42,100
5.875%, 9/15/2026	8,000	8,560
WESCO Distribution, Inc., 5.375%, 6/15/2024	140,000	143,850
		4,008,312
Information Technology 3.3%		
Cardtronics, Inc., 144A, 5.5%, 5/1/2025	95,000	85,738
Change Healthcare Holdings LLC, 144A, 5.75%, 3/1/2025	210,000	210,000
Dell International LLC, 144A, 5.875%, 6/15/2021	110,000	114,125
First Data Corp., 144A, 7.0%, 12/1/2023	380,000	401,850
j2 Cloud Services LLC, 144A, 6.0%, 7/15/2025	125,000	131,562
Match Group, Inc., 144A, 5.0%, 12/15/2027	90,000	91,350
Netflix, Inc.:		
4.375%, 11/15/2026	180,000	175,950
5.875%, 2/15/2025	120,000	127,500
Riverbed Technology, Inc., 144A, 8.875%, 3/1/2023	110,000	103,813

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

	Principal Amount ($)(a)	Value ($)
TTM Technologies, Inc., 144A, 5.625%, 10/1/2025	155,000	158,875
Western Digital Corp.:		
144A, 7.375%, 4/1/2023	255,000	275,081
10.5%, 4/1/2024	123,000	142,526
		2,018,370
Materials 13.8%		
AK Steel Corp.:		
6.375%, 10/15/2025	365,000	361,350
7.0%, 3/15/2027	625,000	635,937
7.5%, 7/15/2023	145,000	156,963
Ardagh Packaging Finance PLC:		
144A, 6.0%, 2/15/2025	440,000	463,100
144A, 7.25%, 5/15/2024	290,000	315,737
Berry Global, Inc., 5.5%, 5/15/2022	315,000	324,450
BWAY Holding Co., 144A, 5.5%, 4/15/2024	355,000	369,200
Cascades, Inc., 144A, 5.5%, 7/15/2022	26,000	26,715
Chemours Co.:		
5.375%, 5/15/2027	115,000	119,025
6.625%, 5/15/2023	190,000	200,925
7.0%, 5/15/2025	60,000	65,100
Clearwater Paper Corp., 144A, 5.375%, 2/1/2025	125,000	125,625
Constellium NV:		
144A, 4.625%, 5/15/2021	EUR 150,000	183,530
144A, 5.75%, 5/15/2024	250,000	255,000
144A, 6.625%, 3/1/2025	250,000	263,438
Cornerstone Chemical Co., 144A, 6.75%, 8/15/2024	125,000	124,844
FMG Resources (August 2006) Pty Ltd., 144A, 5.125%, 5/15/2024 (b)	100,000	101,250
Freeport-McMoRan, Inc.:		
3.55%, 3/1/2022	120,000	118,650
3.875%, 3/15/2023	115,000	114,425
4.0%, 11/14/2021	180,000	180,000
5.4%, 11/14/2034	160,000	162,800
5.45%, 3/15/2043	65,000	64,919
6.875%, 2/15/2023	145,000	158,050
Hexion, Inc.:		
6.625%, 4/15/2020	230,000	206,425
144A, 10.375%, 2/1/2022	40,000	37,225
Hudbay Minerals, Inc.:		
144A, 7.25%, 1/15/2023	175,000	185,500
144A, 7.625%, 1/15/2025	50,000	54,750
Kaiser Aluminum Corp., 5.875%, 5/15/2024	145,000	154,063
Mercer International, Inc., 6.5%, 2/1/2024	110,000	116,875
Multi-Color Corp., 144A, 4.875%, 11/1/2025	35,000	35,131
NOVA Chemicals Corp.:		
144A, 4.875%, 6/1/2024	365,000	364,087
144A, 5.25%, 6/1/2027	240,000	239,400
Plastipak Holdings, Inc., 144A, 6.25%, 10/15/2025	160,000	163,600
Platform Specialty Products Corp., 144A, 5.875%, 12/1/2025	301,000	298,742
Reynolds Group Issuer, Inc.:		
144A, 5.125%, 7/15/2023	290,000	300,150
144A, 7.0%, 7/15/2024	35,000	37,450
Sealed Air Corp., 144A, 5.125%, 12/1/2024	40,000	42,800
Teck Resources Ltd.:		
6.125%, 10/1/2035	105,000	117,600
6.25%, 7/15/2041	165,000	188,925
Tronox Finance PLC, 144A, 5.75%, 10/1/2025	100,000	102,750
United States Steel Corp.:		
6.875%, 8/15/2025	295,000	307,921
144A, 8.375%, 7/1/2021	294,000	319,137
WR Grace & Co-Conn:		
144A, 5.125%, 10/1/2021	65,000	68,331
144A, 5.625%, 10/1/2024	125,000	134,844
		8,366,739
Real Estate 2.1%		
CyrusOne LP:		
144A, (REIT), 5.0%, 3/15/2024	90,000	93,375
144A, (REIT), 5.375%, 3/15/2027	200,000	210,000
Howard Hughes Corp., 144A, 5.375%, 3/15/2025	365,000	374,125
Iron Mountain, Inc., 144A, (REIT), 5.25%, 3/15/2028	115,000	114,425
MGM Growth Properties Operating Partnership LP, 144A, (REIT), 4.5%, 1/15/2028	110,000	107,800
MPT Operating Partnership LP:		
(REIT), 5.0%, 10/15/2027	145,000	147,719
(REIT), 5.25%, 8/1/2026	35,000	36,225
(REIT), 6.375%, 3/1/2024	170,000	179,775
		1,263,444
Telecommunication Services 9.6%		
CenturyLink, Inc.:		
Series V, 5.625%, 4/1/2020	180,000	181,350
Series W, 6.75%, 12/1/2023	180,000	176,400
Series Y, 7.5%, 4/1/2024 (b)	270,000	269,325
CommScope Technologies LLC, 144A, 5.0%, 3/15/2027	100,000	100,000
Frontier Communications Corp.:		
6.25%, 9/15/2021	465,000	330,150
7.125%, 1/15/2023	440,000	292,600
Hughes Satellite Systems Corp., 7.625%, 6/15/2021	165,000	182,325
Intelsat Jackson Holdings SA:		
7.25%, 10/15/2020	215,000	202,100
144A, 8.0%, 2/15/2024	327,000	344,167
144A, 9.75%, 7/15/2025	190,000	182,875
SoftBank Group Corp., REG S, 6.0%, 7/30/2025	230,000	244,246
Sprint Capital Corp.:		
6.875%, 11/15/2028	85,000	85,531
8.75%, 3/15/2032	235,000	266,725
Sprint Communications, Inc., 7.0%, 8/15/2020	125,000	132,500
Sprint Corp.:		
7.125%, 6/15/2024	885,000	900,487
7.625%, 2/15/2025 (b)	270,000	282,825

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

	Principal Amount ($)(a)	Value ($)
T-Mobile U.S.A., Inc.:		
6.0%, 4/15/2024	324,000	343,440
6.375%, 3/1/2025	362,000	387,340
6.5%, 1/15/2026	10,000	10,913
Telesat Canada, 144A, 8.875%, 11/15/2024	130,000	145,600
ViaSat, Inc., 144A, 5.625%, 9/15/2025	55,000	55,413
Zayo Group LLC:		
144A, 5.75%, 1/15/2027	240,000	244,800
6.0%, 4/1/2023	185,000	192,687
6.375%, 5/15/2025	281,000	297,158
		5,850,957
Utilities 3.6%		
AmeriGas Partners LP:		
5.5%, 5/20/2025	235,000	237,350
5.75%, 5/20/2027	220,000	222,200
Calpine Corp.:		
144A, 5.25%, 6/1/2026	90,000	88,201
5.75%, 1/15/2025	45,000	42,525
Dynegy, Inc.:		
7.375%, 11/1/2022	195,000	205,725
7.625%, 11/1/2024	75,000	80,437
144A, 8.125%, 1/30/2026	80,000	87,400
NextEra Energy Operating Partners LP, 144A, 4.5%, 9/15/2027	115,000	114,425
NGL Energy Partners LP, 5.125%, 7/15/2019	140,000	142,450
NRG Energy, Inc.:		
144A, 5.75%, 1/15/2028	200,000	202,000
6.25%, 7/15/2022	725,000	754,000
		2,176,713
Total Corporate Bonds (Cost $54,824,443)		**55,643,102**

Convertible Bonds 3.3%

Consumer Discretionary 0.1%		
DISH Network Corp., 144A, 2.375%, 3/15/2024	35,000	**33,622**
Materials 3.2%		
GEO Specialty Chemicals, Inc., 3-month USD-LIBOR + 14.0%, 15.709% PIK, 10/18/2025* (c)	1,542,668	**1,950,703**
Total Convertible Bonds (Cost $1,569,260)		**1,984,325**

Common Stocks 0.1%

	Shares	Value ($)
Industrials 0.0%		
Quad Graphics, Inc.	249	**5,628**
Materials 0.1%		
GEO Specialty Chemicals, Inc.** (c)	144,027	48,623
GEO Specialty Chemicals, Inc. 144A** (c)	2,206	745
		49,368
Total Common Stocks (Cost $292,150)		**54,996**

Warrant 0.0%

Materials		
Hercules Trust II, Expiration Date 3/31/2029** (c) (Cost $244,286)	1,100	**29,732**

Securities Lending Collateral 2.8%

Deutsche Government & Agency Securities Portfolio "Deutsche Government Cash Institutional Shares", 1.21% (d) (e) (Cost $1,697,463)	1,697,463	**1,697,463**

Cash Equivalents 3.7%

Deutsche Central Cash Management Government Fund, 1.30% (d) (Cost $2,240,926)	2,240,926	**2,240,926**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $60,868,528)	101.6	**61,650,544**
Other Assets and Liabilities, Net	(1.6)	**(952,415)**
Net Assets	100.0	**60,698,129**

* Variable or floating rate security. These securities are shown at their current rate as of December 31, 2017. For securities based on a published reference rate and spread, the reference rate and spread are indicated within the description above. Certain variable rate securities are not based on a published reference rate and spread but adjust periodically based on current market conditions,

** Non-income producing security.

(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, 2017 amounted to $1,634,608, which is 2.7% of net assets.

(c) Investment was valued using significant unobservable inputs.

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

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

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

PIK: Denotes that all or a portion of the income is paid in-kind in the form of additional principal.

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

REIT: Real Estate Investment Trust

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

As of December 31, 2017, the Fund had the following open forward foreign currency contracts:

Contracts to Deliver		In Exchange For		Settlement Date	Unrealized Depreciation ($)	Counterparty
EUR	468,564	USD	556,358	1/31/2018	(6,916)	Bank of America

Currency Abbreviations

EUR Euro
USD United States Dollar

For information on the Fund's policy and additional disclosures regarding forward foreign currency contracts, please refer to the Derivatives section of Note A 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, 2017 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 (e)				
Corporate Bonds	$ —	$55,643,102	$ —	$55,643,102
Convertible Bond	—	33,622	1,950,703	1,984,325
Common Stocks (e)	5,628	—	49,368	54,996
Warrant	—	—	29,732	29,732
Short-Term Investments (e)	3,938,389	—	—	3,938,389
Total	**$3,944,017**	**$55,676,724**	**$2,029,803**	**$61,650,544**

Liabilities	Level 1	Level 2	Level 3	Total
Derivatives (f)				
Forward Foreign Currency Exchange Contracts	$ —	$ (6,916)	$ —	$ (6,916)
Total	**$ —**	**$ (6,916)**	**$ —**	**$ (6,916)**

There have been no transfers between fair value measurement levels during the year ended December 31, 2017.

(e) See Investment Portfolio for additional detailed categorizations.

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

Level 3 Reconciliation

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

	Convertible Bonds	Common Stocks	Warrant	Total
Balance as of December 31, 2016	$ 1,459,104	$57,426	$ 4,994	**$ 1,521,524**
Realized gains (loss)	—	—	—	**—**
Change in unrealized appreciation (depreciation)	367,752	(8,058)	24,738	**384,432**
Amortization of premium/accretion of discount	7,619	—	—	**7,619**
Purchases	1,614,966	—	—	**1,614,966**
(Sales)	(1,498,738)	—	—	**(1,498,738)**
Transfer into Level 3	—	—	—	**—**
Transfer (out) of Level 3	—	—	—	**—**
Balance as of December 31, 2017	**$ 1,950,703**	**$49,368**	**$29,732**	**$ 2,029,803**
Net change in unrealized appreciation (depreciation) from investments still held as of December 31, 2017	**$ 367,752**	**$ (8,058)**	**$24,738**	**$ 384,432**

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

Quantitative Disclosure About Significant Unobservable Inputs

Asset Class	Fair Value at 12/31/17	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Common Stocks				
Materials	$49,368	Market Approach	EV/EBITDA Multiple	6.69%
			Discount to public comparables	20%
			Discount for lack of marketability	20%
Warrant				
Materials	$29,732	Black Scholes Option Pricing Model	Implied Volatility of Option	20.62%
			Illiquidity Discount	20%
Convertible Bonds				
Materials	$1,950,703	Market Approach	EV/EBITDA Multiple	6.69%
			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, 2017

Assets	
Investments in non-affiliated securities, at value (cost $56,930,139) — including $1,634,608 of securities loaned	$57,712,155
Investment in Deutsche Government & Agency Securities Portfolio (cost $1,697,463)*	1,697,463
Investment in Deutsche Central Cash Management Government Fund (cost $2,240,926)	2,240,926
Cash	10,000
Foreign currency, at value (cost $10,181)	10,161
Receivable for Fund shares sold	3,616
Interest receivable	921,122
Other assets	1,901
Total assets	62,597,344

Liabilities	
Payable upon return of securities loaned	1,697,463
Payable for Fund shares redeemed	44,038
Unrealized depreciation on forward foreign currency contracts	6,916
Accrued management fee	22,285
Accrued Trustees' fees	1,985
Other accrued expenses and payables	126,528
Total liabilities	1,899,215
Net assets, at value	**$60,698,129**

Net Assets Consist of	
Undistributed net investment income	4,654,101
Net unrealized appreciation (depreciation) on: Investments	782,016
Foreign currency	61
Forward foreign currency contracts	(6,916)
Accumulated net realized gain (loss)	(6,336,893)
Paid-in capital	61,605,760
Net assets, at value	**$60,698,129**

Net Asset Value	
Class A	
Net Asset Value, offering and redemption price per share ($60,559,310 ÷ 9,527,083 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 6.36**
Class B	
Net Asset Value, offering and redemption price per share ($138,819 ÷ 21,761 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 6.38**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2017

Investment Income	
Income: Interest	$5,224,571
Income distributions — Deutsche Central Cash Management Government Fund	44,200
Securities lending income, net of borrower rebates	53,436
Total income	5,322,207
Expenses: Management fee	466,632
Administration fee	93,326
Services to Shareholders	930
Record keeping fee (Class B)	750
Distribution service fees (Class B)	1,690
Custodian fee	5,067
Professional fees	93,629
Reports to shareholders	29,692
Trustees' fees and expenses	6,993
Other	35,267
Total expenses before expense reductions	733,976
Expense reductions	(61,676)
Total expenses after expense reductions	672,300
Net investment income	**4,649,907**

Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from: Investments	3,367,956
Swap contracts	208,389
Forward foreign currency contracts	(86,685)
Foreign currency	5,356
	3,495,016
Change in net unrealized appreciation (depreciation) on: Investments	(936,036)
Swap contracts	(36,516)
Forward foreign currency contracts	(2,359)
Foreign currency	(510)
	(975,421)
Net gain (loss)	**2,519,595**
Net increase (decrease) in net assets resulting from operations	**$7,169,502**

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, 2017	2016
Operations:		
Net investment income (loss)	$ 4,649,907	$ 5,440,363
Net realized gain (loss)	3,495,016	(3,163,765)
Change in net unrealized appreciation (depreciation)	(975,421)	9,890,493
Net increase (decrease) in net assets resulting from operations	7,169,502	12,167,091
Distributions to shareholders from:		
Net investment income:		
Class A	(5,780,980)	(6,259,405)
Class B	(94,574)	(122,558)
Total distributions	(5,875,554)	(6,381,963)
Fund share transactions:		
Class A		
Proceeds from shares sold	12,759,797	15,011,086
Reinvestment of distributions	5,780,980	6,259,405
Cost of shares redeemed	(58,823,711)	(28,525,830)
Net increase (decrease) in net assets from Class A share transactions	(40,282,934)	(7,255,339)
Class B		
Proceeds from shares sold	120,675	5,848,785
Reinvestment of distributions	94,574	122,558
Cost of shares redeemed	(1,640,132)	(7,539,910)
Net increase (decrease) in net assets from Class B share transactions	(1,424,883)	(1,568,567)
Increase (decrease) in net assets	(40,413,869)	(3,038,778)
Net assets at beginning of year	101,111,998	104,150,776
Net assets at end of year (including undistributed net investment income of $4,654,101 and $5,781,669, respectively)	**$ 60,698,129**	**$101,111,998**

Other Information		
Class A		
Shares outstanding at beginning of period	15,845,238	17,025,372
Shares sold	2,017,781	2,525,843
Shares issued to shareholders in reinvestment of distributions	946,151	1,081,072
Shares redeemed	(9,282,087)	(4,787,049)
Net increase (decrease) in Class A shares	(6,318,155)	(1,180,134)
Shares outstanding at end of period	**9,527,083**	**15,845,238**
Class B		
Shares outstanding at beginning of period	254,095	530,185
Shares sold	18,818	990,197
Shares issued to shareholders in reinvestment of distributions	15,403	21,094
Shares redeemed	(266,555)	(1,287,381)
Net increase (decrease) in Class B shares	(232,334)	(276,090)
Shares outstanding at end of period	**21,761**	**254,095**

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

Financial Highlights

Class A	2017	Years Ended December 31, 2016	2015	2014	2013
Selected Per Share Data					
Net asset value, beginning of period	**$6.28**	**$5.93**	**$6.60**	**$6.96**	**$6.93**
Income (loss) from investment operations:					
Net investment income[a]	.31	.32	.32	.36	.39
Net realized and unrealized gain (loss)	.15	.41	(.58)	(.25)	.14
Total from investment operations	.46	.73	(.26)	.11	.53
Less distributions from:					
Net investment income	(.38)	(.38)	(.41)	(.47)	(.50)
Net asset value, end of period	**$6.36**	**$6.28**	**$5.93**	**$6.60**	**$6.96**
Total Return (%)[b]	7.51	12.87	(4.44)	1.47	7.91
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	61	100	101	135	165
Ratio of expenses before expense reductions (%)[c]	.78	.80	.75	.75	.73
Ratio of expenses after expense reductions (%)[c]	.72	.72	.72	.73	.72
Ratio of net investment income (%)	4.98	5.38	5.09	5.21	5.69
Portfolio turnover rate (%)	71	77	47	52	58

a Based on average shares outstanding during the period.

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

c Expense ratio does not reflect charges and 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.

Class B	2017	Years Ended December 31, 2016	2015	2014	2013
Selected Per Share Data					
Net asset value, beginning of period	**$6.30**	**$5.94**	**$6.63**	**$6.99**	**$6.97**
Income (loss) from investment operations:					
Net investment income[a]	.31	.31	.32	.35	.36
Net realized and unrealized gain (loss)	.13	.41	(.61)	(.26)	.15
Total from investment operations	.44	.72	(.29)	.09	.51
Less distributions from:					
Net investment income	(.36)	(.36)	(.40)	(.45)	(.49)
Net asset value, end of period	**$6.38**	**$6.30**	**$5.94**	**$6.63**	**$6.99**
Total Return (%)[b]	7.21	12.67	(4.95)	1.22	7.44
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	.1	2	3	.03	.32
Ratio of expenses before expense reductions (%)[c]	1.15	1.21	1.14	1.13	1.10
Ratio of expenses after expense reductions (%)[c]	.98	.98	1.02	.97	.97
Ratio of net investment income (%)	4.88	5.15	4.86	5.09	5.29
Portfolio turnover rate (%)	71	77	47	52	58

a Based on average shares outstanding during the period.

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

c Expense ratio does not reflect charges and 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.

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

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 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.

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, 2017, 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, 2017, the Fund invested the cash collateral in Deutsche Government & Agency Securities Portfolio. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.13% annualized effective rate as of December 31, 2017) on the cash collateral invested in Deutsche 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, 2017, 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.

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 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.

At December 31, 2017, the Fund had a net tax basis capital loss carryforward of approximately $6,337,000, which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($500,000) and long-term losses ($5,837,000).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2017 and has determined that no provision for income tax and/or uncertain tax positions 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, 2017, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 4,647,185
Capital loss carryforwards	$ (6,337,000)
Unrealized appreciation (depreciation) on investments	$ 782,016

At December 31, 2017, the aggregate cost of investments for federal income tax purposes was $60,868,528. The net unrealized appreciation for all investments based on tax cost was $782,016. This consisted of aggregate gross unrealized appreciation for all investments in which there was an excess of value over tax cost of $2,074,675 and aggregate gross unrealized depreciation for all investments in which there was an excess of tax cost over value of $1,292,659.

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

	Years Ended December 31,	
	2017	**2016**
Distributions from ordinary income*	$ 5,875,554	$ 6,381,963

* 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, 2017, the Fund entered into credit default swap agreements to gain exposure to the underlying issuer's credit quality characteristics.

Under the terms of a credit default swap, the Fund receives or makes periodic payments based on a specified interest rate on a fixed notional amount. These payments are recorded as a realized gain or loss in the Statement of Operations. Payments received or made as a result of a credit event or termination of the swap are recognized, net of a proportional amount of the upfront payment, as realized gains or losses in the Statement of Operations.

There were no open credit default swap contracts as of December 31, 2017. For the year ended December 31, 2017, the Fund's investment in credit default swap contracts sold had a total notional value generally indicative of a range from $0 to approximately $6,450,000.

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, 2017, 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, 2017 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2017, the investment in forward currency contracts short vs. U.S. dollars had a total contract value generally indicative of a range from approximately $498,000 to $885,000, 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 table summarizes the value of the Fund's derivative instruments held as of December 31, 2017 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Liability Derivative	**Forward Contract**
Foreign Exchange Contracts (a)	**$ (6,916)**

The above derivative 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, 2017 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 (b)	$ —	$ 208,389	$ 208,389
Foreign Exchange Contracts (c)	(86,685)	—	(86,685)
	$ (86,685)	**$ 208,389**	**$ 121,704**

Each of the above derivatives is located in the following Statement of Operations accounts:
(b) Net realized gain (loss) from swap contracts
(c) Net realized gain loss from forward foreign currency contracts

Change in Net Unrealized Appreciation (Depreciation)	**Forward Contracts**	**Swap Contracts**	**Total**
Credit Contracts (d)	$ —	$ (36,516)	$ (36,516)
Foreign Exchange Contracts (e)	(2,359)	—	(2,359)
	$ (2,359)	**$ (36,516)**	**$ (38,875)**

Each of the above derivatives is located in the following Statement of Operations accounts:
(d) Change in net unrealized appreciation (depreciation) on swap contracts
(e) Change in net unrealized appreciation (depreciation) on forward foreign currency contracts

As of December 31, 2017, the Fund has transactions subject to enforceable master netting agreements which govern the terms of certain transactions, and reduce the counterparty risk associated with such transactions. Master netting agreements allow a Fund to close out and net total exposure to a counterparty in the event of a deterioration in the credit quality or contractual default with respect to all of the transactions with a counterparty. As defined by the master netting agreement, the Fund may have collateral agreements with certain counterparties to mitigate risk. For financial reporting purposes the Statement of Assets and Liabilities generally shows derivatives assets and liabilities on a gross basis, which reflects the full risks and exposures prior to netting. A reconciliation of the gross amounts on the Statement of Assets and Liabilities to the net amounts by a counterparty, including any collateral exposure, is included in the following table:

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	$ 6,916	$ —	$ —	$ 6,916

C. Purchases and Sales of Securities

During the year ended December 31, 2017, purchases and sales of investment transactions (excluding short-term investments and U.S. Treasury securities) aggregated $61,238,762 and $100,943,488, 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, 2017, 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, 2017 through April 30, 2017, 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	.72%
Class B	.98%

For the period from May 1, 2017 through September 30, 2017, 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	1.06%

For the period from October 1, 2017 through September 30, 2018, 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	.69%
Class B	.97%

For the year ended December 31, 2017, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 60,489
Class B	1,187
	$ 61,676

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, 2017, the Administration Fee was $93,326 of which $5,181 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, 2017, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at December 31, 2017
Class A	$ 282	$ 70
Class B	49	13
	$ 331	**$ 83**

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, 2017, the Distribution Service Fee was $1,690, of which $33 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing certain pre-press and regulatory filing services to the Fund. For the year ended December 31, 2017, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $14,313, of which $6,967 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, 2017, the Fund incurred lending agent fees to Deutsche Bank AG for the amount of $4,023.

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, 2017, two participating insurance companies were owners of record of 10% or more of the total outstanding Class A shares of the Fund, each owning 75% and 17%. Two participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, each owning 87% and 11%.

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, 2017.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Deutsche Variable Series II and the Shareholders of Deutsche High Income VIP

Opinion on the Financial Statements

We have audited the accompanying statement of assets and liabilities of Deutsche High Income VIP (the "Fund) (one of the portfolios constituting the Deutsche Variable Series II) (the "Trust"), including the schedule of investments, as of December 31, 2017, 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, the financial highlights for each of the five years in the period then ended and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund (one of the funds constituting the Deutsche Variable Series II) at December 31, 2017, 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 its financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on the Fund's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Trust in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Trust is not required to have, nor were we engaged to perform, an audit of the Trust's internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2017, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received.

Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Ernst + Young LLP

We have served as the auditor of one or more investment companies in the Deutsche family of funds since at least 1979, but we are unable to determine the specific year.

Boston, Massachusetts
February 15, 2018

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, 2017 to December 31, 2017).

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, 2017

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/17	$ 1,000.00	$ 1,000.00
Ending Account Value 12/31/17	$ 1,029.10	$ 1,029.00
Expenses Paid per $1,000*	$ 3.63	$ 4.65

Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/17	$ 1,000.00	$ 1,000.00
Ending Account Value 12/31/17	$ 1,021.63	$ 1,020.62
Expenses Paid per $1,000*	$ 3.62	$ 4.63

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

Annualized Expense Ratios	**Class A**	**Class B**
Deutsche Variable Series II — Deutsche High Income VIP	.71%	.91%

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

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

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

Tax Information

(Unaudited)

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 2017.

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"). 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.

— The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly met 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.

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.

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 administrative support services provided by DIMA, such 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 "Funds in Review" (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, 2016, 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, 2016. 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 eight months of 2017. 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, 2016). 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, 2016, 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 to DIMA, 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, any fees received by an affiliate of DIMA for transfer agency 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. In addition, the Board considered 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, 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)	89	—
Kenneth C. Froewiss (1945) Vice Chairperson since 2017, and Board Member since 2001	Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); Member, Finance Committee, Association for Asian Studies (2002–present); Director, Mitsui Sumitomo Insurance Group (US) (2004–present); prior thereto, Managing Director, J.P. Morgan (investment banking firm) (until 1996)	92	—
John W. Ballantine (1946) Board Member since 1999	Retired; formerly, Executive Vice President and Chief Risk Management Officer, First Chicago NBD Corporation/The First National Bank of Chicago (1996–1998); Executive Vice President and Head of International Banking (1995–1996); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (population well-being and wellness services) (2003–2014); Stockwell Capital Investments PLC (private equity); Enron Corporation; FNB Corporation; Tokheim Corporation; First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International. Not-for-Profit Director, Trustee: Palm Beach Civic Association; Public Radio International; Window to the World Communications (public media); Harris Theater for Music and Dance (Chicago)	89	Portland General Electric[2] (utility company) (2003–present)
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); The Pew Charitable Trusts (charitable organization); former Directorships: Becton Dickinson and Company[2] (medical technology company); Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College; North Bennett Street School (Boston)	89	—
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)	89	—

Name, Year of Birth, Position with the Fund and Length of Time Served[1]	Business Experience and Directorships During the Past Five Years	Number of Funds in Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Paul K. Freeman (1950) Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Independent Directors Council (former chair); 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); Knoebel Institute for Healthy Aging, University of Denver (2017–present); former Directorships: Prisma Energy International	89	—
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)	89	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004	Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	89	—
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[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	89	Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc[2] (health care) (2009–present)
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	89	—
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)	89	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Hepsen Uzcan[6,9] (1974) President and Chief Executive Officer, 2017–present Assistant Secretary, 2013–present	Director,[3] Deutsche Asset Management; formerly: Vice President for the Deutsche funds (2016–2017)
John Millette[8] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset Management; Chief Legal Officer, Deutsche Investment Management Americas Inc. (2015–present); and Director and Vice President, Deutsche AM Trust Company (since 2016); formerly: Secretary, Deutsche Investment Management Americas Inc. (2015–2017)
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset Management, and Chairman, Director and President, Deutsche AM Trust Company (since 2013); Vice President, Deutsche AM Distributors, Inc. (since 2016); Director, Deutsche AM Service Company (since 2017); Director and President, DB Investment Managers, Inc. (since 2017); formerly: Director, Deutsche AM Trust Company (2004–2013)
Caroline Pearson[8] (1962) Chief Legal Officer, 2010–present	Managing Director,[3] Deutsche Asset Management; formerly: Secretary, Deutsche AM Distributors, Inc.; and Secretary, Deutsche AM Service Company
Scott D. Hogan[8] (1970) Chief Compliance Officer, 2016–present	Director,[3] Deutsche Asset Management
Wayne Salit[7] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Sheila Cadogan[8] (1966) Assistant Treasurer, since July 12, 2017	Director,[3] Deutsche Asset Management
Paul Antosca[8] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management
Diane Kenneally[8] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

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

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

3 Executive title, not a board directorship.

4 As a result of their respective positions held with the Advisor, these individuals are considered "interested persons" of the Advisor within the meaning of the 1940 Act. Interested persons receive no compensation from the fund.

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

6 Address: 345 Park Avenue, New York, NY 10154.

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

8 Address: One International Place, Boston, MA 02110.

9 Appointed President and Chief Executive Officer effective December 1, 2017.

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

VS2HI-2 (R-025832-7 2/18)

Deutsche
Asset Management

December 31, 2017

Annual Report

Deutsche Variable Series II

Deutsche International Growth VIP

(formerly 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. Please read prospectus for details.

Performance Summary

December 31, 2017 (Unaudited)

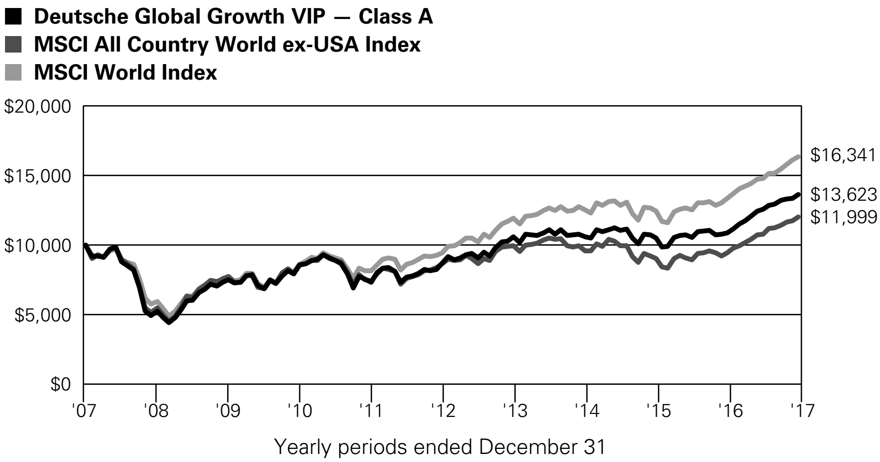
Fund performance shown is historical, assumes reinvestment of all dividend and capital gain distributions and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when redeemed, shares may be worth more or less than their original 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 October 1, 2017 are 1.36% and 1.68% for Class A and Class B shares, respectively, and may differ from the expense ratios disclosed in the Financial Highlights tables in this report.

On October 1, 2017, the comparative broad-based index changed from the MSCI World Index to the MSCI All Country World Index ex USA. The Advisor believes that the MSCI World Index ex USA is more suitable for performance comparison given the fund's investment strategy change.

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 MSCI All Country World ex-USA Index is designed to provide a broad measure of stock performance throughout the world, with the exception of U.S.-based companies. The MSCI All Country World ex-USA Index includes both developed and emerging markets.

The MSCI World Index captures large and mid cap representation across 23 Developed Markets countries.

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 International Growth VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$12,547	$12,853	$15,709	$13,623
	Average annual total return	25.47%	8.73%	9.45%	3.14%
MSCI All Country World ex-USA Index	Growth of $10,000	$12,719	$12,538	$13,896	$11,999
	Average annual total return	27.19%	7.83%	6.80%	1.84%
MSCI World Index	Growth of $10,000	$12,240	$13,045	$17,340	$16,341
	Average annual total return	22.40%	9.26%	11.64%	5.03%

Deutsche International Growth VIP		1-Year	3-Year	5-Year	10-Year
Class B	Growth of $10,000	$15,526	$12,748	$15,468	$13,186
	Average annual total return	25.26%	8.43%	9.11%	2.80%
MSCI All Country World ex-USA Index	Growth of $10,000	$12,719	$12,538	$13,896	$11,999
	Average annual total return	27.19%	7.83%	6.80%	1.84%
MSCI World Index	Growth of $10,000	$12,240	$13,045	$17,340	$16,341
	Average annual total return	22.40%	9.26%	11.64%	5.03%

Management Summary

December 31, 2017 (Unaudited)

The Fund's Class A shares returned 25.47% during 2017 (unadjusted for contract charges), trailing the 27.19% return of the MSCI All-Country World ex-USA Index.

On October 1, 2017, Deutsche International Growth VIP adopted a foreign large-cap growth strategy. The Deutsche Fund Board approved a proposal to reposition the Fund from an emphasis on both U.S. and foreign growth stocks to focus on growth stocks mainly outside of the United States. The Fund's name changed to Deutsche International Growth VIP, and its benchmark changed from the MSCI World Index to the MSCI All Country World ex-USA Index. The Fund's 12-month performance therefore reflects the results of two strategies.

The Fund's positioning in the financials made the largest contribution to performance in 2017. Many of our top performers in the sector were U.S. companies that we have since sold, including S&P Global, Inc.* and Progressive Corp.* We also generated strong returns from a position in Brookfield Asset Management, Inc., a Canadian company that we owned prior to the strategy change. The stock performed very well in the 12-month period thanks to rising earnings, continued gains in its assets under management and the growth of its emerging-markets business. Ping An Insurance (Group) of China, Ltd. and PT Bank Rakyat Indonesia Persero Tbk both added meaningful value due to their strong showing late in the year. We held these positions based on the belief that well-managed financials are in a prime position to benefit from the economic growth prospects and associated wealth effect in their home markets, where financial services remain underpenetrated.

Information technology was an additional area of strength for the Fund, due in large part to investments in the Chinese media and internet giants Tencent Holdings Ltd. and Alibaba Group Holding Ltd. The two companies have capitalized on the rapid development of e-commerce in China, helping them exceed analysts' growth expectations. Positions in the U.S. stocks Activision Blizzard, Inc. and Broadcom Ltd.* also made sizable contributions prior to the strategy shift. Technology remains a key area of focus for the Fund, as the sector is home to a high representation of the types of fast-growing companies we seek.

On the negative side, we lost some ground from the underperformance of a handful of holdings in health care. Celgene Corp., which reduced its long-term earnings expectations following a failed trial results, was the largest detractor in the sector. Shares of the specialty pharmaceutical company Allergan PLC also slid due to heightened generic competition for one of its key medications. Positions in the U.S. retailers L Brands, Inc.* and TJX Corp.* further weighed on performance, as the timing of the Fund's move to an international-focused strategy in the autumn prompted us to sell the stocks prior to their fourth-quarter recovery.

As a result of the Fund's strategy change, the majority of our portfolio activity for the year involved selling positions in U.S. equities and redeploying the proceeds into opportunities overseas. Our overall approach to stock selection remained the same, with a continued emphasis on companies that we believe feature strong organic growth trends, solid competitive advantages and exposure to important secular themes.

With regard to the broader market backdrop, we see little reason for a near-term shift away from the environment gradual economic expansion and subdued inflation. At the same time, we do not expect that the world economy will accelerate significantly from its current pace — a trend that could continue to drive investor demand for growth stocks. On a longer-term basis, we view the international markets as being fertile ground in which to find reasonably valued companies with sustainable, above-average growth prospects.

Sebastian P. Werner, PhD, Director
Mark Schumann, CFA, Director
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.

Terms to Know

The **MSCI World Index** captures large and mid cap representation across 23 Developed Markets countries. With 1,652 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The **MSCI All Country World ex-USA Index** is designed to provide a broad measure of stock performance throughout the world, with the exception of U.S.-based companies. The MSCI All Country World Index Ex-U.S. includes both developed and emerging markets.

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

* Held and sold prior to December 31, 2017.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/17**	**12/31/16**
Common Stocks	96%	97%
Cash Equivalents	4%	2%
Preferred Stocks	0%	1%
Warrants	0%	0%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/17**	**12/31/16**
Financials	22%	18%
Industrials	17%	10%
Information Technology	17%	20%
Health Care	14%	20%
Consumer Discretionary	14%	13%
Materials	6%	5%
Consumer Staples	6%	9%
Energy	3%	3%
Telecommunication Services	1%	2%
	100%	100%

Geographical Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/17**	**12/31/16**
United States	12%	56%
France	12%	1%
Canada	12%	5%
Germany	11%	6%
United Kingdom	10%	5%
China	7%	1%
Switzerland	7%	5%
Japan	6%	6%
Netherlands	3%	1%
Sweden	2%	3%
Singapore	2%	2%
Finland	2%	1%
Other	14%	8%
	100%	100%

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 7.

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, 2017

	Shares	Value ($)
Common Stocks 94.6%		
Australia 1.2%		
Australia & New Zealand Banking Group Ltd. (Cost $224,846)	10,079	**225,774**
Canada 11.2%		
Agnico Eagle Mines Ltd.	6,771	312,640
Alimentation Couche-Tard, Inc. "B"	4,430	231,157
Bank of Nova Scotia	3,715	239,746
Brookfield Asset Management, Inc. "A"	9,600	417,909
Canada Goose Holdings, Inc.*	4,791	151,353
Canadian National Railway Co.	2,973	245,148
Enbridge, Inc.	2,493	97,499
Gildan Activewear, Inc.	4,987	161,115
Toronto-Dominion Bank	4,184	245,149
(Cost $1,573,037)		**2,101,716**
China 7.1%		
Alibaba Group Holding Ltd. (ADR)*	1,556	268,301
China Life Insurance Co., Ltd. "H"	58,000	182,202
China Literature Ltd. 144A*	6	64
Minth Group Ltd.	26,870	162,221
New Oriental Education & Technology Group, Inc. (ADR)	1,467	137,898
Ping An Insurance (Group) Co. of China Ltd. "H"	27,500	286,557
Sogou, Inc. (ADR)* (a)	1,116	12,912
Tencent Holdings Ltd.	5,600	291,274
(Cost $914,430)		**1,341,429**
Denmark 0.6%		
Chr Hansen Holding AS (Cost $102,932)	1,174	**110,148**
Finland 1.6%		
Cramo Oyj	2,641	62,703
Sampo Oyj "A"	4,507	247,926
(Cost $274,409)		**310,629**
France 11.7%		
Air Liquide SA	2,152	271,407
AXA SA	5,573	165,567
Capgemini SE	2,054	244,131
LVMH Moet Hennessy Louis Vuitton SE	900	265,098
Schneider Electric SE*	3,257	276,333
SMCP SAS 144A*	8,560	197,711
Teleperformance	958	137,406
TOTAL SA	3,373	186,322
VINCI SA	2,689	274,906
Vivendi SA	7,235	194,335
(Cost $2,139,138)		**2,213,216**
Germany 10.6%		
Allianz SE (Registered)	1,272	292,796
BASF SE	1,662	183,387
Continental AG	679	183,832
Deutsche Post AG (Registered)	3,105	148,424
Deutsche Telekom AG (Registered)	13,684	243,606
Fresenius Medical Care AG & Co. KGaA	2,911	307,004
Infineon Technologies AG	4,351	119,335
OSRAM Licht AG	1,643	146,909
SAP SE	1,623	182,505
Siemens AG (Registered)	1,370	191,224
(Cost $1,642,173)		**1,999,022**
Hong Kong 0.8%		
Techtronic Industries Co., Ltd. (Cost $52,263)	22,097	**144,597**
Indonesia 1.3%		
PT Arwana Citramulia Tbk	621,918	15,637
PT Bank Rakyat Indonesia Persero Tbk	822,700	220,971
(Cost $206,264)		**236,608**
Ireland 1.2%		
Kerry Group PLC "A" (Cost $134,923)	1,998	**224,298**
Italy 0.5%		
Luxottica Group SpA (Cost $88,069)	1,502	**92,110**
Japan 5.5%		
Bandai Namco Holdings, Inc.	2,700	88,351
FANUC Corp.	500	120,209
Hoya Corp.	3,500	174,780
Keyence Corp.	300	167,845
Komatsu Ltd.	3,700	134,189
MISUMI Group, Inc.	5,011	146,142
Murata Manufacturing Co., Ltd.	700	93,841
Omron Corp.	1,900	113,416
(Cost $850,894)		**1,038,773**
Korea 1.2%		
Samsung Electronics Co., Ltd. (Cost $207,249)	98	**233,996**
Luxembourg 1.1%		
Eurofins Scientific (Cost $77,451)	356	**216,873**
Macau 0.6%		
Sands China Ltd. (Cost $113,186)	22,000	**113,527**
Malaysia 0.7%		
IHH Healthcare Bhd. (Cost $129,229)	95,000	**137,490**
Netherlands 2.7%		
ASML Holding NV	1,272	221,169
Core Laboratories NV (a) (b)	772	84,573
ING Groep NV	10,569	194,230
(Cost $426,152)		**499,972**
Norway 0.4%		
Marine Harvest ASA* (Cost $47,889)	4,156	**70,320**
Singapore 1.7%		
DBS Group Holdings Ltd. (Cost $264,978)	17,000	**315,440**

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

	Shares	Value ($)
South Africa 1.2%		
Naspers Ltd. "N" (Cost $182,437)	802	**223,916**
Spain 1.1%		
Banco Santander SA (Cost $212,797)	32,354	**212,882**
Sweden 2.1%		
Assa Abloy AB "B"	10,810	224,895
Nobina AB 144A	25,600	168,738
(Cost $304,722)		**393,633**
Switzerland 6.5%		
Lonza Group AG (Registered)*	1,443	390,250
Nestle SA (Registered)	3,725	320,491
Novartis AG (Registered)	3,130	264,309
Roche Holding AG (Genusschein)	1,001	253,373
(Cost $933,354)		**1,228,423**
Taiwan 0.9%		
Taiwan Semiconductor Manufacturing Co., Ltd. (Cost $139,216)	23,000	**177,164**
United Kingdom 9.4%		
Aon PLC (b)	2,161	289,574
Clinigen Healthcare Ltd.	5,959	82,965
Compass Group PLC	13,264	286,560
ConvaTec Group PLC 144A	28,738	79,761
Experian PLC	8,505	187,774
Halma PLC	6,268	106,661
Prudential PLC	9,884	254,454
Reckitt Benckiser Group PLC	1,564	146,121
RELX NV	8,095	186,343
Smith & Nephew PLC	8,163	141,820
(Cost $1,523,591)		**1,762,033**
United States 11.7%		
A.O. Smith Corp.	1,985	121,641
Activision Blizzard, Inc.	2,738	173,370
Allergan PLC	540	88,333
AMETEK, Inc.	2,720	197,118
Amphenol Corp. "A"	2,161	189,736
Celgene Corp.*	1,861	194,214
Ecolab, Inc.	1,504	201,807
EPAM Systems, Inc.*	909	97,654
Marsh & McLennan Companies, Inc.	2,176	177,105
Mastercard, Inc. "A"	1,272	192,530
NVIDIA Corp.	489	94,621
Schlumberger Ltd.	1,736	116,989
The Priceline Group, Inc.*	101	175,512
Thermo Fisher Scientific, Inc.	978	185,702
(Cost $1,568,547)		**2,206,332**
Total Common Stocks (Cost $14,334,176)		**17,830,321**

Warrants 0.0%

	Shares	Value ($)
France		
Parrot SA Expiration Date (c) 12/15/2022*	924	217
Parrot SA Expiration Date (c) 12/22/2022*	924	249
Total Warrants (Cost $0)		**466**

Preferred Stocks 0.4%

	Shares	Value ($)
Germany 0.3%		
Draegerwerk AG & Co. KGaA (Cost $45,679)	630	**54,722**
United States 0.1%		
Providence Service Corp. (c) (Cost $13,600)	136	**20,236**
Total Preferred Stocks (Cost $59,279)		**74,958**

Securities Lending Collateral 0.5%

	Shares	Value ($)
Deutsche Government & Agency Securities Portfolio "Deutsche Government Cash Institutional Shares", 1.21% (d) (e) (Cost $88,780)	88,780	**88,780**

Cash Equivalents 3.6%

	Shares	Value ($)
Deutsche Central Cash Management Government Fund, 1.30% (d) (Cost $687,282)	687,282	**687,282**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $15,169,517)	99.1	**18,681,807**
Other Assets and Liabilities, Net	0.9	**160,710**
Net Assets	100.0	**18,842,517**

* Non-income producing security.

(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, 2017 amounted to $87,487, which is 0.5% of net assets.

(b) Listed on the New York Stock Exchange.

(c) Investment was valued using significant unobservable inputs.

(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

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, 2017 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	$ —	$ 225,774	$ —	$ 225,774
Canada	2,101,716	—	—	2,101,716
China	419,175	922,254	—	1,341,429
Denmark	—	110,148	—	110,148
Finland	—	310,629	—	310,629
France	197,711	2,015,505	—	2,213,216
Germany	—	1,999,022	—	1,999,022
Hong Kong	—	144,597	—	144,597
Indonesia	—	236,608	—	236,608
Ireland	—	224,298	—	224,298
Italy	—	92,110	—	92,110
Japan	—	1,038,773	—	1,038,773
Korea	—	233,996	—	233,996
Luxembourg	—	216,873	—	216,873
Macau	—	113,527	—	113,527
Malaysia	—	137,490	—	137,490
Netherlands	84,573	415,399	—	499,972
Norway	—	70,320	—	70,320
Singapore	—	315,440	—	315,440
South Africa	—	223,916	—	223,916
Spain	—	212,882	—	212,882
Sweden	—	393,633	—	393,633
Switzerland	—	1,228,423	—	1,228,423
Taiwan	—	177,164	—	177,164
United Kingdom	289,574	1,472,459	—	1,762,033
United States	2,206,332	—	—	2,206,332
Warrants (f)	—	—	466	466
Preferred Stocks (f)	—	54,722	20,236	74,958
Short-Term Investments (f)	776,062	—	—	776,062
Total	**$ 6,075,143**	**$ 12,585,962**	**$ 20,702**	**$ 18,681,807**

There have been no transfers between fair value measurement levels during the year ended December 31, 2017.

(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, 2017

Assets	
Investments in non-affiliated securities, at value (cost $14,393,455) — including $87,487 of securities loaned	$17,905,745
Investment in Deutsche Government & Agency Securities Portfolio (cost $88,780)*	88,780
Investment in Deutsche Central Cash Management Government Fund (cost $687,282)	687,282
Cash	9,818
Foreign currency, at value (cost $246,064)	248,327
Receivable for Fund shares sold	36,238
Dividends receivable	6,327
Interest receivable	392
Foreign taxes recoverable	14,718
Other assets	1,032
Total assets	18,998,659
Liabilities	
Payable upon return of securities loaned	88,780
Payable for Fund shares redeemed	2,553
Accrued Trustees' fees	853
Other accrued expenses and payables	63,956
Total liabilities	156,142
Net assets, at value	**$18,842,517**
Net Assets Consist of	
Undistributed net investment income	166,256
Net unrealized appreciation (depreciation) on: Investments	3,512,290
Foreign currency	2,509
Accumulated net realized gain (loss)	(31,943)
Paid-in capital	15,193,405
Net assets, at value	**$18,842,517**
Net Asset Value	
Class A	
Net Asset Value, offering and redemption price per share ($18,635,478 ÷ 1,340,522 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 13.90**
Class B	
Net Asset Value, offering and redemption price per share ($207,039 ÷ 14,862 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 13.93**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2017

Investment Income	
Income: Dividends (net of foreign taxes withheld of $33,602)	$ 408,307
Income distributions — Deutsche Central Cash Management Government Fund	4,259
Securities lending income, net of borrower rebates	1,447
Total income	414,013
Expenses: Management fee	231,216
Administration fee	27,084
Services to shareholders	636
Record keeping fee (Class B)	76
Distribution service fees (Class B)	337
Custodian fee	30,425
Professional fees	83,039
Reports to shareholders	26,913
Trustees' fees and expenses	3,029
Other	21,229
Total expenses before expense reductions	423,984
Expense reductions	(174,230)
Total expenses after expense reductions	249,754
Net investment income (loss)	**164,259**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from: Investments	4,628,855
Foreign currency	14,964
Payments by affiliates (see Note G)	7,312
	4,651,131
Change in net unrealized appreciation (depreciation) on: Investments	1,406,765
Foreign currency	7,934
	1,414,699
Net gain (loss)	**6,065,830**
Net increase (decrease) in net assets resulting from operations	**$ 6,230,089**

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, 2017	2016
Operations:		
Net investment income (loss)	$ 164,259	$ 146,983
Net realized gain (loss)	4,651,131	1,336,318
Change in net unrealized appreciation (depreciation)	1,414,699	(701,827)
Net increase (decrease) in net assets resulting from operations	6,230,089	781,474
Distributions to shareholders from:		
Net investment income:		
Class A	(106,825)	(243,128)
Class B	(65)	(285)
Total distributions	(106,890)	(243,413)
Fund share transactions:		
Class A		
Proceeds from shares sold	2,240,215	1,028,197
Reinvestment of distributions	106,825	243,128
Cost of shares redeemed	(16,678,132)	(8,614,441)
Net increase (decrease) in net assets from Class A share transactions	(14,331,092)	(7,343,116)
Class B		
Proceeds from shares sold	117,051	14,771
Reinvestment of distributions	65	285
Cost of shares redeemed	(6,431)	(11,122)
Net increase (decrease) in net assets from Class B share transactions	110,685	3,934
Increase (decrease) in net assets	(8,097,208)	(6,801,121)
Net assets at beginning of period	26,939,725	33,740,846
Net assets at end of period (including undistributed net investment income of $166,256 and $93,056, respectively)	**$18,842,517**	**$26,939,725**

Other Information		
Class A		
Shares outstanding at beginning of period	2,417,159	3,116,107
Shares sold	171,566	95,060
Shares issued to shareholders in reinvestment of distributions	8,713	22,163
Shares redeemed	(1,256,916)	(816,171)
Net increase (decrease) in Class A shares	(1,076,637)	(698,948)
Shares outstanding at end of period	**1,340,522**	**2,417,159**
Class B		
Shares outstanding at beginning of period	6,272	6,040
Shares sold	9,077	1,328
Shares issued to shareholders in reinvestment of distributions	5	26
Shares redeemed	(492)	(1,122)
Net increase (decrease) in Class B shares	8,590	232
Shares outstanding at end of period	**14,862**	**6,272**

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

Financial Highlights

Class A	2017	Years Ended December 31, 2016	2015	2014	2013
Selected Per Share Data					
Net asset value, beginning of period	**$11.12**	**$10.81**	**$11.04**	**$11.13**	**$ 9.24**
Income (loss) from investment operations:					
Net investment income[a]	.08	.06	.07	.08	.10
Net realized and unrealized gain (loss)	2.75	.34	(.21)	(.06)	1.92
Total from investment operations	2.83	.40	(.14)	.02	2.02
Less distributions from:					
Net investment income	(.05)	(.09)	(.09)	(.11)	(.13)
Net asset value, end of period	**$13.90**	**$11.12**	**$10.81**	**$11.04**	**$11.13**
Total Return (%)[b]	25.47	3.72	(1.32)	.21	22.08
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	19	27	34	47	51
Ratio of expenses before expense reductions (%)[c]	1.56	1.66	1.44	1.41	1.45
Ratio of expenses after expense reductions (%)[c]	.92	.95	.90	.82	.88
Ratio of net investment income (%)	.61	.51	.65	.71	1.00
Portfolio turnover rate (%)	62	70	64	63	171

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

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

[c] Expense ratio does not reflect charges and 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.

Class B	2017	Years Ended December 31, 2016	2015	2014	2013
Selected Per Share Data					
Net asset value, beginning of period	**$11.13**	**$10.82**	**$11.05**	**$11.14**	**$ 9.25**
Income (loss) from investment operations:					
Net investment income[a]	.02	.02	.05	.02	.07
Net realized and unrealized gain (loss)	2.79	.35	(.23)	(.04)	1.92
Total from investment operations	2.81	.37	(.18)	(.02)	1.99
Less distributions from:					
Net investment income	(.01)	(.06)	(.05)	(.07)	(.10)
Net asset value, end of period	**$13.93**	**$11.13**	**$10.82**	**$11.05**	**$11.14**
Total Return (%)[b]	25.26	3.38	(1.64)	(.15)	21.62
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	.2	.07	.1	.1	3
Ratio of expenses before expense reductions (%)[c]	1.90	1.98	1.76	1.76	1.81
Ratio of expenses after expense reductions (%)[c]	1.15	1.24	1.22	1.15	1.23
Ratio of net investment income (%)	.12	.17	.40	.14	.66
Portfolio turnover rate (%)	62	70	64	63	171

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

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

[c] Expense ratio does not reflect charges and 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.

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

Notes to Financial Statements

A. Organization and Significant Accounting Policies

Deutsche International Growth VIP (formerly 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, 2017, 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, 2017, the Fund invested the cash collateral in Deutsche Government & Agency Securities Portfolio. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.13% annualized effective rate as of December 31, 2017) on the cash collateral invested in Deutsche 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, 2017, 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.

The Fund has reviewed the tax positions for the open tax years as of December 31, 2017 and has determined that no provision for income tax and/or uncertain tax positions 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, expiration of capital loss carryforwards 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, 2017, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 166,256
Unrealized appreciation (depreciation) on investments	$ 3,480,347

At December 31, 2017, the aggregate cost of investments for federal income tax purposes was $15,201,460. The net unrealized appreciation for all investments based on tax cost was $3,480,347. This consisted of aggregate gross unrealized appreciation for all investments in which there was an excess of value over tax cost of $3,677,854 aggregate gross unrealized depreciation for all investments in which was an excess of tax cost over value of $197,507.

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

	Years Ended December 31,	
	2017	**2016**
Distributions from ordinary income*	$ 106,890	$ 243,413

* 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, 2017, purchases and sales of investment transactions (excluding short-term investments) aggregated $16,322,812 and $30,686,381, 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.

For the period from January 1, 2017 through September 30, 2017, pursuant to the Investment Management Agreement with the Advisor, the Fund paid 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%

Effective October 1, 2017, the Fund pays the Advisor a monthly management fee computed and accrued daily and payable monthly, at the a rate of 0.62% of the Fund's average daily net assets.

Accordingly, for the year ended December 31, 2017, the fee pursuant to the Investment Management Agreement was equivalent to an annual rate (exclusive of any applicable waivers/reimbursements) of 0.854% of the Fund's average daily net assets.

For the period from January 1, 2017 through September 30, 2017, 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	.95%
Class B	1.20%

For the period from October 1, 2017 through September 30, 2018, 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	.81%
Class B	1.06%

For the year ended December 31, 2017, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 173,216
Class B	1,014
	$ 174,230

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, 2017, the Administration Fee was $27,084, of which $1,573 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, 2017, the amounts charged to the Fund by DSC were as follows:

Services to Shareholders	Total Aggregated	Unpaid at December 31, 2017
Class A	$ 241	$ 61
Class B	47	12
	$ 288	$ 73

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, 2017, the Distribution Service Fee aggregated $337, of which $43 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing certain pre-press and regulatory filing services to the Fund. For the year ended December 31, 2017, the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $8,910, of which $2,907 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, 2017, one participating insurance company was owner of record of 10% or more of the total outstanding Class A shares of the Fund, owning 85%. Three participating insurance companies were owners of record of 10% or more of the total outstanding Class B shares of the Fund, owning 52%, 31%, and 17%.

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, 2017.

F. Fund Name and Strategy Change

Effective October 1, 2017, Deutsche Global Growth VIP was renamed Deutsche International Growth VIP. At that time, the Fund's principal investment strategy changed to reflect a foreign growth strategy and the Fund repositioned from a focus on U.S. and foreign growth stocks to focus on growth stocks mainly outside the U.S. The Fund will generally invest less than 20% of its assets in U.S. equities. To better reflect its new investment strategy, the Fund changed its principal benchmark index from the MSCI World Index to the MSCI All Country World ex-USA Index.

G. Payment by Affiliate

During the year ended December 31, 2017, the Advisor agreed to reimburse the Fund $7,312 for commission costs incurred in connection with purchases and sales of portfolio assets due to certain changes in the principal investment strategy of the Fund. The amount reimbursed was 0.03% 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 International Growth VIP:

Opinion on the Financial Statements

We have audited the accompanying statement of assets and liabilities of Deutsche International Growth VIP, formerly Deutsche Global Growth VIP (the "Fund") (one of the funds constituting the Deutsche Variable Series II) (the "Trust"), including the schedule of investments, as of December 31, 2017, and the related statements of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, the financial highlights for each of the five years in the period then ended and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund (one of the funds constituting the Deutsche Variable Series II) at December 31, 2017, 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 its financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on the Fund's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Trust in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Trust is not required to have, nor were we engaged to perform, an audit of the Trust's internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2017, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received.

Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Ernst + Young LLP

We have served as the auditor of one or more investment companies in the Deutsche family of funds since at least 1979, but we are unable to determine the specific year.

Boston, Massachusetts
February 15, 2018

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, 2017 to December 31, 2017).

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, 2017

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/17	$ 1,000.00	$ 1,000.00
Ending Account Value 12/31/17	$ 1,085.10	$ 1,083.20
Expenses Paid per $1,000*	$ 4.68	$ 5.88

Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/17	$ 1,000.00	$ 1,000.00
Ending Account Value 12/31/17	$ 1,020.72	$ 1,019.56
Expenses Paid per $1,000*	$ 4.53	$ 5.70

* 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 365.

Annualized Expense Ratios	**Class A**	**Class B**
Deutsche Variable Series II — Deutsche International Growth VIP	.89%	1.12%

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, 100% of the ordinary dividends (i.e., income dividends plus short-term capital gains) paid during the Fund's fiscal year ended December 31, 2017, qualified for the dividends received deduction.

The Fund paid foreign taxes of $30,873 and earned $121,405 of foreign source income during the year ended December 31, 2017. Pursuant to Section 853 of the Internal Revenue Code, the Fund designates $0.02 per share as foreign taxes paid and $0.09 per share as income earned from foreign sources for the year ended December 31, 2017.

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 International Growth VIP's (formerly Deutsche Global Growth VIP) (the "Fund") investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2017.

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"). 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.

— The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly met 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.

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.

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 administrative support services provided by DIMA, such 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 "Funds in Review" (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, 2016, 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, 2016. 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 October 3, 2016, the Fund's investment strategy and certain members of the portfolio management team were changed, and that, effective October 1, 2017, the Fund would further change its investment strategy. The Board observed that the Fund had experienced improved relative performance during the first eight months of 2017. 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, 2016). The Board noted that, effective October 1, 2017, DIMA agreed to reduce the Fund's contractual management fee rate to an annual rate of 0.62% in connection with changes to the Fund's investment strategy. 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, 2016, 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 managed an institutional account comparable to the Fund's investment strategy as of July 31, 2017, 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 to DIMA, 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. In this regard, the Board observed that while the Fund's reduced investment management fee schedule would not include breakpoints, the Fund's fee schedule would represent 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, any fees received by an affiliate of DIMA for transfer agency 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. In addition, the Board considered 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.

Advisory Agreement Amendment

At a meeting held in July 2017, the Board of Trustees, all members of which are Independent Trustees, approved an amendment to the Fund's Agreement to adopt a revised management fee schedule reducing DIMA's management fee under the Agreement. The revised management fee schedule took effect on October 1, 2017.

In connection with its review of the amendment in July 2017, the Board noted that it most recently approved the renewal of the Agreement pursuant to a process that concluded in September 2016. The Board considered that the amendment was part of DIMA's proposal to transition to a new international growth investment strategy for the Fund. The Board also received a report from a fee consultant retained by the Board regarding the revised management fee schedule. In addition, the Board also considered:

— With the exception of the revised management fee schedule, the terms of the Agreement remained the same.

— DIMA's statement that there would be no reduction in services to the Fund as a result of the revised management fee schedule.

Based on all of the information considered, the Board concluded that the revised management fee schedule was reasonable and appropriate in light of the nature, quality and extent of services provided by DIMA. The Board unanimously determined that approval of the revised management fee schedule was in the best interests of the Fund.

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, 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)	89	—
Kenneth C. Froewiss (1945) Vice Chairperson since 2017, and Board Member since 2001	Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); Member, Finance Committee, Association for Asian Studies (2002–present); Director, Mitsui Sumitomo Insurance Group (US) (2004–present); prior thereto, Managing Director, J.P. Morgan (investment banking firm) (until 1996)	92	—
John W. Ballantine (1946) Board Member since 1999	Retired; formerly, Executive Vice President and Chief Risk Management Officer, First Chicago NBD Corporation/The First National Bank of Chicago (1996–1998); Executive Vice President and Head of International Banking (1995–1996); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (population well-being and wellness services) (2003–2014); Stockwell Capital Investments PLC (private equity); Enron Corporation; FNB Corporation; Tokheim Corporation; First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International. Not-for-Profit Director, Trustee: Palm Beach Civic Association; Public Radio International; Window to the World Communications (public media); Harris Theater for Music and Dance (Chicago)	89	Portland General Electric[2] (utility company) (2003–present)
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); The Pew Charitable Trusts (charitable organization); former Directorships: Becton Dickinson and Company[2] (medical technology company); Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College; North Bennett Street School (Boston)	89	—
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)	89	—

Name, Year of Birth, Position with the Fund and Length of Time Served[1]	Business Experience and Directorships During the Past Five Years	Number of Funds in Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Paul K. Freeman (1950) Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Independent Directors Council (former chair); 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); Knoebel Institute for Healthy Aging, University of Denver (2017–present); former Directorships: Prisma Energy International	89	—
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)	89	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004	Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	89	—
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[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	89	Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc[2] (health care) (2009–present)
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	89	—
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)	89	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Hepsen Uzcan[6,9] (1974) President and Chief Executive Officer, 2017–present Assistant Secretary, 2013–present	Director,[3] Deutsche Asset Management; formerly: Vice President for the Deutsche funds (2016–2017)
John Millette[8] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset Management; Chief Legal Officer, Deutsche Investment Management Americas Inc. (2015–present); and Director and Vice President, Deutsche AM Trust Company (since 2016); formerly: Secretary, Deutsche Investment Management Americas Inc. (2015–2017)
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset Management, and Chairman, Director and President, Deutsche AM Trust Company (since 2013); Vice President, Deutsche AM Distributors, Inc. (since 2016); Director, Deutsche AM Service Company (since 2017); Director and President, DB Investment Managers, Inc. (since 2017); formerly: Director, Deutsche AM Trust Company (2004–2013)
Caroline Pearson[8] (1962) Chief Legal Officer, 2010–present	Managing Director,[3] Deutsche Asset Management; formerly: Secretary, Deutsche AM Distributors, Inc.; and Secretary, Deutsche AM Service Company
Scott D. Hogan[8] (1970) Chief Compliance Officer, 2016–present	Director,[3] Deutsche Asset Management
Wayne Salit[7] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Sheila Cadogan[8] (1966) Assistant Treasurer, since July 12, 2017	Director,[3] Deutsche Asset Management
Paul Antosca[8] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management
Diane Kenneally[8] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

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

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

3 Executive title, not a board directorship.

4 As a result of their respective positions held with the Advisor, these individuals are considered “interested persons” of the Advisor within the meaning of the 1940 Act. Interested persons receive no compensation from the Fund.

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

6 Address: 345 Park Avenue, New York, NY 10154.

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

8 Address: One International Place, Boston, MA 02110.

9 Appointed President and Chief Executive Officer effective December 1, 2017.

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

VS2IG-2 (R-025830-8 2/18)

Deutsche
Asset Management

December 31, 2017

Annual Report

Deutsche Variable Series II

Deutsche Multisector Income VIP
(formerly 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

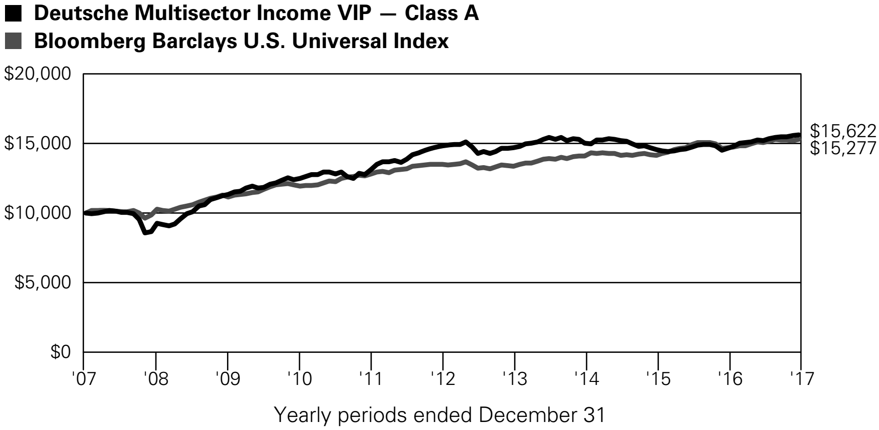
December 31, 2017 (Unaudited)

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, 2017 is 1.34% 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 Multisector 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 Multisector Income VIP		1-Year	3-Year	5-Year	10-Year
Class A	Growth of $10,000	$10,678	$10,408	$10,528	$15,622
	Average annual total return	6.78%	1.34%	1.04%	4.56%
Bloomberg Barclays U.S. Universal Index	Growth of $10,000	$10,409	$10,863	$11,312	$15,277
	Average annual total return	4.09%	2.80%	2.50%	4.33%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2017 (Unaudited)

The Class A shares of the Fund returned 6.78% (unadjusted for contract charges) in 2017, outperforming the 4.09% return of the Bloomberg Barclays U.S. Universal Index.

The past year brought mixed results for the global bond market. Although U.S. Treasuries and agency mortgage-backed securities posted weak relative returns, categories with above-average sensitivity to economic growth registered healthy gains. In this environment, the Fund was helped by its focus on the credit-sensitive areas of the market and corresponding underweight in U.S. Treasuries and mortgage-backed securities.

The Fund's overweight position in emerging-markets bonds, which are not represented in the index, made the largest positive contribution. We saw the asset class as having greater upside potential than other market segments due to its more reasonable valuations and above-average yields. The strongest returns came from our positions in higher-yielding countries, including Argentina and issuers in Sub-Saharan Africa. We also benefited from holding local-currency issues via an exchange-traded fund and positions in Indonesia and Mexico. Conversely, we lost some relative performance from certain positions in Turkey, as well as a zero weighting in Brazil.

Our large allocation to high-yield bonds, which reflected our belief that improving economic conditions, low defaults and a favorable balance of supply and demand in the market would fuel outperformance, made a healthy contribution as well. While we maintained a sizeable weighting in high yield at the close of the year, we also shifted our positioning within the category to reflect the compression in yield spreads. Rather than investing primarily in individual bonds, we rotated a large portion of the allocation into exchange-traded funds and derivative instruments. We think this move helps insulate the Fund from the risks associated with individual securities, and it also provides a higher degree of flexibility to shift the allocation efficiently if the risk/return equation changes.

In the Fund's investment-grade portfolio, we added value by tilting toward the higher-yielding segments of the corporate bond market over the lower-risk, lower-yielding areas that generally underperformed. An allocation to Portugal was a further positive. However, our positions in U.S. Treasuries and agency mortgage-backed securities, to the extent that we invested in these categories, detracted from results. We held an underweight in the investment-grade space overall, as we found less attractive values in this area.

The Fund used derivatives during the year. In addition to owning credit default swaps to facilitate exposure to the high-yield market, we used derivatives to manage the foreign currency exposure of certain positions in foreign bonds. Both aspects of our strategy made modest contributions. We also used interest-rate futures and swaps to manage the Fund's duration exposure (interest-rate sensitivity), which was a small detractor. Overall, our use of derivatives was a small net positive.

We maintained a focus on the higher-yielding, credit-oriented segments of the market throughout the year. We believed these categories offered the potential for a continued return advantage due to both the greater contribution from yield and their ability to benefit from strengthening economic growth. At the same time, we took a somewhat defensive approach as the year progressed since low yield spreads could translate to higher risk. Further, we sought to maintain a high degree of portfolio flexibility — highlighted by a larger-than-normal cash position and above-average liquidity — so we will be in a position to take advantage of downdrafts in either the broader market or in individual bonds. We believe this approach can add value if the investment backdrop remains constructive, while also giving us the latitude to capitalize on a re-emergence of volatility.

John D. Ryan, Managing Director
Kevin Bliss, Director
Portfolio Managers

Prior to August 1, 2017, the portfolio management team was as follows:

Gary Russell, CFA, Managing Director
John D. Ryan, Managing Director
Darwei Kung, Managing Director
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.

Terms to Know

The **Barclays U.S. Universal Index** represents the union of the U.S. Aggregate Index, the U.S. High-Yield Corporate Index, the 144A Index, the Eurodollar Index, the Emerging Markets Index and the non-ERISA portion of the CMBS Index. Index returns do not reflect fees or expenses and it is not possible to invest directly in an index.

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.

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

Yield spread refers to differences between yields on differing debt instruments, calculated by deducting the yield of one instrument from another. The higher the yield spread, the greater the difference between the yields offered by each instrument.

Derivatives are contracts whose values can be based on a variety of instruments, including indices, currencies or securities. They can be utilized for a variety of reasons, including for hedging purposes, for risk management; for non-hedging purposes to seek to enhance potential gains, or as a substitute for direct investment in a particular asset class or to keep cash on hand to meet shareholder redemptions. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility.

A **swap** is an exchange of cash flows that are dependent on the price of an underlying commodity.

Futures contracts are contractual agreements to buy or sell a particular commodity or financial instrument at a predetermined price in the future.

Duration, which is expressed in years, measures the sensitivity of the price of a bond or bond fund to a change in interest rates.

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/17**	**12/31/16**
Government & Agency Obligations	29%	41%
Corporate Bonds	24%	20%
Collateralized Mortgage Obligations	13%	10%
Short-Term U.S. Treasury Obligations	12%	2%
Loan Participations and Assignments	7%	5%
Cash Equivalents	6%	5%
Commercial Mortgage-Backed Securities	5%	5%
Asset-Backed	2%	1%
Convertible Bond	2%	0%
Common Stocks	0%	0%
Warrant	0%	0%
Exchange-Traded Funds	—	11%
Put Options Purchased	—	0%
	100%	100%

Quality (Excludes Cash Equivalents, Securities Lending Collateral and Exchange-Traded Funds)	**12/31/17**	**12/31/16**
AAA	25%	41%
AA	1%	1%
A	8%	9%
BBB	24%	31%
BB	23%	9%
B	9%	3%
CCC or Below	3%	6%
Non Rated	7%	—
	100%	100%

Interest Rate Sensitivity	**12/31/17**	**12/31/16**
Effective Maturity	5.4 years	7.2 years
Effective Duration	3.6 years	4.6 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 7.

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 22.6%		
Consumer Discretionary 2.7%		
American Axle & Manufacturing, Inc., 144A, 6.25%, 4/1/2025 (b)	60,000	63,150
Charter Communications Operating LLC, 3.75%, 2/15/2028	60,000	57,492
CVS Health Corp., 5.125%, 7/20/2045	30,000	34,383
Expedia, Inc., 3.8%, 2/15/2028	55,000	53,147
Nordstrom, Inc.:		
4.0%, 3/15/2027	20,000	19,925
5.0%, 1/15/2044	35,000	33,742
		261,839
Consumer Staples 0.5%		
BAT Capital Corp., 144A, 4.54%, 8/15/2047	30,000	31,587
Molson Coors Brewing Co., 4.2%, 7/15/2046	15,000	15,286
		46,873
Energy 7.1%		
Canadian Natural Resources Ltd., 4.95%, 6/1/2047	20,000	22,383
Chesapeake Energy Corp., 144A, 8.0%, 1/15/2025	65,000	65,650
Energy Transfer LP:		
4.5%, 11/1/2023	20,000	20,679
5.95%, 10/1/2043	10,000	10,632
EnLink Midstream Partners LP, 5.45%, 6/1/2047	35,000	36,984
Halliburton Co., 4.85%, 11/15/2035	10,000	11,218
Hess Corp., 5.8%, 4/1/2047	25,000	27,820
KazMunayGas National Co. JSC, 144A, 4.75%, 4/19/2027	200,000	210,580
Kinder Morgan Energy Partners LP, 4.7%, 11/1/2042	40,000	38,723
Noble Energy, Inc., 3.85%, 1/15/2028	70,000	70,214
Noble Holding International Ltd., 5.75%, 3/16/2018	10,000	10,025
Oasis Petroleum, Inc., 6.875%, 3/15/2022	50,000	51,313
Sunoco Logistics Partners Operations LP, 5.3%, 4/1/2044	10,000	9,869
Weatherford International Ltd., 9.875%, 2/15/2024	100,000	106,250
		692,340
Financials 3.7%		
Everest Reinsurance Holdings, Inc., 4.868%, 6/1/2044	30,000	31,922
FS Investment Corp., 4.75%, 5/15/2022	40,000	41,180
KKR Group Finance Co. III LLC, 144A, 5.125%, 6/1/2044	20,000	22,170
Legg Mason, Inc., 5.625%, 1/15/2044	20,000	22,297
Nationwide Financial Services, Inc., 144A, 5.3%, 11/18/2044	20,000	23,725
TC Ziraat Bankasi AS, 144A, 5.125%, 5/3/2022	200,000	198,290
Voya Financial, Inc., 4.8%, 6/15/2046	15,000	16,709
		356,293
Health Care 0.6%		
Allergan Funding SCS, 4.75%, 3/15/2045	4,000	4,258
Celgene Corp., 5.0%, 8/15/2045	10,000	11,346
Express Scripts Holding Co., 4.8%, 7/15/2046	20,000	21,276
Mylan NV, 5.25%, 6/15/2046	25,000	27,393
		64,273
Industrials 0.6%		
Park Aerospace Holdings Ltd., 144A, 5.25%, 8/15/2022	60,000	**59,625**
Information Technology 1.4%		
Dell International LLC, 144A, 8.1%, 7/15/2036	20,000	25,256
DXC Technology Co., 4.75%, 4/15/2027	60,000	63,804
Pitney Bowes, Inc., 3.625%, 9/15/2020	15,000	14,850
Seagate HDD Cayman, 144A, 4.25%, 3/1/2022	30,000	30,366
		134,276
Materials 1.2%		
AK Steel Corp., 7.0%, 3/15/2027 (b)	100,000	101,750
CF Industries, Inc., 144A, 4.5%, 12/1/2026	5,000	5,212
Glencore Funding LLC, 144A, 4.625%, 4/29/2024	10,000	10,558
		117,520
Real Estate 2.9%		
CBL & Associates LP:		
(REIT), 5.25%, 12/1/2023	25,000	23,609
(REIT), 5.95%, 12/15/2026 (b)	35,000	32,560
Crown Castle International Corp., (REIT), 5.25%, 1/15/2023	15,000	16,424
Government Properties Income Trust, (REIT), 4.0%, 7/15/2022	55,000	55,332
Omega Healthcare Investors, Inc.:		
(REIT), 4.75%, 1/15/2028	35,000	34,694
(REIT), 4.95%, 4/1/2024	30,000	31,341
Select Income REIT:		
(REIT), 4.15%, 2/1/2022	30,000	30,337
(REIT), 4.25%, 5/15/2024	10,000	9,918
VEREIT Operating Partnership LP, (REIT), 3.95%, 8/15/2027	45,000	44,486
		278,701

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

	Principal Amount ($)(a)	Value ($)
Telecommunication Services 1.8%		
Frontier Communications Corp., 6.25%, 9/15/2021	100,000	71,000
Intelsat Jackson Holdings SA, 7.25%, 10/15/2020	100,000	94,000
Verizon Communications, Inc., 4.272%, 1/15/2036	10,000	9,948
		174,948
Utilities 0.1%		
Southern Power Co., Series F, 4.95%, 12/15/2046	7,000	**7,678**
Total Corporate Bonds (Cost $2,176,106)		**2,194,366**

Asset-Backed 2.3%

	Principal Amount ($)(a)	Value ($)
Home Equity Loans 0.2%		
CIT Group Home Equity Loan Trust, "AF6", Series 2002-1, 6.2%, 2/25/2030	19,529	**19,896**
Miscellaneous 2.1%		
Domino's Pizza Master Issuer LLC, "A23", Series 2017-1A, 144A, 4.118%, 7/25/2047	109,725	112,104
Hilton Grand Vacations Trust, "B", Series 2014-AA, 144A, 2.07%, 11/25/2026	95,648	94,077
		206,181
Total Asset-Backed (Cost $224,432)		**226,077**

Commercial Mortgage-Backed Security 4.7%

	Principal Amount ($)(a)	Value ($)
GMAC Commercial Mortgage Securities, Inc., "G", Series 2004-C1, 144A, 5.455%, 3/10/2038 (Cost $493,496)	490,430	**458,945**

Collateralized Mortgage Obligations 12.7%

	Principal Amount ($)(a)	Value ($)
Banc of America Mortgage Securities, "2A2", Series 2004-A, 3.594%**, 2/25/2034	38,103	38,024
Bear Stearns Adjustable Rate Mortgage Trust, "2A1", Series 2005-11, 4.119%**, 12/25/2035	50,807	51,674
Countrywide Home Loans, "2A5", Series 2004-13, 5.75%, 8/25/2034	35,838	35,692
Fannie Mae Connecticut Avenue Securities, "1M1", Series 2016-C02, 1-month USD-LIBOR + 2.150%, 3.702%**, 9/25/2028	82,842	83,658
Federal Home Loan Mortgage Corp.:		
"AI", Series 4016, Interest Only, 3.0%, 9/15/2025	413,351	17,262
"PI", Series 3843, Interest Only, 4.5%, 5/15/2038	144,194	10,486
"C31", Series 303, Interest Only, 4.5%, 12/15/2042	466,984	93,627
"HI", Series 2934, Interest Only, 5.0%, 2/15/2020	21,099	808
"WI", Series 3010, Interest Only, 5.0%, 7/15/2020	32,798	1,205
Federal National Mortgage Association, "4", Series 406, Interest Only, 4.0%, 9/25/2040	107,895	21,279
Government National Mortgage Association:		
"GI", Series 2014-146, Interest Only, 3.5%, 9/20/2029	1,054,737	124,240
"PI", Series 2015-40, Interest Only, 4.0%, 4/20/2044	133,962	15,478
"HI", Series 2015-77, Interest Only, 4.0%, 5/20/2045	268,899	46,228
"IP", Series 2014-115, Interest Only, 4.5%, 2/20/2044	42,286	7,801
"IV", Series 2009-69, Interest Only, 5.5%, 8/20/2039	136,320	23,077
"IN", Series 2009-69, Interest Only, 5.5%, 8/20/2039	139,551	25,519
"IJ", Series 2009-75, Interest Only, 6.0%, 8/16/2039	123,459	21,586
JPMorgan Mortgage Trust, "2A1", Series 2006-A2, 3.396%**, 4/25/2036	150,850	148,924
Merrill Lynch Mortgage Investors Trust, "2A", Series 2003-A6, 3.78%**, 10/25/2033	32,471	32,643
RESIMAC, "A2", Series 2017-2, Australian Bank Bill Short Term Rates 1 Month Mid + 1.200%, 2.89%**, 1/15/2049	AUD 500,000	390,927
Wells Fargo Mortgage-Backed Securities Trust, "2A3",Series 2004-EE, 3.425%**, 12/25/2034	42,120	42,068
Total Collateralized Mortgage Obligations (Cost $995,169)		**1,232,206**

Government & Agency Obligations 28.1%

	Principal Amount ($)(a)	Value ($)
Other Government Related (c) 5.5%		
Sberbank of Russia, 144A, 5.125%, 10/29/2022	200,000	206,420
Southern Gas Corridor CJSC, 144A, 6.875%, 3/24/2026	290,000	329,513
		535,933
Sovereign Bonds 18.9%		
Export Credit Bank of Turkey, 144A, 5.375%, 10/24/2023	200,000	202,110
Government of Indonesia, Series FR56, 8.375%, 9/15/2026	IDR 1,340,000,000	111,591
Ivory Coast Government International Bond, 144A, 5.375%, 7/23/2024	200,000	203,514
Mexican Udibonos Inflation-Linked Bond, Series S, 2.0%, 6/9/2022	MXN 2,864,014	137,009

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

		Principal Amount ($)(a)	Value ($)
Republic of Angola, 144A, 9.5%, 11/12/2025		200,000	230,336
Republic of Argentina-Inflation Linked Bond, 5.83%, 12/31/2033	ARS	375	159
Republic of Hungary, Series 19/A, 6.5%, 6/24/2019	HUF	11,600,000	49,055
Republic of Namibia, 144A, 5.25%, 10/29/2025		200,000	203,780
Republic of Senegal, 144A, 6.25%, 7/30/2024		200,000	215,864
Republic of Slovenia, 144A, 5.5%, 10/26/2022		100,000	112,992
Republic of Zambia, 144A, 5.375%, 9/20/2022		200,000	195,112
United Mexican States, Series M, 5.75%, 3/5/2026	MXN	3,845,600	172,885
			1,834,407

U.S. Treasury Obligations 3.7%

U.S. Treasury Bond, 3.0%, 5/15/2047	20,000	21,027
U.S. Treasury Notes:		
1.5%, 5/31/2019	232,600	231,437
1.625%, 12/31/2019	109,000	108,430
		360,894
Total Government & Agency Obligations (Cost $2,660,096)		**2,731,234**

Short-Term U.S. Treasury Obligations 11.3%

U.S. Treasury Bills:		
1.18%***, 8/16/2018 (d)	380,000	376,231
1.381%***, 10/11/2018 (d)	730,000	720,479
Total Short-Term U.S. Treasury Obligations (Cost $1,099,250)		**1,096,710**

Loan Participations and Assignments 6.2%

Senior Loans**

	Principal Amount ($)(a)	Value ($)
American Rock Salt Co., LLC, First Lien Term Loan, 3-month USD LIBOR + 3.750%, 5.229%, 5/20/2021	101,222	101,222
DaVita HealthCare Partners, Inc., Term Loan B, 1-month USD LIBOR + 2.750%, 4.319%, 6/24/2021	67,550	68,183
Level 3 Financing, Inc., Term Loan B, 3-month USD LIBOR + 2.250%, 3.696%, 2/22/2024	60,000	60,086
MacDermid, Inc., Term Loan B6, 1-month USD LIBOR + 3.000%, 4.569%, 6/7/2023	57,187	57,552
MEG Energy Corp., Term Loan B, 3-month USD LIBOR + 3.500%, 5.2%, 12/31/2023	29,378	29,454
NRG Energy, Inc., Term Loan B, 3-month USD LIBOR + 2.250%, 3.943%, 6/30/2023	114,002	114,205
Quebecor Media, Inc., Term Loan B1, 3-month USD LIBOR + 2.250%, 3.663%, 8/17/2020	86,175	86,443
Valeant Pharmaceuticals International, Inc., Term Loan B, 1-month USD LIBOR + 3.500%, 4.94%, 4/1/2022	80,188	81,422
Total Loan Participations and Assignments (Cost $595,484)		**598,567**

Convertible Bond 1.9%

Materials

GEO Specialty Chemicals, Inc., 3-month USD-LIBOR + 14.0%, 15.709% PIK, 10/18/2025 (e) (Cost $141,966)	142,844	**180,626**

	Shares	Value ($)

Common Stocks 0.0%

Materials

GEO Specialty Chemicals, Inc.* (e) (Cost $19,933)	13,196	**4,455**

Warrant 0.0%

Materials

Hercules Trust II, Expiration Date 3/31/2029* (e) (Cost $17,432)	85	**2,298**

Securities Lending Collateral 1.6%

Deutsche Government & Agency Securities Portfolio "Deutsche Government Cash Institutional Shares", 1.21% (f) (g) (Cost $154,990)	154,990	**154,990**

Cash Equivalents 5.5%

Deutsche Central Cash Management Government Fund, 1.30% (f) (Cost $539,169)	539,169	**539,169**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $9,117,523)	96.9	**9,419,643**
Other Assets and Liabilities, Net	3.1	**297,816**
Net Assets	100.0	**9,717,459**

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

* Non-income producing security.

** Variable or floating rate security. These securities are shown at their current rate as of December 31, 2017. For securities based on a published reference rate and spread, the reference rate and spread are indicated within the description above. Certain variable rate securities are not based on a published reference rate and spread but adjust periodically based on current market conditions, prepayment of underlying positions and/or other variables.

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

(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, 2017 amounted to $149,742, which is 1.5% of net assets.

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

(d) At December 31, 2017, this security has been pledged, in whole or in part, to cover initial margin requirements for open futures contracts.

(e) Investment was valued using significant unobservable inputs.

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

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

CJSC: Closed Joint Stock Company

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

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

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

At December 31, 2017, open futures contracts purchased were as follows:

Futures	**Currency**	**Expiration Date**	**Contracts**	**Notional Amount ($)**	**Notional Value ($)**	**Unrealized (Depreciation) ($)**
Ultra 10 Year U.S. Treasury Note	USD	3/20/2018	6	804,938	801,375	**(3,563)**

As of December 31, 2017, the Fund had the following open forward foreign currency contracts:

Contracts to Deliver		**In Exchange For**		**Settlement Date**	**Unrealized Appreciation ($)**	**Counterparty**
USD	233,092	EUR	200,000	1/10/2018	7,024	Credit Agricole
MXN	3,546,000	USD	183,972	1/24/2018	4,507	HSBC Holdings PLC
Total unrealized appreciation					**11,531**	

Contracts to Deliver		**In Exchange For**		**Settlement Date**	**Unrealized Depreciation ($)**	**Counterparty**
EUR	200,000	USD	234,563	1/10/2018	(5,553)	Credit Agricole
AUD	500,000	USD	385,625	2/6/2018	(4,509)	National Australia Bank Ltd.
Total unrealized depreciation					**(10,062)**	

Currency Abbreviations

ARS Argentine Peso
AUD Australian Dollar
EUR Euro
HUF Hungarian Forint
IDR Indonesian Rupiah
MXN Mexican Peso
USD United States Dollar

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

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

Fair Value Measurements

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

The following is a summary of the inputs used as of December 31, 2017 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note A in the accompanying Notes to Financial Statements.

Assets	Level 1	Level 2	Level 3	Total
Fixed Income Investments (h)				
Corporate Bonds	$ —	$ 2,194,366	$ —	$ 2,194,366
Asset-Backed	—	226,077	—	226,077
Commercial Mortgage-Backed Security	—	458,945	—	458,945
Collateralized Mortgage Obligations	—	1,232,206	—	1,232,206
Government & Agency Obligations	—	2,731,234	—	2,731,234
Short-Term U.S. Treasury Obligations	—	1,096,710	—	1,096,710
Loan Participations and Assignments	—	598,567	—	598,567
Convertible Bond	—	—	180,626	180,626
Common Stocks	—	—	4,455	4,455
Warrant	—	—	2,298	2,298
Short-Term Investments (h)	694,159	—	—	694,159
Derivatives (i)				
Forward Foreign Currency Contracts	—	11,531	—	11,531
Total	**$ 694,159**	**$ 8,549,636**	**$ 187,379**	**$ 9,431,174**

Liabilities	Level 1	Level 2	Level 3	Total
Derivatives (i)				
Futures Contracts	$ (3,563)	$ —	$ —	$ (3,563)
Forward Foreign Currency Contracts	—	(10,062)	—	(10,062)
Total	**$ (3,563)**	**$ (10,062)**	**$ —**	**$ (13,625)**

There have been no transfers between fair value measurement levels during the year ended December 31, 2017.

(h) See Investment Portfolio for additional detailed categorizations.

(i) Derivatives include unrealized appreciation (depreciation) on open futures contracts and forward foreign currency contracts.

Level 3 Reconciliation

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

	Convertible Bonds	Common Stock	Warrants	Total
Balance as of December 31, 2016	**$ 135,110**	**$5,182**	**$ 386**	**$ 140,678**
Realized gains (loss)	0	—	—	0
Change in unrealized appreciation (depreciation)	34,108	(727)	1,912	35,293
Amortization premium/discount	648	—	—	648
Purchases	149,617	—	—	149,617
(Sales)	(138,857)	—	—	(138,857)
Transfers into Level 3	—	—	—	—
Transfers (out) of Level 3	—	—	—	—
Balance as of December 31, 2017	**$ 180,626**	**$4,455**	**$2,298**	**$ 187,379**
Net change in unrealized appreciation (depreciation) from investments still held as of December 31, 2017	**$ 34,108**	**$ (727)**	**$1,912**	**$ 35,293**

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

Quantitative Disclosure About Significant Unobservable Inputs

Asset Class	Fair Value at 12/31/17	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Convertible Bonds				
Materials	$180,626	Market Approach	EV/EBITDA Multiple	6.69%
			Discount to public comparables	20%
			Discount for lack of marketability	20%
Common Stocks				
Materials	$4,455	Market Approach	EV/EBITDA Multiple	6.69%
			Discount to public comparables	20%
			Discount for lack of marketability	20%
Warrant				
Materials	$2,298	Black Scholes Option Pricing Model	Implied Volatility of Option	20.62%
			Illiquidity Discount	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, 2017

Assets	
Investments in non-affiliated securities, at value (cost $8,423,364) — including $149,742 of securities loaned	$ 8,725,484
Investments in Deutsche Government & Agency Securities Portfolio (cost $154,990)*	154,990
Investment in Deutsche Central Cash Management Government Fund (cost $539,169)	539,169
Cash	351
Foreign currency, at value (cost $466,339)	459,761
Receivable for variation margin on futures contracts	1,709
Receivable for Fund shares sold	99
Interest receivable	90,901
Unrealized appreciation on forward foreign currency contracts	11,531
Foreign taxes recoverable	672
Due from Advisor	6,096
Other assets	649
Total assets	9,991,412
Liabilities	
Payable upon return of securities loaned	154,990
Payable for Fund shares redeemed	32
Unrealized depreciation on forward foreign currency contracts	10,062
Accrued Trustees' fees	1,080
Other accrued expenses and payables	107,789
Total liabilities	273,953
Net assets, at value	**$ 9,717,459**
Net Assets Consist of	
Undistributed net investment income	636,964
Net unrealized appreciation (depreciation) on: Investments	302,120
Futures	(3,563)
Foreign currency	(6,682)
Forward foreign currency contracts	1,469
Accumulated net realized gain (loss)	(4,554,952)
Paid-in capital	13,342,103
Net assets, at value	**$ 9,717,459**
Class A	
Net Asset Value	
Net Asset Value, offering and redemption price per share ($9,717,459 ÷ 951,249 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 10.22**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2017

Investment Income	
Income: Interest (net of foreign taxes withheld of $839)	$ 642,326
Dividends	98,765
Income distributions — Deutsche Central Cash Management Government Fund	6,756
Securities lending income, net of borrower rebates	9,386
Total income	757,233
Expenses: Management fee	119,671
Administration fee	21,759
Services to Shareholders	256
Custodian fee	24,795
Professional fees	88,667
Reports to shareholders	18,417
Trustees' fees and expenses	3,185
Pricing service fee	16,998
Other	3,506
Total expenses before expense reductions	297,254
Expense reductions	(152,082)
Total expenses after expense reductions	145,172
Net investment income	**612,061**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from: Investments	16,217
Swap contracts	238,263
Futures	191,262
Written options	93,862
Forward foreign currency contracts	(83,399)
Foreign currency	42,233
Payments by affiliates (see Note I)	187
	498,625
Change in net unrealized appreciation (depreciation) on: Investments	716,852
Swap contracts	(380,270)
Futures	97,392
Written options	(86,505)
Forward foreign currency contracts	706
Foreign currency	24,630
	372,805
Net gain (loss)	**871,430**
Net increase (decrease) in net assets resulting from operations	**$1,483,491**

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, 2017	2016
Operations:		
Net investment income	$ 612,061	$ 620,959
Net realized gain (loss)	498,625	(1,726,036)
Change in net unrealized appreciation (depreciation)	372,805	1,292,328
Net increase (decrease) in net assets resulting from operations	1,483,491	187,251
Distributions to shareholders from:		
Net investment income:		
Class A	(201,605)	(2,341,380)
Total distributions	(201,605)	(2,341,380)
Fund share transactions:		
Class A		
Proceeds from shares sold	710,821	1,180,584
Reinvestment of distributions	201,605	2,341,380
Payments for shares redeemed	(17,200,328)	(9,433,108)
Net increase (decrease) in net assets from Class A share transactions	(16,287,902)	(5,911,144)
Increase (decrease) in net assets	(15,006,016)	(8,065,273)
Net assets at beginning of period	24,723,475	32,788,748
Net assets at end of period (including undistributed net investment income of $636,964 and $148,268, respectively)	**$ 9,717,459**	**$24,723,475**

Other Information		
Class A		
Shares outstanding at beginning of period	2,560,974	3,142,272
Shares sold	71,456	115,644
Shares issued to shareholders in reinvestment of distributions	20,405	245,171
Shares redeemed	(1,701,586)	(942,113)
Net increase (decrease) in Class A shares	(1,609,725)	(581,298)
Shares outstanding at end of period	**951,249**	**2,560,974**

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

Financial Highlights

Class A	2017	Years Ended December 31, 2016	2015	2014	2013
Selected Per Share Data					
Net asset value, beginning of period	**$ 9.65**	**$10.43**	**$11.20**	**$11.53**	**$12.60**
Income (loss) from investment operations:					
Net investment income[a]	.28	.22	.40	.49	.49
Net realized and unrealized gain (loss)	.37	(.17)	(.72)	(.23)	(.59)
Total from investment operations	.65	.05	(.32)	.26	(.10)
Less distributions from:					
Net investment income	(.08)	(.83)	(.45)	(.59)	(.62)
Net realized gains	—	—	—	—	(.35)
Total distributions	(.08)	(.83)	(.45)	(.59)	(.97)
Net asset value, end of period	**$10.22**	**$ 9.65**	**$10.43**	**$11.20**	**$11.53**
Total Return (%)[b]	6.78	.50	(3.02)	2.23	(1.04)
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	10	25	33	54	61
Ratio of expenses before expense reductions (%)[c]	1.37	1.31	1.15	1.08	1.02
Ratio of expenses after expense reductions (%)[c]	.67	.68	.70	.77	.74
Ratio of net investment income (%)	2.81	2.19	3.67	4.23	4.16
Portfolio turnover rate (%)	96	159	185	185	183

a Based on average shares outstanding during the period.

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

c Expense ratio does not reflect charges and 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.

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

Notes to Financial Statements

A. Organization and Significant Accounting Policies

Deutsche Multisector Income VIP (formerly 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.

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, 2017 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, 2017 the Fund invested the cash collateral in Deutsche Government & Agency Securities Portfolio. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.13% annualized effective rate as of December 31, 2017) on the cash collateral invested in Deutsche 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, 2017 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.

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, 2017, the Fund had net tax basis capital loss carryforwards of approximately $4,557,000, which may be applied against realized net taxable capital gains indefinitely, including short-term losses ($1,958,000) and long-term losses ($2,599,000).

The Fund has reviewed the tax positions for the open tax years as of December 31, 2017 and has determined that no provision for income tax and/or uncertain tax provisions is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain open subject to examination by the Internal Revenue Service.

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

The timing and characterization of certain income and capital gain distributions are determined annually in accordance with federal tax regulations which may differ from accounting principles generally accepted in the United States of America. These differences primarily relate to investments in foreign denominated investments, futures contracts, 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, 2017, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 638,433
Capital loss carryforwards	$ (4,557,000)
Unrealized appreciation (depreciation) on investments	$ 301,386

At December 31, 2017, the aggregate cost of investments for federal income tax purposes was $9,118,257. The net unrealized appreciation for all investments based on tax cost was $301,386. This consisted of aggregate gross unrealized appreciation for all investments in which there was an excess of value over tax cost of $431,028 and aggregate gross unrealized depreciation for all investments in which there was an excess of tax cost over value of $129,642.

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

	Years Ended December 31, 2017	2016
Distributions from ordinary income*	$ 201,605	$ 2,341,380

* 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, 2017 the Fund entered into interest rate swap agreements to gain exposure to different parts of the yield curve while managing overall duration.

There were no open interest rate swap contracts as of December 31, 2017. For the year ended December 31, 2017 the investment in interest rate swap contracts had a total notional amount generally indicative of a range from $0 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, 2017 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.

There were no open credit default swap contracts as of December 31, 2017. For the year ended December 31, 2017 the investment in credit default swap contracts sold had a total notional value generally indicative of a range from $0 to $3,070,000.

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, 2017 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.

There were no open purchased or written option contracts as of December 31, 2017. For the year ended December 31, 2017 the investment in purchased option contracts had a total value generally indicative of a range from $0 to approximately $15,000, and written option contracts had a total value generally indicative of a range from $0 to approximately $116,000.

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, 2017 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, 2017 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2017 the investment in futures contracts purchased had a total notional value generally indicative of a range from approximately $801,000 to $8,144,000, and the investment in futures contracts sold had a total notional value generally indicative of a range from approximately $0 to approximately $5,938,000.

Forward Foreign Currency Contracts. A forward foreign currency 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, 2017 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, 2017 is included in a table following the Fund's Investment Portfolio. For the year ended December 31, 2017 the investment in forward currency contracts short vs. U.S. dollars had a total contract value generally indicative of a range from approximately $804,000 to $2,150,000, and the investment in forward currency contracts long vs. U.S. dollars had a total contract value generally indicative of a range from approximately $233,000 to $1,551,000.

The following tables summarize the value of the Fund's derivative instruments held as of December 31, 2017 and the related location in the accompanying Statement of Assets and Liabilities, presented by primary underlying risk exposure:

Asset Derivatives	**Forward Contracts**
Foreign Exchange Contracts (a)	$ 11,531

The above derivative is located in the following Statement of Assets and Liabilities accounts:
(a) Unrealized appreciation on forward foreign currency contracts

Liability Derivatives	**Forward Contracts**	**Futures Contracts**	**Total**
Interest Rate Contracts (b)	$ —	$ (3,563)	$ (3,563)
Foreign Exchange Contracts (c)	(10,062)	—	(10,062)
	$ (10,062)	**$ (3,563)**	**$ (13,625)**

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

(b) Includes cumulative depreciation of futures 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 contracts

Additionally, the amount of unrealized and realized gains and losses on derivative instruments recognized in Fund earnings during the year ended December 31, 2017 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 (d)	$ (225,738)	$ 93,862	$ —	$ 21,933	$ 191,262	$ 81,319
Credit Contracts (d)	—	—	—	216,330	—	216,330
Foreign Exchange Contracts (e)	—	—	(83,399)	—	—	(83,399)
	$ (225,738)	**$ 93,862**	**$ (83,399)**	**$ 238,263**	**$ 191,262**	**$ 214,250**

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

(d) Net realized gain (loss) from investments (includes purchased options), written options, swap contracts and futures, respectively

(e) Net realized gain (loss) from forward foreign currency contracts

Change in Net Unrealized Appreciation (Depreciation)	Purchased Options	Written Options	Forward Contracts	Swap Contracts	Futures Contracts	Total
Interest Rate Contracts (f)	$ 210,480	$ (86,505)	$ —	$ (290,521)	$ 97,392	$ (69,154)
Credit Contracts (f)	—	—	—	(89,749)	—	(89,749)
Foreign Exchange Contracts (g)	—	—	706	—	—	706
	$ 210,480	**$ (86,505)**	**$ 706**	**$ (380,270)**	**$ 97,392**	**$ (158,197)**

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

(f) Change in net unrealized appreciation (depreciation) on investments (includes purchased options), written options, swap contracts and futures, respectively

(g) Change in net unrealized appreciation (depreciation) on forward foreign currency contracts

As of December 31, 2017 the Fund has transactions subject to enforceable master netting agreements which govern the terms of certain transactions, and reduce the counterparty risk associated with such transactions. Master netting agreements allow a Fund to close out and net total exposure to a counterparty in the event of a deterioration in the credit quality or contractual default with respect to all of the transactions with a counterparty. As defined by the master netting agreement, the Fund may have collateral agreements with certain counterparties to mitigate risk. For financial reporting purposes the Statement of Assets and Liabilities generally shows derivatives assets and liabilities on a gross basis, which reflects the full risks and exposures prior to netting. A reconciliation of the gross amounts on the Statement of Assets and Liabilities to the net amounts by a 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
Credit Agricole	$ 7,024	$ (5,553)	$ —	$ 1,471
HSBC Holdings PLC	4,507	—	—	4,507
	$ 11,531	**$ (5,553)**	**$ —**	**$ 5,978**

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
Credit Agricole	$ 5,553	$ (5,553)	$ —	$ —
National Australia Bank Ltd.	4,509	—	—	4,509
	$ 10,062	**$ (5,553)**	**$ —**	**$ 4,509**

C. Purchases and Sales of Securities

During the year ended December 31, 2017 purchases and sales of investment transactions (excluding short-term investments and U.S. Treasury obligations) aggregated $17,412,428 and $27,105,969, respectively. Purchases and sales of U.S. Treasury obligations aggregated $1,356,035 and $7,123,237, respectively.

D. Related Parties

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

Effective March 1, 2017, Deutsche Alternative Asset Management (Global) Limited (DAAM Global), also an indirect, wholly owned subsidiary of Deutsche Bank AG, serves as subadvisor for the Fund and, as such, provides portfolio manager services to the Fund. Pursuant to a sub-advisory agreement between DIMA and DAAM Global, DIMA, not the Fund, compensates DAAM Global for the services it provides to the Fund.

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

First $250 million	.550%
Next $750 million	.520%
Next $1.5 billion	.500%
Next $2.5 billion	.480%
Next $2.5 billion	.450%
Next $2.5 billion	.430%
Next $2.5 billion	.410%
Over $12.5 billion	.390%

Accordingly, for the year ended December 31, 2017 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, 2017 through September 30, 2017, 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 0.67%.

Effective October 1, 2017 through September 30, 2018, 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 0.65%.

For the year ended December 31, 2017 fees waived and/or expenses reimbursed amounted to $152,082.

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, 2017 the Administration Fee was $21,759, of which $842 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, 2017 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, 2017 the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $13,320, of which $6,398 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, 2017 the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $706.

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, 2017.

F. 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.

G. 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.

H. Ownership of the Fund

At December 31, 2017 one participating insurance company was owners of record of 10% or more of the total outstanding Class A shares of the Fund, owning 92%.

I. Payments by Affiliates

During the year ended December 31, 2017, the Advisor agreed to reimburse the Fund $187 for losses incurred on trades executed incorrectly. The amount reimbursed was less than .01% of the Fund's average net assets, thus having no impact on the Fund's total return.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Deutsche Variable Series II and the Shareholders of Deutsche Multisector Income VIP

Opinion on the Financial Statements

We have audited the accompanying statement of assets and liabilities of Deutsche Multisector Income VIP, formerly Deutsche Unconstrained Income VIP (the "Fund") (one of the funds constituting the Deutsche Variable Series II) (the "Trust"), including the schedule of investments, as of December 31, 2017, 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, the financial highlights for each of the five years in the period then ended and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund (one of the funds constituting the Deutsche Variable Series II) at December 31, 2017, 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 its financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on the Fund's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Trust in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Trust is not required to have, nor were we engaged to perform, an audit of the Trust's internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2017, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received.

Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Ernst + Young LLP

We have served as the auditor of one or more investment companies in the Deutsche family of funds since at least 1979, but we are unable to determine the specific year.

Boston, Massachusetts

February 15, 2018

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, 2017 to December 31, 2017).

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, 2017

Actual Fund Return	**Class A**
Beginning Account Value 7/1/17	$ 1,000.00
Ending Account Value 12/31/17	$ 1,027.10
Expenses Paid per $1,000*	$ 3.37

Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 7/1/17	$ 1,000.00
Ending Account Value 12/31/17	$ 1,021.88
Expenses Paid per $1,000*	$ 3.36

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

Annualized Expense Ratio	**Class A**
Deutsche Variable Series II — Deutsche Multisector Income VIP	.66%

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 Multisector Income VIP's (formerly Deutsche Unconstrained Income VIP) (the "Fund") investment management agreement (the "Agreement") with Deutsche Investment Management Americas Inc. ("DIMA") in September 2017. DIMA has also entered into a sub-advisory agreement with Deutsche Alternative Asset Management (Global) Limited ("DAAM Global"), an affiliate of DIMA, that has an initial term through September 30, 2018.

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"). 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.

— The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly met 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.

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 and DAAM Global are 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.

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 DAAM Global's personnel and administrative support services provided by DIMA, such 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 DIMA and DAAM Global 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 fund sub-advisers, including DAAM Global. 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 "Funds in Review" (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, 2016, 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, 2016. The Board noted the disappointing investment performance of the Fund in recent periods and continued to discuss with senior management of DIMA and DAAM Global the factors contributing to such underperformance and actions being taken to improve performance. The Board noted certain changes in the Fund's portfolio management team that were made effective August 1, 2017. The Board observed that the Fund had experienced improved relative performance during the first eight months of 2017. 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, 2016). The Board noted that DIMA pays a sub-advisory fee to DAAM Global out of its fee. 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, 2016, 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 and DAAM Global.

Profitability. The Board reviewed detailed information regarding revenues received by DIMA under the Agreement. The Board considered the estimated costs to DIMA, 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 transfer agency 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. In addition, the Board considered 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, 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)	89	—
Kenneth C. Froewiss (1945) Vice Chairperson since 2017, and Board Member since 2001	Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); Member, Finance Committee, Association for Asian Studies (2002–present); Director, Mitsui Sumitomo Insurance Group (US) (2004–present); prior thereto, Managing Director, J.P. Morgan (investment banking firm) (until 1996)	92	—
John W. Ballantine (1946) Board Member since 1999	Retired; formerly, Executive Vice President and Chief Risk Management Officer, First Chicago NBD Corporation/The First National Bank of Chicago (1996–1998); Executive Vice President and Head of International Banking (1995–1996); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (population well-being and wellness services) (2003–2014); Stockwell Capital Investments PLC (private equity); Enron Corporation; FNB Corporation; Tokheim Corporation; First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International. Not-for-Profit Director, Trustee: Palm Beach Civic Association; Public Radio International; Window to the World Communications (public media); Harris Theater for Music and Dance (Chicago)	89	Portland General Electric[2] (utility company) (2003–present)
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); The Pew Charitable Trusts (charitable organization); former Directorships: Becton Dickinson and Company[2] (medical technology company); Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College; North Bennett Street School (Boston)	89	—
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)	89	—

Name, Year of Birth, Position with the Fund and Length of Time Served[1]	Business Experience and Directorships During the Past Five Years	Number of Funds in Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Paul K. Freeman (1950) Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Independent Directors Council (former chair); 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); Knoebel Institute for Healthy Aging, University of Denver (2017–present); former Directorships: Prisma Energy International	89	—
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)	89	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004	Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	89	—
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[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	89	Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc[2] (health care) (2009–present)
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	89	—
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)	89	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Hepsen Uzcan[6,9] (1974) President and Chief Executive Officer, 2017–present Assistant Secretary, 2013–present	Director,[3] Deutsche Asset Management; formerly: Vice President for the Deutsche funds (2016–2017)
John Millette[8] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset Management; Chief Legal Officer, Deutsche Investment Management Americas Inc. (2015–present); and Director and Vice President, Deutsche AM Trust Company (since 2016); formerly: Secretary, Deutsche Investment Management Americas Inc. (2015–2017)
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset Management, and Chairman, Director and President, Deutsche AM Trust Company (since 2013); Vice President, Deutsche AM Distributors, Inc. (since 2016); Director, Deutsche AM Service Company (since 2017); Director and President, DB Investment Managers, Inc. (since 2017); formerly: Director, Deutsche AM Trust Company (2004–2013)
Caroline Pearson[8] (1962) Chief Legal Officer, 2010–present	Managing Director,[3] Deutsche Asset Management; formerly: Secretary, Deutsche AM Distributors, Inc.; and Secretary, Deutsche AM Service Company
Scott D. Hogan[8] (1970) Chief Compliance Officer, 2016–present	Director,[3] Deutsche Asset Management
Wayne Salit[7] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Sheila Cadogan[8] (1966) Assistant Treasurer, since July 12, 2017	Director,[3] Deutsche Asset Management
Paul Antosca[8] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management
Diane Kenneally[8] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

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

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

3 Executive title, not a board directorship.

4 As a result of their respective positions held with the Advisor, these individuals are considered "interested persons" of the Advisor within the meaning of the 1940 Act. Interested persons receive no compensation from the Fund.

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

6 Address: 345 Park Avenue, New York, NY 10154.

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

8 Address: One International Place, Boston, MA 02110.

9 Appointed President and Chief Executive Officer effective December 1, 2017.

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

VS2MSI-2 (R-025836-7 2/18)

Deutsche
Asset Management

December 31, 2017

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. Please read 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

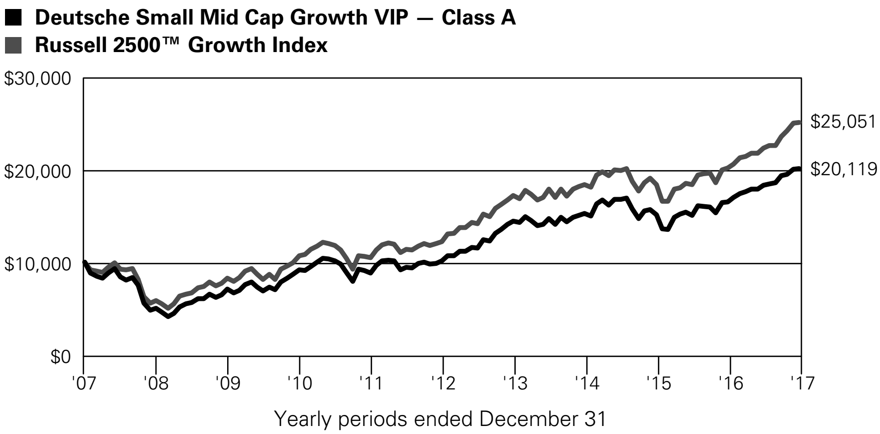
December 31, 2017 (Unaudited)

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, 2017 is 0.75% 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	$12,212	$13,201	$19,922	$20,119
	Average annual total return	22.12%	9.70%	14.78%	7.24%
Russell 2500 Growth Index	Growth of $10,000	$12,446	$13,631	$20,524	$25,051
	Average annual total return	24.46%	10.88%	15.47%	9.62%

The growth of $10,000 is cumulative.

Management Summary

December 31, 2017 (Unaudited)

For the 12-month period ended December 31, 2017, the Fund returned 22.12% (Class A shares, unadjusted for contract charges), compared with the 24.46% return of the Russell 2500™ Growth Index.

In 2017, financial markets performed well in the face of a number of difficult issues, including political volatility in Washington, Brexit negotiations and increased tensions with North Korea. Investors focused instead on steady economic growth, earnings increases and the eventual overhaul of the U.S. tax code. Oil prices slumped during the early summer on concerns regarding possible oversupply. However, the concerns were alleviated later in the year based in part on OPEC's agreement for extended production cuts. Over the course of the period, stocks benefited from sustained growth and firming inflation. In addition, market sectors that had outperformed earlier in the year began to see weakness, and sectors that had lagged recovered as the momentum/growth trade turned to value and quality.

The portfolio's underperformance was due primarily to unfavorable sector allocation, based on overweights in energy earlier in the year coupled with weak stock selection in financials and materials. This was offset by strong stock selection in energy, health care, real estate and information technology. Cognex Corp. and IPG Photonics Corp. were the top individual contributors for the year, while Cardtronics PLC* and Medicines Co.* were the largest individual detractors. Cognex, which manufactures machine vision systems, outperformed due to better than expected earnings results throughout the year. IPG Photonics, a manufacturer of laser systems for materials processing, was helped by consistent increases in its earnings forecasts. Cardtronics, a leading provider of non-bank ATMs, underperformed as the company faced the unexpected removal of interchange fees by major Australian banks. Medicines Co., a biopharmaceutical firm focused on cardiovascular and infectious diseases, underperformed as investors were disappointed at the results of a strategic review of the firm. The Fund sold Cardtronics and Medicines Co.

We continue to position the Fund for sustained economic recovery and remain focused on our bottom-up stock selection process. We maintain a long-term perspective, investing in quality small- and mid-cap growth stocks that trade at attractive valuations and are likely to benefit from a strong merger and acquisition cycle. Historically, in periods of accelerating GDP growth and increasing inflation, small-cap stocks have outperformed their larger-cap peers.

Joseph Axtell, CFA, Managing Director
Peter Barsa, Director
Michael A. Sesser, CFA, Vice President
Portfolio Managers

Prior to May 30, 2017, the portfolio management team was as follows:

Joseph Axtell, CFA, Managing Director
Rafaelina M. Lee, Managing Director
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.

Terms to Know

The **Russell 2500 Growth Index** is an unmanaged, capitalization-weighted measure of the performance of the small- to mid-cap growth segment of the U.S. equity universe. It includes Russell 2500™ Index companies with higher price-to-book ratios and higher forecasted growth values. Index returns do not reflect fees or expenses and it is not possible to invest directly in an index.

"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.

* Not held in the portfolio as of December 31, 2017.

Portfolio Summary (Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/17**	**12/31/16**
Common Stocks	97%	97%
Cash Equivalents	2%	3%
Convertible Preferred Stock	1%	0%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/17**	**12/31/16**
Information Technology	23%	20%
Health Care	21%	18%
Industrials	19%	20%
Consumer Discretionary	15%	20%
Materials	7%	7%
Financials	6%	7%
Consumer Staples	4%	4%
Real Estate	3%	1%
Energy	2%	3%
	100%	100%

Portfolio holdings and characteristics are subject to change.

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

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

Investment Portfolio

as of December 31, 2017

	Shares	Value ($)
Common Stocks 97.3%		
Consumer Discretionary 15.0%		
Auto Components 2.1%		
Gentherm, Inc.*	22,804	724,027
Tenneco, Inc.	14,844	868,968
		1,592,995
Diversified Consumer Services 2.2%		
Bright Horizons Family Solutions, Inc.*	10,132	952,408
ServiceMaster Global Holdings, Inc.*	13,978	716,652
		1,669,060
Hotels, Restaurants & Leisure 2.1%		
Hilton Grand Vacations, Inc.*	15,442	647,792
Jack in the Box, Inc.	10,099	990,813
		1,638,605
Household Durables 2.3%		
Helen of Troy Ltd.*	7,668	738,812
iRobot Corp.* (a)	13,414	1,028,854
		1,767,666
Media 0.7%		
Cinemark Holdings, Inc.	15,719	**547,335**
Specialty Retail 4.0%		
Burlington Stores, Inc.*	11,449	1,408,570
The Children's Place, Inc.	8,248	1,198,847
Ulta Salon, Cosmetics & Fragrance, Inc.*	2,361	528,061
		3,135,478
Textiles, Apparel & Luxury Goods 1.6%		
Carter's, Inc.	6,302	740,422
Hanesbrands, Inc. (a)	22,866	478,128
		1,218,550
Consumer Staples 3.3%		
Food & Staples Retailing 0.9%		
Casey's General Stores, Inc.	6,150	**688,431**
Food Products 1.3%		
Hain Celestial Group, Inc.*	16,391	694,815
SunOpta, Inc.*	44,516	344,999
		1,039,814
Household Products 1.1%		
Spectrum Brands Holdings, Inc.	7,393	**830,973**
Energy 2.3%		
Energy Equipment & Services 1.9%		
Dril-Quip, Inc.*	16,509	787,479
Oil States International, Inc.*	23,188	656,221
		1,443,700
Oil, Gas & Consumable Fuels 0.4%		
Diamondback Energy, Inc.*	2,809	**354,636**
Financials 5.8%		
Banks 3.9%		
FCB Financial Holdings, Inc. "A"*	15,144	769,315
Pinnacle Financial Partners, Inc.	10,105	669,962
South State Corp.	8,497	740,514
SVB Financial Group*	3,490	815,857
		2,995,648

	Shares	Value ($)
Capital Markets 1.9%		
Lazard Ltd. "A"	14,525	762,562
Moelis & Co. "A"	15,610	757,085
		1,519,647
Health Care 20.1%		
Biotechnology 9.7%		
Acceleron Pharma, Inc.*	17,115	726,361
Alkermes PLC*	12,591	689,105
Amicus Therapeutics, Inc.*	19,754	284,260
Arena Pharmaceuticals, Inc.*	6,443	218,869
Bluebird Bio, Inc.*	3,054	543,917
Clovis Oncology, Inc.*	3,126	212,568
Emergent Biosolutions, Inc.*	14,518	674,651
Heron Therapeutics, Inc.* (a)	44,567	806,663
Ligand Pharmaceuticals, Inc.* (a)	9,659	1,322,607
Neurocrine Biosciences, Inc.*	10,796	837,662
Retrophin, Inc.*	51,813	1,091,700
TESARO, Inc.*	1,300	107,731
		7,516,094
Health Care Equipment & Supplies 0.7%		
Cardiovascular Systems, Inc.*	22,867	**541,719**
Health Care Providers & Services 6.7%		
BioScrip, Inc.*	401,165	1,167,390
Centene Corp.*	3,810	384,353
Molina Healthcare, Inc.*	20,857	1,599,315
Providence Service Corp.*	16,969	1,006,940
RadNet, Inc.*	58,745	593,324
Tivity Health, Inc.*	11,432	417,840
		5,169,162
Health Care Technology 1.0%		
athenahealth, Inc.*	3,075	409,098
HMS Holdings Corp.*	22,512	381,579
		790,677
Pharmaceuticals 2.0%		
Avadel Pharmaceuticals PLC (ADR)*	58,167	476,970
Pacira Pharmaceuticals, Inc.*	22,119	1,009,732
		1,486,702
Industrials 18.5%		
Aerospace & Defense 1.2%		
HEICO Corp.	9,954	**939,160**
Airlines 1.1%		
JetBlue Airways Corp.*	37,786	**844,139**
Building Products 3.3%		
A.O. Smith Corp.	16,215	993,655
Allegion PLC	9,100	723,996
Fortune Brands Home & Security, Inc.	12,443	851,599
		2,569,250
Commercial Services & Supplies 2.1%		
Advanced Disposal Services, Inc.*	39,685	950,059
UniFirst Corp.	3,890	641,461
		1,591,520

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

	Shares	Value ($)
Construction & Engineering 0.5%		
Primoris Services Corp.	13,972	**379,899**
Electrical Equipment 1.3%		
Thermon Group Holdings, Inc.*	41,624	**985,240**
Machinery 6.7%		
IDEX Corp.	8,695	1,147,479
Kennametal, Inc.	22,978	1,112,365
WABCO Holdings, Inc.*	10,763	1,544,490
Welbilt, Inc.*	59,629	1,401,878
		5,206,212
Trading Companies & Distributors 2.3%		
Rush Enterprises, Inc. "A"*	35,301	**1,793,644**
Information Technology 22.8%		
Electronic Equipment, Instruments & Components 5.2%		
Belden, Inc.	11,502	887,609
Cognex Corp.	17,784	1,087,669
IPG Photonics Corp.*	8,243	1,765,074
Knowles Corp.*	19,535	286,383
		4,026,735
Internet Software & Services 2.6%		
CoStar Group, Inc.*	4,948	1,469,309
Five9, Inc.*	20,949	521,211
		1,990,520
IT Services 4.9%		
Broadridge Financial Solutions, Inc.	16,136	1,461,599
Euronet Worldwide, Inc.*	3,300	278,091
MAXIMUS, Inc.	9,060	648,515
WEX, Inc.*	4,517	637,936
WNS Holdings Ltd. (ADR)*	19,111	766,924
		3,793,065
Semiconductors & Semiconductor Equipment 3.4%		
Advanced Energy Industries, Inc.*	19,780	1,334,755
Advanced Micro Devices, Inc.* (a)	22,933	235,751
Ambarella, Inc.*	5,149	302,504
Cypress Semiconductor Corp.	50,093	763,417
		2,636,427
Software 6.2%		
Aspen Technology, Inc.*	19,088	1,263,626
Proofpoint, Inc.*	8,009	711,279
QAD, Inc. "A"	7,196	279,565
Take-Two Interactive Software, Inc.*	2,302	252,713
Tyler Technologies, Inc.*	7,927	1,403,475
Varonis Systems, Inc.*	17,800	864,190
		4,774,848
Technology Hardware, Storage & Peripherals 0.5%		
Super Micro Computer, Inc.*	20,606	**431,181**

	Shares	Value ($)
Materials 6.9%		
Chemicals 4.3%		
Huntsman Corp.	12,575	418,622
KMG Chemicals, Inc.	16,579	1,095,540
Minerals Technologies, Inc.	13,266	913,364
Trinseo SA	12,784	928,119
		3,355,645
Construction Materials 1.5%		
Eagle Materials, Inc.	10,034	**1,136,852**
Containers & Packaging 1.1%		
Berry Global Group, Inc.*	13,757	**807,123**
Real Estate 2.6%		
Equity Real Estate Investment Trusts (REITs)		
National Storage Affiliates Trust	36,400	992,264
SBA Communications Corp. *	2,141	349,754
Urban Edge Properties	27,384	698,018
		2,040,036
Total Common Stocks (Cost $47,515,365)		**75,248,388**

Convertible Preferred Stock 0.6%

	Shares	Value ($)
Health Care		
Providence Service Corp., 5.5% (b) (Cost $283,300)	2,833	**421,540**

Securities Lending Collateral 5.1%

	Shares	Value ($)
Deutsche Government & Agency Securities Portfolio "Deutsche Government Cash Institutional Shares", 1.21% (c) (d) (Cost $3,961,099)	3,961,099	**3,961,099**

Cash Equivalents 2.3%

	Shares	Value ($)
Deutsche Central Cash Management Government Fund, 1.30% (c) (Cost $1,762,858)	1,762,858	**1,762,858**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $53,522,622)	105.2	**81,393,885**
Other Assets and Liabilities, Net	(5.2)	**(4,050,359)**
Net Assets	100.0	**77,343,526**

* Non-income producing security.

(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, 2017 amounted to $3,796,401, which is 4.9% of net assets.

(b) Investment was valued using significant unobservable inputs.

(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.

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, 2017 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 (e)	$75,248,388	$ —	$ —	$75,248,388
Convertible Preferred Stock	—	—	421,540	421,540
Short-Term Investments (e)	5,723,957	—	—	5,723,957
Total	**$80,972,345**	**$ —**	**$421,540**	**$81,393,885**

There have been no transfers between fair value measurement levels during the year ended December 31, 2017.

(e) See Investment Portfolio for additional detailed categorizations.

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

Statement of Assets and Liabilities

as of December 31, 2017

Assets	
Investments in non-affiliated securities, at value (cost $47,798,665) — including $3,796,401 of securities loaned	$75,669,928
Investment in Deutsche Government & Agency Securities Portfolio (cost $3,961,099)*	3,961,099
Investment in Deutsche Central Cash Management Government Fund (cost $1,762,858)	1,762,858
Cash	26,581
Receivable for Fund shares sold	26,612
Dividends receivable	17,997
Interest receivable	2,614
Other assets	2,119
Total assets	81,469,808
Liabilities	
Payable upon return of securities loaned	3,961,099
Payable for investments purchased	27,500
Payable for Fund shares redeemed	4,503
Accrued management fee	35,913
Accrued Trustees' fees	1,997
Other accrued expenses and payables	95,270
Total liabilities	4,126,282
Net assets, at value	**$77,343,526**
Net Assets Consist of	
Net unrealized appreciation (depreciation) on investments	27,871,263
Accumulated net realized gain (loss)	24,783,124
Paid-in capital	24,689,139
Net assets, at value	**$77,343,526**
Net Asset Value	
Net Asset Value, offering and redemption price per share ($77,343,526 ÷ 3,525,232 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 21.94**

* Represents collateral on securities loaned.

Statement of Operations

for the year ended December 31, 2017

Investment Income	
Income: Dividends (net of foreign taxes withheld of $3,276)	$ 698,660
Income distributions — Deutsche Central Cash Management Government Fund	28,598
Securities lending income, net of borrower rebates	48,600
Total income	775,858
Expenses: Management fee	630,509
Administration fee	114,638
Services to Shareholders	1,109
Custodian fee	2,703
Professional fees	76,989
Reports to shareholders	20,893
Trustees' fees and expenses	7,799
Other	8,608
Total expenses	863,248
Net investment income (loss)	**(87,390)**
Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from: Investments	25,564,215
Payments by affiliates (see Note F)	67
	25,564,282
Change in net unrealized appreciation (depreciation) on investments	(2,783,953)
Net gain (loss)	**22,780,329**
Net increase (decrease) in net assets resulting from operations	**$22,692,939**

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, 2017	2016
Operations:		
Net investment income (loss)	$ (87,390)	$ 124,275
Net realized gain (loss)	25,564,282	6,541,357
Change in net unrealized appreciation (depreciation)	(2,783,953)	1,718,283
Net increase (decrease) in net assets resulting from operations	22,692,939	8,383,915
Distributions to shareholders from:		
Net investment income		
Class A	(124,128)	—
Net realized gains		
Class A	(6,452,819)	(20,264,895)
Total distributions	(6,576,947)	(20,264,895)
Fund share transactions:		
Class A		
Proceeds from shares sold	3,919,157	2,382,262
Reinvestment of distributions	6,576,947	20,264,895
Payments for shares redeemed	(67,645,663)	(27,583,809)
Net increase (decrease) in net assets from Class A share transactions	(57,149,559)	(4,936,652)
Increase (decrease) in net assets	(41,033,567)	(16,817,632)
Net assets at beginning of period	118,377,093	135,194,725
Net assets at end of period (including distributions in excess of investment income and undistributed net investment income $0 and $115,705, respectively)	**$ 77,343,526**	**$118,377,093**

Other Information

Class A		
Shares outstanding at beginning of period	6,244,931	6,467,679
Shares sold	194,850	129,160
Shares issued to shareholders in reinvestment of distributions	336,589	1,137,838
Shares redeemed	(3,251,138)	(1,489,746)
Net increase (decrease) in Class A shares	(2,719,699)	(222,748)
Shares outstanding at end of period	**3,525,232**	**6,244,931**

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

Financial Highlights

Class A	2017	Years Ended December 31, 2016	2015	2014	2013
Selected Per Share Data					
Net asset value, beginning of period	**$18.96**	**$20.90**	**$22.83**	**$21.59**	**$15.14**
Income (loss) from investment operations:					
Net investment income (loss)[a]	(.02)	.02	(.04)	(.02)	(.04)
Net realized and unrealized gain (loss)	4.08	1.64	(.00)	1.26	6.51
Total from investment operations	4.06	1.66	(.04)	1.24	6.47
Less distributions from:					
Net investment income	(.02)	—	—	—	(.02)
Net realized gains	(1.06)	(3.60)	(1.89)	—	—
Total distributions	(1.08)	(3.60)	(1.89)	—	(.02)
Net asset value, end of period	**$21.94**	**$18.96**	**$20.90**	**$22.83**	**$21.59**
Total Return (%)	22.12	9.08	(.90)	5.74	42.78
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	77	118	135	172	187
Ratio of expenses (%)[b]	.75	.75	.72	.73	.72
Ratio of net investment income (loss) (%)	(.08)	.11	(.19)	(.11)	(.22)
Portfolio turnover rate (%)	32	28	42	44	56

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

[b] Expense ratio does not reflect charges and 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.

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

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, 2017 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, 2017 the Fund invested the cash collateral in Deutsche Government & Agency Securities Portfolio. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.13% annualized effective rate as of December 31, 2017) on the cash collateral invested in Deutsche 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, 2017 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, 2017 and has determined that no provision for income tax and/or uncertain tax positions 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, 2017, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 1,627,634
Undistributed long-term capital gains	$ 23,669,051
Net unrealized appreciation (depreciation) on investments	$ 27,357,702

At December 31, 2017, the aggregate cost of investments for federal income tax purposes was $54,036,183. The net unrealized appreciation for all investments based on tax cost was $27,357,702. This consisted of aggregate gross unrealized appreciation for all investments in which there was an excess of value over tax cost of $29,109,327 aggregate gross unrealized depreciation for all investments in which was an excess of tax cost over value of $1,751,625.

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

	Years Ended December 31, 2017	2016
Distributions from ordinary income*	$ 124,128	$ 239,535
Distributions from long-term capital gains	$ 6,452,819	$ 20,025,360

* 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, 2017 purchases and sales of investment transactions (excluding short-term investments) aggregated $35,326,742 and $97,990,961, 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, 2017 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, 2017 through September 30, 2017, 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 0.88%.

For the period from October 1, 2017 through September 30, 2018, 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 0.84%.

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, 2017 the Administration Fee was $114,638, of which $6,530 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, 2017 the amounts charged to the Fund by DSC aggregated $372, of which $99 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing certain pre-press and regulatory filing services to the Fund. For the year ended December 31, 2017 the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $9,369, of which $3,451 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, 2017 the Fund incurred securities lending agent fees to Deutsche Bank AG in the amount of $3,658.

D. Ownership of the Fund

At December 31, 2017 one participating insurance company was owner of record of 10% or more of the total outstanding Class A shares of the Fund, owning 92%.

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, 2017.

F. Payments by Affiliates

During the year ended December 31, 2017, the Advisor agreed to reimburse the Fund $67 for losses incurred on trades executed incorrectly. The amount reimbursed was less than 0.01% of the Fund's average net assets, thus having no impact on the Fund's total return.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Deutsche Variable Series II and the Shareholders of Deutsche Small Mid Cap Growth VIP

Opinion on the Financial Statements

We have audited the accompanying statement of assets and liabilities of Small Mid Cap Growth VIP (the "Fund") (one of the funds constituting the Deutsche Variable Series II) (the "Trust"), including the schedule of investments, as of December 31, 2017, 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, the financial highlights for each of the five years in the period then ended and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund (one of the funds constituting the Deutsche Variable Series II) at December 31, 2017, 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 its financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on the Fund's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Trust in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Trust is not required to have, nor were we engaged to perform, an audit of the Trust's internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2017, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received.

Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Ernst + Young LLP

We have served as the auditor of one or more investment companies in the Deutsche family of funds since at least 1979, but we are unable to determine the specific year.

Boston, Massachusetts
February 15, 2018

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, 2017 to December 31, 2017).

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, 2017

Actual Fund Return	**Class A**
Beginning Account Value 7/1/17	$ 1,000.00
Ending Account Value 12/31/17	$ 1,098.60
Expenses Paid per $1,000*	$ 4.02

Hypothetical 5% Fund Return	**Class A**
Beginning Account Value 7/1/17	$ 1,000.00
Ending Account Value 12/31/17	$ 1,021.37
Expenses Paid per $1,000*	$ 3.87

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

Annualized Expense Ratio	**Class A**
Deutsche Variable Series II — Deutsche Small Mid Cap Growth VIP	.75%

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

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

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

Tax Information

(Unaudited)

The Fund paid distributions of $1.06 per share from net long-term capital gains during its year ended December 31, 2017.

Pursuant to Section 852 of the Internal Revenue Code, the Fund designates $26,061,033 as capital gain dividends for its year ended December 31, 2017.

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, 2017, 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 2017.

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"). 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.

— The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly met 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.

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.

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 administrative support services provided by DIMA, such 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 "Funds in Review" (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, 2016, 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, 2016.

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, 2016). 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, 2016, 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 to DIMA, 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 transfer agency 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. In addition, the Board considered 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, 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)	89	—
Kenneth C. Froewiss (1945) Vice Chairperson since 2017, and Board Member since 2001	Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); Member, Finance Committee, Association for Asian Studies (2002–present); Director, Mitsui Sumitomo Insurance Group (US) (2004–present); prior thereto, Managing Director, J.P. Morgan (investment banking firm) (until 1996)	92	—
John W. Ballantine (1946) Board Member since 1999	Retired; formerly, Executive Vice President and Chief Risk Management Officer, First Chicago NBD Corporation/The First National Bank of Chicago (1996–1998); Executive Vice President and Head of International Banking (1995–1996); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (population well-being and wellness services) (2003–2014); Stockwell Capital Investments PLC (private equity); Enron Corporation; FNB Corporation; Tokheim Corporation; First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International. Not-for-Profit Director, Trustee: Palm Beach Civic Association; Public Radio International; Window to the World Communications (public media); Harris Theater for Music and Dance (Chicago)	89	Portland General Electric[2] (utility company) (2003–present)
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); The Pew Charitable Trusts (charitable organization); former Directorships: Becton Dickinson and Company[2] (medical technology company); Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College; North Bennett Street School (Boston)	89	—
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)	89	—

Name, Year of Birth, Position with the Fund and Length of Time Served[1]	Business Experience and Directorships During the Past Five Years	Number of Funds in Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Paul K. Freeman (1950) Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Independent Directors Council (former chair); 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); Knoebel Institute for Healthy Aging, University of Denver (2017–present); former Directorships: Prisma Energy International	89	—
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)	89	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004	Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	89	—
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[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	89	Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc[2] (health care) (2009–present)
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	89	—
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)	89	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Hepsen Uzcan[6,9] (1974) President and Chief Executive Officer, 2017–present Assistant Secretary, 2013–present	Director,[3] Deutsche Asset Management; formerly: Vice President for the Deutsche funds (2016–2017)
John Millette[8] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset Management; Chief Legal Officer, Deutsche Investment Management Americas Inc. (2015–present); and Director and Vice President, Deutsche AM Trust Company (since 2016); formerly: Secretary, Deutsche Investment Management Americas Inc. (2015–2017)
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset Management, and Chairman, Director and President, Deutsche AM Trust Company (since 2013); Vice President, Deutsche AM Distributors, Inc. (since 2016); Director, Deutsche AM Service Company (since 2017); Director and President, DB Investment Managers, Inc. (since 2017); formerly: Director, Deutsche AM Trust Company (2004–2013)
Caroline Pearson[8] (1962) Chief Legal Officer, 2010–present	Managing Director,[3] Deutsche Asset Management; formerly: Secretary, Deutsche AM Distributors, Inc.; and Secretary, Deutsche AM Service Company
Scott D. Hogan[8] (1970) Chief Compliance Officer, 2016–present	Director,[3] Deutsche Asset Management
Wayne Salit[7] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Sheila Cadogan[8] (1966) Assistant Treasurer, since July 12, 2017	Director,[3] Deutsche Asset Management
Paul Antosca[8] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management
Diane Kenneally[8] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

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

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

3 Executive title, not a board directorship.

4 As a result of their respective positions held with the Advisor, these individuals are considered “interested persons” of the Advisor within the meaning of the 1940 Act. Interested persons receive no compensation from the Fund.

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

6 Address: 345 Park Avenue, New York, NY 10154.

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

8 Address: One International Place, Boston, MA 02110.

9 Appointed President and Chief Executive Officer effective December 1, 2017.

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-025835-7 2/18)

Deutsche
Asset Management

December 31, 2017

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. Please read 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

Performance Summary

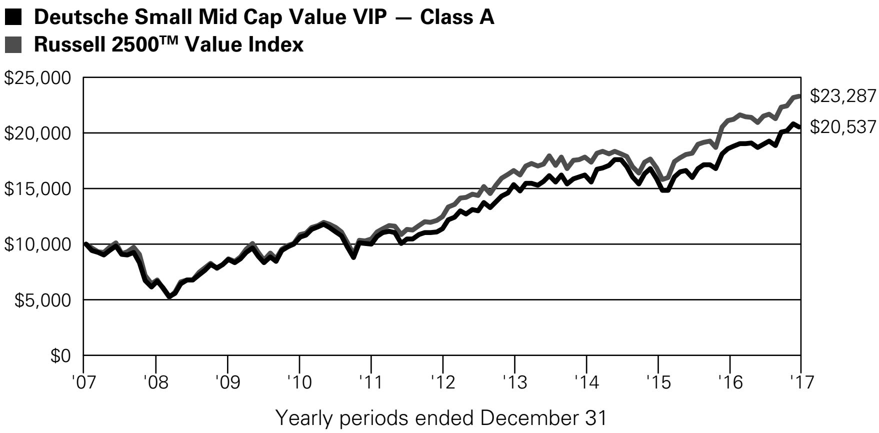
December 31, 2017 (Unaudited)

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, 2017 are 0.83% and 1.19% 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	$11,052	$12,672	$18,085	$20,537
	Average annual total return	10.52%	8.21%	12.58%	7.46%
Russell 2500 Value Index	Growth of $10,000	$11,036	$13,059	$18,649	$23,287
	Average annual total return	10.36%	9.30%	13.27%	8.82%
Deutsche Small Mid Cap Value VIP		**1-Year**	**3-Year**	**5-Year**	**10-Year**
Class B	Growth of $10,000	$11,013	$12,543	$17,756	$19,834
	Average annual total return	10.13%	7.85%	12.17%	7.09%
Russell 2500 Value Index	Growth of $10,000	$11,036	$13,059	$18,649	$23,287
	Average annual total return	10.36%	9.30%	13.27%	8.82%

The growth of $10,000 is cumulative.

Management Summary

Class A shares of Deutsche Small Mid Cap VIP returned 10.52% in 2017 (unadjusted for contract charges), outperforming the 10.36% return of the Russell 2500 Value Index. We added the most value through individual stock selection in the real estate, information technology and financial sectors, while selection in consumer discretionary and health care detracted.

The Fund has long been underweight in real estate, but we added to the position in the past 18 months to limit the effect of sector allocations on relative performance. In doing so, we focused on real estate investment trusts (REITs) with exposure to positive industry trends and avoided areas, such as retail, with weaker fundamentals. This approach worked well and enabled us to add value through positions in Gaming and Leisure Properties, Inc.* and Pebblebrook Hotel Trust, among others. In technology, the specialty materials manufacturer Rogers Corp. — which was boosted by robust earnings and the announcement of acquisitions that were well-received by the markets — was the leading contributor to performance. Harris Corp.* also rallied thanks to better-than-expected cost synergies from an acquisitions, an expansion of its overseas business, and initiatives by the U.S. military to upgrade its communications systems. Walker and Dunlop, Inc. was a the top contributor in financials. The company benefited from several positive earnings developments and continued market-share gains in its mortgage-origination franchise. Outside of these three sectors, The Brink's Co. was the top contributor. The security specialist hired a new chief executive officer, who successfully executed a plan to bring the company's profit margins up to the level of its competitors.

Our decisions with regard to the Fund's key detractors offers a closer look into our investment process. While we typically hold on to a poor-performing stock when the fundamentals remain intact, we are willing to cut our losses by selling positions if the investment case no longer holds. For example, we eliminated the Fund's position in AMC Entertainment Holdings, Inc.* after a stretch of weakness since we saw no meaningful catalyst for a turnaround amid the broader downturn in box office receipts. We also eliminated the Fund's position in the sporting-goods retailer Hibbett Sports, Inc.,* which declined due to the growing competitive threat from online retailers, as we believed the fundamental headwinds were too strong to warrant a continued investment. In contrast, we maintained our position in Puerto Rico-based OFG Bancorp. The stock slid in the aftermath of Hurricane Maria, but we believed the core business was healthy and the stock was undervalued. We see this disciplined approach — maintaining positions in companies that continue to execute while selling those where the fundamental story is falling short of expectations — as a critical aspect of successful risk management.

We were fairly active in managing the portfolio during the year, with 12 new purchases and 19 holdings that we chose to eliminate (four as a result of acquisitions). The high level of activity reflects the unusual nature of the market environment. Although the headline indices performed very well, there was also a large degree of "herd behavior" as investors rotated in and out of sectors and individual companies rapidly in response to headlines. This tendency created a growing number of value opportunities as otherwise good companies sold off indiscriminately, and we sought to capitalize on the trend by adding to stocks on our watch list. At the same time, we reduced or sold holdings that climbed to what we saw as full valuations. We believe this active and value-oriented approach has helped us take advantage of the constantly changing opportunity set in the small- and mid-cap space.

We believe our focus on companies with strong fundamentals and attractive valuations is evident in some of the portfolio's underlying metrics. As of December 31, 2017, the Fund's price-to-earnings (P/E) ratio (based on 12-month earnings estimates) was in line with the P/E of the Russell 2500 Value Index. However, the three- to five-year expected growth rate of the Fund's holdings was 11.9%, which compared with 8.7% for the companies in the index. Additionally, the Fund's aggregate return on equity of 12.0% exceeded the 6.7% ROE for the benchmark. We believe these portfolio characteristics, which reflect our preference for higher-quality companies trading at or below their historic valuation ranges, provide a healthy foundation for longer-term performance.

Richard Hanlon, CFA, Director
Mary Schafer Mahrer, Director
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.

Terms to Know

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.

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

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.

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

Source: Factset. **Price-to-earnings (P/E) ratio** compares share price to per-share earnings.

Source: Factset. **Return on equity** is the amount of net income returned as a percentage of shareholders' equity.

* Held and sold prior to December 31, 2017

Portfolio Summary

(Unaudited)

Asset Allocation (As a % of Investment Portfolio excluding Securities Lending Collateral)	**12/31/17**	**12/31/16**
Common Stocks	96%	95%
Cash Equivalents	4%	5%
	100%	100%

Sector Diversification (As a % of Investment Portfolio excluding Cash Equivalents and Securities Lending Collateral)	**12/31/17**	**12/31/16**
Financials	20%	24%
Industrials	19%	15%
Real Estate	13%	7%
Information Technology	11%	15%
Consumer Discretionary	9%	14%
Energy	7%	7%
Consumer Staples	7%	6%
Utilities	5%	5%
Materials	5%	3%
Health Care	4%	4%
	100%	100%

Portfolio holdings and characteristics are subject to change.

For more complete details about the Fund's investment portfolio, see page 7.

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

as of December 31, 2017

	Shares	Value ($)
Common Stocks 96.2%		
Consumer Discretionary 8.3%		
Auto Components 4.3%		
Cooper Tire & Rubber Co.	19,600	692,860
Standard Motor Products, Inc.	50,604	2,272,626
Visteon Corp.*	16,037	2,006,870
		4,972,356
Automobiles 0.8%		
Winnebago Industries, Inc.	16,400	**911,840**
Diversified Consumer Services 0.7%		
Regis Corp.*	52,100	**800,256**
Hotels, Restaurants & Leisure 0.9%		
Denny's Corp.*	80,900	**1,071,116**
Media 1.2%		
TEGNA, Inc.	95,267	**1,341,359**
Textiles, Apparel & Luxury Goods 0.4%		
Carter's, Inc.	3,600	**422,964**
Consumer Staples 6.3%		
Food Products 3.2%		
Lamb Weston Holdings, Inc.	39,076	2,205,840
Pinnacle Foods, Inc.	23,500	1,397,545
		3,603,385
Household Products 3.1%		
Central Garden & Pet Co.*	46,200	1,798,104
Energizer Holdings, Inc.	37,318	1,790,518
		3,588,622
Energy 6.8%		
Energy Equipment & Services 0.9%		
U.S. Silica Holdings, Inc.	31,839	**1,036,678**
Oil, Gas & Consumable Fuels 5.9%		
Cimarex Energy Co.	13,062	1,593,695
Golar LNG Ltd.	37,178	1,108,276
Matador Resources Co.*	69,315	2,157,776
Noble Energy, Inc.	65,400	1,905,756
		6,765,503
Financials 19.2%		
Banks 10.6%		
First Horizon National Corp.	57,783	1,155,082
Great Western Bancorp., Inc.	62,102	2,471,660
Hancock Holding Co.	43,616	2,158,992
MB Financial, Inc.	32,600	1,451,352
OFG Bancorp.	135,982	1,278,231
Pacific Premier Bancorp., Inc.*	31,500	1,260,000
Sterling Bancorp.	95,454	2,348,168
		12,123,485
Insurance 6.5%		
CNO Financial Group, Inc.	123,078	3,038,796
ProAssurance Corp.	19,800	1,131,570
Reinsurance Group of America, Inc.	21,249	3,313,356
		7,483,722
Thrifts & Mortgage Finance 2.1%		
Walker & Dunlop, Inc.*	50,131	**2,381,223**

	Shares	Value ($)
Health Care 3.5%		
Health Care Providers & Services 2.4%		
Encompass Health Corp.	54,935	**2,714,339**
Life Sciences Tools & Services 1.1%		
PerkinElmer, Inc.	16,843	**1,231,560**
Industrials 18.7%		
Commercial Services & Supplies 4.5%		
Interface, Inc.	74,475	1,873,046
Pitney Bowes, Inc.	81,763	914,111
The Brink's Co.	29,733	2,339,987
		5,127,144
Electrical Equipment 1.3%		
EnerSys	21,200	**1,476,156**
Industrial Conglomerates 1.3%		
Carlisle Companies, Inc.	13,310	**1,512,681**
Machinery 9.4%		
Douglas Dynamics, Inc.	42,200	1,595,160
Federal Signal Corp.	78,600	1,579,074
Global Brass & Copper Holdings, Inc.	49,100	1,625,210
Hillenbrand, Inc.	79,967	3,574,525
Stanley Black & Decker, Inc.	14,159	2,402,641
		10,776,610
Professional Services 0.3%		
ManpowerGroup, Inc.	3,200	**403,552**
Trading Companies & Distributors 1.9%		
AerCap Holdings NV*	41,633	**2,190,312**
Information Technology 10.7%		
Electronic Equipment, Instruments & Components 7.6%		
Dolby Laboratories, Inc. "A"	32,358	2,006,196
Insight Enterprises, Inc.*	49,400	1,891,526
Keysight Technologies, Inc.*	54,952	2,286,003
Rogers Corp.*	12,035	1,948,707
Sanmina Corp.*	19,100	630,300
		8,762,732
IT Services 1.2%		
Convergys Corp.	49,660	1,167,010
Travelport Worldwide Ltd.	11,000	143,770
		1,310,780
Software 1.9%		
Verint Systems, Inc.*	52,794	**2,209,429**
Materials 4.5%		
Chemicals 2.5%		
GCP Applied Technologies, Inc.*	35,438	1,130,472
Minerals Technologies, Inc.	25,800	1,776,330
		2,906,802
Containers & Packaging 1.6%		
Owens-Illinois, Inc.*	83,800	**1,857,846**
Metals & Mining 0.4%		
Steel Dynamics, Inc.	10,000	**431,300**

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

	Shares	Value ($)
Real Estate 12.9%		
Equity Real Estate Investment Trusts (REITs)		
Agree Realty Corp.	52,502	2,700,703
Brixmor Property Group, Inc.	71,400	1,332,324
Community Healthcare Trust, Inc.	50,000	1,405,000
Easterly Government Properties, Inc.	70,091	1,495,742
Highwoods Properties, Inc.	28,800	1,466,208
Pebblebrook Hotel Trust	69,839	2,595,915
Physicians Realty Trust	96,608	1,737,978
STAG Industrial, Inc.	76,900	2,101,677
		14,835,547
Utilities 5.3%		
Electric Utilities 3.2%		
IDACORP, Inc.	39,783	**3,634,575**
Gas Utilities 2.1%		
ONE Gas, Inc.	33,200	**2,432,232**
Total Common Stocks (Cost $88,431,856)		**110,316,106**

	Shares	Value ($)
Cash Equivalents 3.9%		
Deutsche Central Cash Management Government Fund, 1.30% (a) (Cost $4,418,900)	4,418,900	**4,418,900**

	% of Net Assets	Value ($)
Total Investment Portfolio (Cost $92,850,756)	100.1	**114,735,006**
Other Assets and Liabilities, Net	(0.1)	**(76,136)**
Net Assets	100.0	**114,658,870**

* Non-income producing security.

(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, 2017 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)	$110,316,106	$ —	$ —	$110,316,106
Short-Term Investments	4,418,900	—	—	4,418,900
Total	**$114,735,006**	**$ —**	**$ —**	**$114,735,006**

There have been no transfers between fair value measurement levels during the year ended December 31, 2017.

(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, 2017

Assets	
Investments in non-affiliated securities, at value (cost $88,431,856)	$110,316,106
Investment in Deutsche Central Cash Management Government Fund (cost $4,418,900)	4,418,900
Receivable for Fund shares sold	20,712
Dividends receivable	210,535
Interest receivable	4,208
Other assets	2,687
Total assets	114,973,148

Liabilities	
Payable for Fund shares redeemed	135,657
Accrued management fee	71,427
Accrued Trustees' fees	2,562
Other accrued expenses and payables	104,632
Total liabilities	314,278
Net assets, at value	**$114,658,870**

Net Assets Consist of	
Undistributed net investment income	1,432,026
Net unrealized appreciation (depreciation) on investments	21,884,250
Accumulated net realized gain (loss)	18,971,102
Paid-in capital	72,371,492
Net assets, at value	**$114,658,870**

Net Asset Value	
Class A **Net Asset Value,** offering and redemption price per share ($96,135,249 ÷ 5,375,574 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 17.88**
Class B **Net Asset Value,** offering and redemption price per share ($18,523,621 ÷ 1,037,183 outstanding shares of beneficial interest, no par value, unlimited number of shares authorized)	**$ 17.86**

Statement of Operations

for the year ended December 31, 2017

Investment Income	
Income: Dividends (net of foreign taxes withheld of $4,243)	$ 2,748,993
Income distributions — Deutsche Central Cash Management Government Fund	42,309
Securities lending income, net of borrower rebates	22,279
Total income	2,813,581
Expenses: Management fee	1,010,270
Administration fee	155,426
Services to Shareholders	2,120
Record keeping fee (Class B)	19,399
Distribution and service fees (Class B)	42,268
Custodian fee	5,250
Professional fees	70,624
Reports to shareholders	23,191
Trustees' fees and expenses	10,182
Other	9,906
Total expenses before expense reductions	1,348,636
Expense reductions	(2,161)
Total expenses after expense reductions	1,346,475
Net investment income	**1,467,106**

Realized and Unrealized Gain (Loss)	
Net realized gain (loss) from investments	18,971,820
Change in net unrealized appreciation (depreciation) on investments	(5,654,443)
Net gain (loss)	**13,317,377**
Net increase (decrease) in net assets resulting from operations	**$14,784,483**

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, 2017	2016
Operations:		
Net investment income (loss)	$ 1,467,106	$ 1,525,205
Net realized gain (loss)	18,971,820	3,137,095
Change in net unrealized appreciation (depreciation)	(5,654,443)	19,608,211
Net increase (decrease) in net assets resulting from operations	14,784,483	24,270,511
Distributions to shareholders from:		
Net investment income:		
Class A	(1,100,828)	(888,084)
Class B	(59,126)	(31,217)
Net realized gains:		
Class A	(3,269,636)	(15,665,658)
Class B	(353,505)	(1,422,898)
Total distributions	(4,783,095)	(18,007,857)
Fund share transactions:		
Class A		
Proceeds from shares sold	6,806,078	8,157,267
Reinvestment of distributions	4,370,464	16,553,742
Payments for shares redeemed	(77,117,368)	(37,741,593)
Net increase (decrease) in net assets from Class A share transactions	(65,940,826)	(13,030,584)
Class B		
Proceeds from shares sold	4,800,663	2,712,137
Reinvestment of distributions	412,631	1,454,115
Payments for shares redeemed	(3,308,695)	(3,082,291)
Net increase (decrease) in net assets from Class B share transactions	1,904,599	1,083,961
Increase (decrease) in net assets	(54,034,839)	(5,683,969)
Net assets at beginning of period	168,693,709	174,377,678
Net assets at end of period (including undistributed net investment income of $1,432,026 and $1,465,989, respectively)	**$114,658,870**	**$168,693,709**
Other Information		
Class A		
Shares outstanding at beginning of period	9,208,579	10,068,570
Shares sold	399,609	525,679
Shares issued to shareholders in reinvestment of distributions	259,221	1,110,244
Shares redeemed	(4,491,835)	(2,495,914)
Net increase (decrease) in Class A shares	(3,833,005)	(859,991)
Shares outstanding at end of period	**5,375,574**	**9,208,579**
Class B		
Shares outstanding at beginning of period	923,852	852,173
Shares sold	283,457	176,025
Shares issued to shareholders in reinvestment of distributions	24,445	97,461
Shares redeemed	(194,571)	(201,807)
Net increase (decrease) in Class B shares	113,331	71,679
Shares outstanding at end of period	**1,037,183**	**923,852**

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

Financial Highlights

Class A	2017	Years Ended December 31, 2016	2015	2014	2013
Selected Per Share Data					
Net asset value, beginning of period	**$16.65**	**$15.97**	**$17.79**	**$17.08**	**$12.78**
Income (loss) from investment operations:					
Net investment income[a]	.17	.15	.09	.05	.12
Net realized and unrealized gain (loss)	1.55	2.34	(.31)	.88	4.35
Total from investment operations	1.72	2.49	(.22)	.93	4.47
Less distributions from:					
Net investment income	(.12)	(.10)	(.05)	(.14)	(.17)
Net realized gains	(.37)	(1.71)	(1.55)	(.08)	—
Total distributions	(.49)	(1.81)	(1.60)	(.22)	(.17)
Net asset value, end of period	**$17.88**	**$16.65**	**$15.97**	**$17.79**	**$17.08**
Total Return (%)	10.52[b]	16.89[b]	(1.91)	5.53	35.24
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	96	153	161	205	240
Ratio of expenses before expense reductions (%)[c]	.83	.83	.80	.82	.82
Ratio of expenses after expense reductions (%)[c]	.83	.82	.80	.82	.82
Ratio of net investment income (%)	.98	.99	.51	.32	.81
Portfolio turnover rate (%)	35	53	25	34	115

a Based on average shares outstanding during the period.

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

c Expense ratio does not reflect charges and 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.

Class B	2017	Years Ended December 31, 2016	2015	2014	2013
Selected Per Share Data					
Net asset value, beginning of period	**$16.63**	**$15.95**	**$17.77**	**$17.07**	**$12.78**
Income (loss) from investment operations:					
Net investment income[a]	.11	.09	.02	(.01)	.07
Net realized and unrealized gain (loss)	1.55	2.34	(.29)	.87	4.34
Total from investment operations	1.66	2.43	(.27)	.86	4.41
Less distributions from:					
Net investment income	(.06)	(.04)	—	(.08)	(.12)
Net realized gains	(.37)	(1.71)	(1.55)	(.08)	—
Total distributions	(.43)	(1.75)	(1.55)	(.16)	(.12)
Net asset value, end of period	**$17.86**	**$16.63**	**$15.95**	**$17.77**	**$17.07**
Total Return (%)	10.13[b]	16.47[b]	(2.21)	5.09	34.70
Ratios to Average Net Assets and Supplemental Data					
Net assets, end of period ($ millions)	19	15	14	17	20
Ratio of expenses before expense reductions (%)[c]	1.19	1.19	1.16	1.17	1.17
Ratio of expenses after expense reductions (%)[c]	1.19	1.18	1.16	1.17	1.17
Ratio of net investment income (loss) (%)	.65	.57	.14	(.04)	.45
Portfolio turnover rate (%)	35	53	25	34	115

a Based on average shares outstanding during the period.

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

c Expense ratio does not reflect charges and 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.

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

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, 2017 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, 2017 the Fund invested the cash collateral in Deutsche Government & Agency Securities Portfolio. Deutsche Investment Management Americas Inc. receives a management/administration fee (0.13% annualized effective rate as of December 31, 2017) on the cash collateral invested in Deutsche 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, 2017, the Fund had no securities on loan.

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

The Fund has reviewed the tax positions for the open tax years as of December 31, 2017 and has determined that no positions for income tax and/or uncertain tax positions 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, 2017, the Fund's components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income*	$ 1,402,971
Undistributed long-term capital gains	$ 18,953,744
Unrealized appreciation (depreciation) on investments	$ 21,901,608

At December 31, 2017, the aggregate cost of investments for federal income tax purposes was $92,833,398. The net unrealized appreciation for all investments based on tax cost was $21,901,608. This consisted of aggregate gross unrealized appreciation for all investments in which there was an excess of value over tax cost of $24,836,354 aggregate gross unrealized depreciation for all investments in which was an excess of tax cost over value of $2,934,746.

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

	Years Ended December 31,	
	2017	**2016**
Distributions from ordinary income*	$ 1,159,954	$ 1,718,093
Distributions from long-term capital gains	$ 3,623,141	$ 16,289,764

* 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, 2017 purchases and sales of investment transactions (excluding short-term investments) aggregated $52,632,032 and $114,767,583, 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, 2017 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, 2017 through September 30, 2017, 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	.84%
Class B	1.20%

Effective October 1, 2017 through September 30, 2018, 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	.81%
Class B	1.16%

For the year ended December 31, 2017, fees waived and/or expenses reimbursed for each class are as follows:

Class A	$ 1,001
Class B	1,160
	$ 2,161

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, 2017 the Administration Fee was $155,426, of which $9,810 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, 2017 the amounts charged to the Fund by DSC were as follows:

Service to Shareholders	Total Aggregated	Unpaid at December 31, 2017
Class A	$ 630	$ 157
Class B	462	116
	$ 1,092	**$ 273**

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, 2017 the Distribution Service Fee aggregated $42,268, of which $3,964 is unpaid.

Typesetting and Filing Service Fees. Under an agreement with DIMA, DIMA is compensated for providing certain pre-press and regulatory filing services to the Fund. For the year ended December 31, 2017 the amount charged to the Fund by DIMA included in the Statement of Operations under "Reports to shareholders" aggregated $10,154, of which $4,275 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, 2017 one participating insurance company was owner of record of 10% or more of the total outstanding Class A shares of the Fund, owning 67%. 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%, 18% and 13%.

E. Line of Credit

The Fund and other affiliated funds (the "Participants") share in a $400 million revolving credit facility provided by a syndication of banks. The Fund may borrow for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. The Participants are charged an annual commitment fee which is allocated based on net assets, among each of the Participants. Interest is calculated at a rate per annum equal to the sum of the Federal Funds Rate plus 1.25 percent plus if the one-month LIBOR exceeds the Federal Funds Rate, the amount of such excess. The Fund may borrow up to a maximum of 33 percent of its net assets under the agreement. The Fund had no outstanding loans at December 31, 2017.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Deutsche Variable Series II and the Shareholders of Deutsche Small Mid Cap Value VIP:

Opinion on the Financial Statements

We have audited the accompanying statement of assets and liabilities of Deutsche Small Mid Cap Value VIP (the "Fund") (one of the funds constituting the Deutsche Variable Series II) (the "Trust"), including the schedule of investments, as of December 31, 2017, 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, the financial highlights for each of the five years in the period then ended and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund (one of the portfolios constituting the Deutsche Variable Series II) at December 31, 2017, 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 its financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on the Fund's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Trust in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Trust is not required to have, nor were we engaged to perform, an audit of the Trust's internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2017, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received.

Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Ernst + Young LLP

We have served as the auditor of one or more investment companies in the Deutsche family of funds since at least 1979, but we are unable to determine the specific year.

Boston, Massachusetts
February 15, 2018

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, 2017 to December 31, 2017).

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, 2017

Actual Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/17	$ 1,000.00	$ 1,000.00
Ending Account Value 12/31/17	$ 1,082.30	$ 1,080.50
Expenses Paid per $1,000*	$ 4.36	$ 6.19

Hypothetical 5% Fund Return	**Class A**	**Class B**
Beginning Account Value 7/1/17	$ 1,000.00	$ 1,000.00
Ending Account Value 12/31/17	$ 1,021.02	$ 1,019.26
Expenses Paid per $1,000*	$ 4.23	$ 6.01

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

Annualized Expense Ratios	**Class A**	**Class B**
Deutsche Variable Series II — Deutsche Small Mid Cap Value VIP	.83%	1.18%

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

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

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

Tax Information (Unaudited)

Please consult a tax advisor if you have questions about federal or state income tax laws, or on how to prepare your tax returns. If you have specific questions about your account, please contact your insurance provider.

The Fund paid distributions of $0.37 per share from net long-term capital gains during its year ended December 31, 2017.

Pursuant to Section 852 of the Internal Revenue Code, the Fund designates $20,892,000 as capital gain dividends for its year ended December 31, 2017.

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, 2017, 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 2017.

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"). 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.

— The Board also received extensive information throughout the year regarding performance of the Fund.

— The Independent Trustees regularly met 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.

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.

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 administrative support services provided by DIMA, such 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 "Funds in Review" (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, 2016, 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, 2016. 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 equal to the median of the applicable Broadridge peer group (based on Broadridge data provided as of December 31, 2016). 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, 2016, 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 to DIMA, 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, any fees received by an affiliate of DIMA for transfer agency 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. In addition, the Board considered 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, 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)	89	—
Kenneth C. Froewiss (1945) Vice Chairperson since 2017, and Board Member since 2001	Retired Clinical Professor of Finance, NYU Stern School of Business (1997–2014); Member, Finance Committee, Association for Asian Studies (2002–present); Director, Mitsui Sumitomo Insurance Group (US) (2004–present); prior thereto, Managing Director, J.P. Morgan (investment banking firm) (until 1996)	92	—
John W. Ballantine (1946) Board Member since 1999	Retired; formerly, Executive Vice President and Chief Risk Management Officer, First Chicago NBD Corporation/The First National Bank of Chicago (1996–1998); Executive Vice President and Head of International Banking (1995–1996); former Directorships: Director and former Chairman of the Board, Healthways, Inc.[2] (population well-being and wellness services) (2003–2014); Stockwell Capital Investments PLC (private equity); Enron Corporation; FNB Corporation; Tokheim Corporation; First Oak Brook Bancshares, Inc. and Oak Brook Bank; Prisma Energy International. Not-for-Profit Director, Trustee: Palm Beach Civic Association; Public Radio International; Window to the World Communications (public media); Harris Theater for Music and Dance (Chicago)	89	Portland General Electric[2] (utility company) (2003–present)
Henry P. Becton, Jr. (1943) Board Member since 1990	Vice Chair and former President, WGBH Educational Foundation. Directorships: Public Radio International; Public Radio Exchange (PRX); The Pew Charitable Trusts (charitable organization); former Directorships: Becton Dickinson and Company[2] (medical technology company); Belo Corporation[2] (media company); The PBS Foundation; Association of Public Television Stations; Boston Museum of Science; American Public Television; Concord Academy; New England Aquarium; Mass. Corporation for Educational Telecommunications; Committee for Economic Development; Public Broadcasting Service; Connecticut College; North Bennett Street School (Boston)	89	—
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)	89	—

Name, Year of Birth, Position with the Fund and Length of Time Served[1]	Business Experience and Directorships During the Past Five Years	Number of Funds in Deutsche Fund Complex Overseen	Other Directorships Held by Board Member
Paul K. Freeman (1950) Board Member since 1993	Consultant, World Bank/Inter-American Development Bank; Independent Directors Council (former chair); 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); Knoebel Institute for Healthy Aging, University of Denver (2017–present); former Directorships: Prisma Energy International	89	—
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)	89	Director, Aberdeen Singapore and Japan Funds (since 2007); Independent Director of Barclays Bank Delaware (since September 2010)
William McClayton (1944) Board Member since 2004	Private equity investor (since October 2009); previously, Managing Director, Diamond Management & Technology Consultants, Inc. (global consulting firm) (2001–2009); Directorship: Board of Managers, YMCA of Metropolitan Chicago; formerly: Senior Partner, Arthur Andersen LLP (accounting) (1966–2001); Trustee, Ravinia Festival	89	—
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[2] (January 2007–June 2007); Trustee, Thomas Jefferson Foundation (charitable organization) (1994–2012)	89	Director, Becton Dickinson and Company[2] (medical technology company) (2012–present); Director, BioTelemetry Inc[2] (health care) (2009–present)
William N. Searcy, Jr. (1946) Board Member since 1993	Private investor since October 2003; formerly: Pension & Savings Trust Officer, Sprint Corporation[2] (telecommunications) (November 1989–September 2003); Trustee, Sun Capital Advisers Trust (mutual funds) (1998–2012)	89	—
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)	89	—

Officers[4]

Name, Year of Birth, Position with the Fund and Length of Time Served[5]	Business Experience and Directorships During the Past Five Years
Hepsen Uzcan[6,9] (1974) President and Chief Executive Officer, 2017–present Assistant Secretary, 2013–present	Director,[3] Deutsche Asset Management; formerly: Vice President for the Deutsche funds (2016–2017)
John Millette[8] (1962) Vice President and Secretary, 1999–present	Director,[3] Deutsche Asset Management; Chief Legal Officer, Deutsche Investment Management Americas Inc. (2015–present); and Director and Vice President, Deutsche AM Trust Company (since 2016); formerly: Secretary, Deutsche Investment Management Americas Inc. (2015–2017)
Paul H. Schubert[6] (1963) Chief Financial Officer, 2004–present Treasurer, 2005–present	Managing Director,[3] Deutsche Asset Management, and Chairman, Director and President, Deutsche AM Trust Company (since 2013); Vice President, Deutsche AM Distributors, Inc. (since 2016); Director, Deutsche AM Service Company (since 2017); Director and President, DB Investment Managers, Inc. (since 2017); formerly: Director, Deutsche AM Trust Company (2004–2013)
Caroline Pearson[8] (1962) Chief Legal Officer, 2010–present	Managing Director,[3] Deutsche Asset Management; formerly: Secretary, Deutsche AM Distributors, Inc.; and Secretary, Deutsche AM Service Company
Scott D. Hogan[8] (1970) Chief Compliance Officer, 2016–present	Director,[3] Deutsche Asset Management
Wayne Salit[7] (1967) Anti-Money Laundering Compliance Officer, 2014–present	Director,[3] Deutsche Asset Management; formerly: Managing Director, AML Compliance Officer at BNY Mellon (2011–2014); and Director, AML Compliance Officer at Deutsche Bank (2004–2011)
Sheila Cadogan[8] (1966) Assistant Treasurer, since July 12, 2017	Director,[3] Deutsche Asset Management
Paul Antosca[8] (1957) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management
Diane Kenneally[8] (1966) Assistant Treasurer, 2007–present	Director,[3] Deutsche Asset Management

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

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

3 Executive title, not a board directorship.

4 As a result of their respective positions held with the Advisor, these individuals are considered “interested persons” of the Advisor within the meaning of the 1940 Act. Interested persons receive no compensation from the Fund.

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

6 Address: 345 Park Avenue, New York, NY 10154.

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

8 Address: One International Place, Boston, MA 02110.

9 Appointed President and Chief Executive Officer effective December 1, 2017.

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-025829-7 2/18)

Dreyfus Investment Portfolios, MidCap Stock Portfolio

ANNUAL REPORT
December 31, 2017

BNY MELLON | Dreyfus

Contents

THE FUND

FOR MORE INFORMATION

Dreyfus Investment Portfolios, MidCap Stock Portfolio The Fund

A LETTER FROM THE PRESIDENT OF DREYFUS

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, 2017 through December 31, 2017. 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 set a series of new record highs and bonds produced modestly positive results during 2017. Financial markets early in the year were dominated by the inauguration of a new U.S. president, as equities and corporate-backed bonds surged higher in anticipation of more business-friendly regulatory, tax, and fiscal policies. U.S. and international stocks continued to rally in the spring as corporate earnings grew and global economic conditions improved. Later in the year, the passage of tax reform legislation fueled additional stock market gains.

Despite three short-term interest rate hikes and concerns early in the year that inflation might accelerate in a growing economy, bonds generally produced positive total returns in 2017. Corporate-backed securities and municipal bonds fared particularly well.

The markets' strong performance last year was supported by solid underlying fundamentals, including sustained economic growth, a robust labor market, and low inflation. We currently expect these favorable conditions to persist in 2018, but we remain watchful for economic and political developments that could negatively impact the markets. As always, we encourage you to discuss the risks and opportunities of today's investment environment with your financial advisor

Thank you for your continued confidence and support.

Sincerely,

R. LaRoche-Morris

Renee Laroche-Morris
President
The Dreyfus Corporation
January 16, 2018

DISCUSSION OF FUND PERFORMANCE

For the period from January 1, 2017 through December 31, 2017, as provided by C. Wesley Boggs, William S. Cazalet, CAIA, Ronald P. Gala, CFA, Peter D. Goslin, CFA, and Syed A. Zamil, CFA, Portfolio Managers

Market and Fund Performance Overview

For the 12-month period ended December 31, 2017, Dreyfus Investment Portfolios, MidCap Stock Portfolio's Initial shares produced a total return of 15.38%, and its Service shares produced a total return of 15.04%.[1] In comparison, the fund's benchmark, the S&P MidCap 400® Index (the "Index"), produced a total return of 16.24% for the same period.[2]

Mid-cap stocks gained ground in 2017 amid better-than-expected corporate earnings, improved economic conditions, and expectations of more stimulative U.S. government policies. The fund lagged the Index, mainly due to security selection shortfalls in the information technology sector and, to a lesser extent, the utilities sector.

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 mid-cap 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.

The portfolio managers select stocks through a "bottom-up," structured approach that seeks to identify undervalued securities using a quantitative ranking process. The process is driven by a proprietary quantitative model that measures a diverse set of corporate characteristics to identify and rank stocks based on valuation, momentum, and sentiment and earnings quality measures.

Rising Corporate Earnings Drove Markets Higher

Equities across all capitalization ranges were reenergized in the weeks before the start of 2017 in anticipation of a new presidential administration's more business-friendly regulatory, tax, and fiscal policies, which were expected to stimulate greater economic growth and an acceleration of inflation. In early 2017, better-than-expected corporate earnings and encouraging global economic developments drove the Index to a series of new highs. The market rally paused in the spring, but strengthening U.S. labor markets, further corporate earnings growth, and better global economic conditions soon sparked additional market gains. Later in the year, the market continued to rise as investors looked forward to the passage of federal tax-reform legislation.

In addition, the market's advance was supported by well-telegraphed shifts in monetary policy. Although rising interest rates historically have tended to undermine investor sentiment toward stocks, the Federal Reserve Board's gradual approach to adopting a less accommodative monetary policy was received calmly by investors, who focused more on improving business conditions and corporate earnings growth. In this environment, mid-cap stocks generally trailed their large-cap counterparts, and growth stocks substantially outperformed value-oriented stocks.

Technology Sector Shortfalls Dampened Relative Performance

Although the fund participated substantially in the Index's double-digit gains in 2017, its relative performance was constrained by some disappointing security selections in the information technology sector. Most notably, the fund's holdings of semiconductor and semiconductor equipment companies and software developers generally trailed market averages. In addition, hardware manufacturer NCR Corp. lost value after reducing the earnings guidance it provides to securities analysts. To a lesser degree, the fund's security selections in the utilities sector weighed on the fund's relative results.

Among individual stocks in other areas, mattress producer *Tempur Sealy International* lost value early in the year when a contract with a major retailer was terminated, and industrial company *HD Supply Holdings* declined when it missed quarterly earnings targets and announced a divestiture that was expected to be dilutive to earnings. Real estate investment trust Tanger Factory Outlet Centers struggled in an increasingly challenging environment for brick-and-mortar retailers.

The fund achieved better relative results in the financials sector, where several banks and insurance companies fared well in anticipation of higher short-term interest rates, reduced corporate taxes, and less stringent regulatory requirements. In the health care sector, medical instruments supplier Mettler-Toledo International demonstrated solid earnings momentum and raised its future earnings guidance. Results among energy companies benefited from relatively light exposure to many of the lagging sector's weaker performers. Other top gainers for 2017 included homebuilders NVR and KB Home and building products supplier Owens Corning, all of which benefited from earnings that exceeded expectations.

A Disciplined Approach to Stock Picking

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 mid-cap 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 16, 2018

[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 provides investors with a benchmark for midsized companies. The index measures the performance of midsized companies, reflecting the distinctive risk and return characteristics of this market segment. Investors cannot invest directly in any index.*

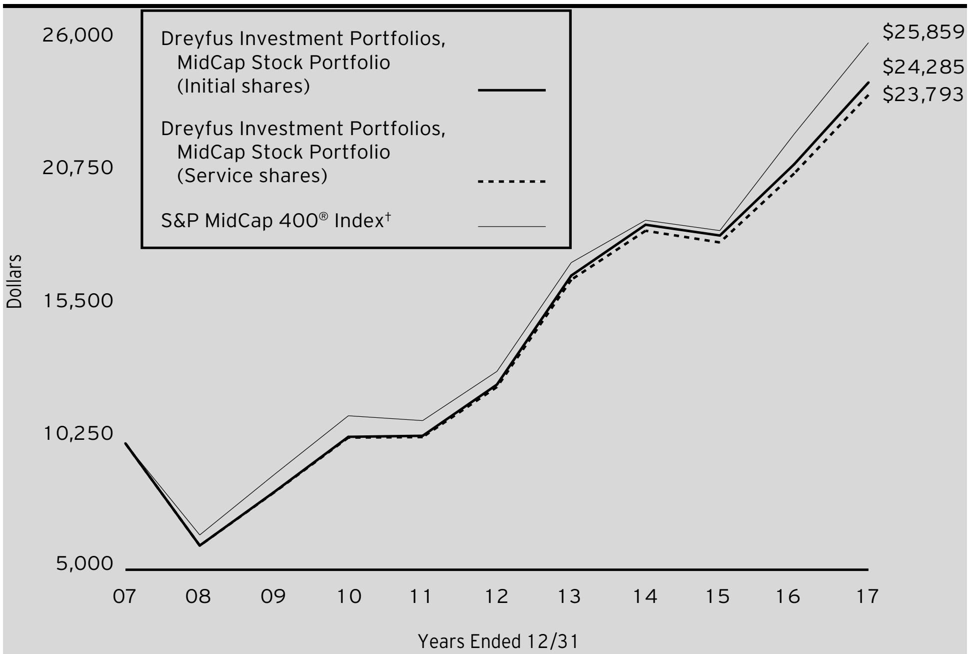
Please note: the position in any security highlighted with italicized typeface was sold during the reporting period.

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.

Stocks of mid-cap 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 those of 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.

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")

† *Source: Lipper Inc.*
Past performance is not predictive of future performance.
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 12/31/07 to a $10,000 investment made in the Index on that date.
The fund's performance shown in the line graph above takes into account all applicable fees and expenses. The Index provides investors with a benchmark for midsized companies. The Index measures the performance of midsized companies, reflecting the distinctive risk and return characteristics of this market segment. 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.

Average Annual Total Returns as of 12/31/17

	1 Year	5 Years	10 Years
Initial shares	**15.38%**	**14.52%**	**9.28%**
Service shares	**15.04%**	**14.23%**	**9.06%**
S&P MidCap 400® Index	**16.24%**	**15.01%**	**9.97%**

The performance data quoted represents past performance, which is no guarantee of future results. Share price and investment return fluctuate and an investor's shares may be worth more or less than original cost upon redemption. Current performance may be lower or higher than the performance quoted. Go to Dreyfus.com for the fund's most recent month-end returns.
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 graph and table does not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

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, 2017 to December 31, 2017. 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, 2017

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 4.56	$ 5.88
Ending value (after expenses)	$ 1,104.30	$1,102.70

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

Using the SEC's method to compare expenses

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

Expenses and Value of a $1,000 Investment
assuming a hypothetical 5% annualized return for the six months ended December 31, 2017

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

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

STATEMENT OF INVESTMENTS

December 31, 2017

Description	Shares	Value ($)
Common Stocks - 99.0%		
Automobiles & Components - 2.1%		
Dana Holding	42,950	1,374,829
Visteon	16,760 [a]	2,097,346
		3,472,175
Banks - 7.5%		
Cathay General Bancorp	63,255 [b]	2,667,463
Comerica	27,900	2,421,999
Commerce Bancshares	4,952 [b]	276,520
East West Bancorp	17,095	1,039,889
First Horizon National	143,090	2,860,369
Synovus Financial	61,250	2,936,325
UMB Financial	2,360 [b]	169,731
Washington Federal	12,120	415,110
		12,787,406
Capital Goods - 11.8%		
Curtiss-Wright	24,080	2,934,148
Donaldson	62,710	3,069,654
GATX	21,955 [b]	1,364,723
Huntington Ingalls Industries	1,635	385,370
KLX	30,100 [a]	2,054,325
Lennox International	15,365 [b]	3,199,915
Owens Corning	18,310	1,683,421
Spirit AeroSystems Holdings, Cl. A	27,575	2,405,919
Toro	44,670	2,913,824
		20,011,299
Commercial & Professional Services - 1.9%		
Copart	32,560 [a]	1,406,266
MSA Safety	23,810	1,845,751
		3,252,017
Consumer Durables & Apparel - 7.4%		
Brunswick	33,480	1,848,766
Deckers Outdoor	34,600 [a]	2,776,650
KB Home	83,550 [b]	2,669,422
NVR	640 [a]	2,245,261
Toll Brothers	63,520 [b]	3,050,230
		12,590,329
Consumer Services - 1.3%		
Graham Holdings, Cl. B	450	251,258
Royal Caribbean Cruises	16,590	1,978,855
		2,230,113
Diversified Financials - 3.5%		
Discover Financial Services	14,020	1,078,418

Description	Shares	Value ($)
Common Stocks - 99.0% (continued)		
Diversified Financials - 3.5% (continued)		
Eaton Vance	54,160	3,054,082
SEI Investments	24,470	1,758,414
		5,890,914
Energy - 1.8%		
HollyFrontier	60,520	**3,099,834**
Food, Beverage & Tobacco - 3.4%		
Campbell Soup	5,210 [b]	250,653
Conagra Brands	64,080	2,413,894
Ingredion	22,740	3,179,052
		5,843,599
Health Care Equipment & Services - 4.5%		
Halyard Health	34,060 [a]	1,572,891
Masimo	28,260 [a]	2,396,448
Varian Medical Systems	4,160 [a]	462,384
WellCare Health Plans	15,930 [a]	3,203,682
		7,635,405
Household & Personal Products - .6%		
Edgewell Personal Care	18,050 [a,b]	**1,071,990**
Insurance - 5.8%		
CNO Financial Group	114,250	2,820,832
Old Republic International	113,280	2,421,926
Primerica	26,915	2,733,218
Reinsurance Group of America	11,805	1,840,754
		9,816,730
Materials - 8.4%		
Chemours	39,020	1,953,341
FMC	1,810	171,335
Freeport-McMoRan	77,860 [a]	1,476,226
Greif, Cl. A	17,960 [b]	1,088,017
Huntsman	12,490	415,792
Louisiana-Pacific	96,090 [a]	2,523,323
Owens-Illinois	112,860 [a]	2,502,106
Sensient Technologies	10,570	773,196
Westlake Chemical	22,220	2,367,097
Worthington Industries	22,545	993,333
		14,263,766
Media - 1.9%		
John Wiley & Sons, Cl. A	20,700	1,361,025
Meredith	28,150 [b]	1,859,307
		3,220,332
Pharmaceuticals, Biotechnology & Life Sciences - 5.6%		
Agilent Technologies	11,080	742,027
Catalent	63,970 [a]	2,627,888

Description	Shares	Value ($)
Common Stocks - 99.0% (continued)		
Pharmaceuticals, Biotechnology & Life Sciences - 5.6% (continued)		
Charles River Laboratories International	23,540 [a]	2,576,453
Mettler-Toledo International	2,310 [a]	1,431,091
United Therapeutics	12,445 [a]	1,841,238
Waters	1,210 [a]	233,760
		9,452,457
Real Estate - 6.5%		
CoreCivic	6,470 [c]	145,575
First Industrial Realty Trust	84,320 [c]	2,653,550
Hospitality Properties Trust	16,075 [c]	479,839
Kilroy Realty	18,555 [c]	1,385,131
Lamar Advertising, Cl. A	36,595 [b,c]	2,716,813
LaSalle Hotel Properties	20,420 [b,c]	573,189
Piedmont Office Realty Trust, Cl. A	17,880 [c]	350,627
Potlatch	23,430 [c]	1,169,157
Tanger Factory Outlet Centers	18,480 [b,c]	489,905
Urban Edge Properties	12,030 [b,c]	306,645
Weingarten Realty Investors	24,850 [c]	816,820
		11,087,251
Retailing - 2.0%		
Best Buy	10,810	740,161
Big Lots	46,610 [b]	2,617,151
		3,357,312
Semiconductors & Semiconductor Equipment - 3.7%		
Cirrus Logic	48,270 [a]	2,503,282
Lam Research	1,280	235,610
Microsemi	4,920 [a]	254,118
ON Semiconductor	106,470 [a]	2,229,482
Skyworks Solutions	11,220	1,065,339
		6,287,831
Software & Services - 8.7%		
Acxiom	16,010 [a]	441,236
CDK Global	28,630	2,040,747
Citrix Systems	3,205 [a]	282,040
Convergys	82,375 [b]	1,935,812
DST Systems	32,390	2,010,447
Fair Isaac	15,410	2,360,812
Manhattan Associates	47,470 [a,b]	2,351,664
MAXIMUS	40,950	2,931,201
VeriSign	3,080 [a,b]	352,475
		14,706,434
Technology Hardware & Equipment - 7.6%		
F5 Networks	6,750 [a]	885,735

Description	Shares	Value ($)
Common Stocks - 99.0% (continued)		
Technology Hardware & Equipment - 7.6% (continued)		
Jabil	90,630	2,379,037
Juniper Networks	75,030	2,138,355
NCR	67,335 [a]	2,288,717
Tech Data	8,750 [a]	857,238
Vishay Intertechnology	119,160 [b]	2,472,570
Western Digital	20,420	1,624,003
Zebra Technologies, Cl. A	2,640 [a]	274,032
		12,919,687
Utilities - 3.0%		
MDU Resources Group	103,280	2,776,166
New Jersey Resources	31,180	1,253,436
PNM Resources	7,480	302,566
Westar Energy	13,200	696,960
		5,029,128
Total Common Stocks (cost $134,386,177)		**168,026,009**
Other Investment - 1.1%		
Registered Investment Company;		
Dreyfus Institutional Preferred Government Plus Money Market Fund (cost $1,813,429)	1,813,429 [d]	**1,813,429**
Investment of Cash Collateral for Securities Loaned - 3.3%		
Registered Investment Company;		
Dreyfus Institutional Preferred Government Money Market Fund, Institutional Shares (cost $5,638,451)	5,638,451 [d]	**5,638,451**
Total Investments (cost $141,838,057)	**103.4%**	**175,477,889**
Liabilities, Less Cash and Receivables	**(3.4%)**	**(5,754,615)**
Net Assets	**100.0%**	**169,723,274**

[a] *Non-income producing security.*
[b] *Security, or portion thereof, on loan. At December 31, 2017, the value of the fund's securities on loan was $14,471,941 and the value of the collateral held by the fund was $14,863,580, consisting of cash collateral of $5,638,451 and U.S. Government & Agency securities valued at $9,225,129.*
[c] *Investment in real estate investment trust.*
[d] *Investment in affiliated money market mutual fund.*

Portfolio Summary (Unaudited) †	Value (%)
Capital Goods	11.8
Software & Services	8.7
Materials	8.4
Technology Hardware & Equipment	7.6
Banks	7.5
Consumer Durables & Apparel	7.4
Real Estate	6.5
Insurance	5.8
Pharmaceuticals, Biotechnology & Life Sciences	5.6
Health Care Equipment & Services	4.5
Money Market Investments	4.4
Semiconductors & Semiconductor Equipment	3.7
Diversified Financials	3.5
Food, Beverage & Tobacco	3.4
Utilities	3.0
Automobiles & Components	2.1
Retailing	2.0
Commercial & Professional Services	1.9
Media	1.9
Energy	1.8
Consumer Services	1.3
Household & Personal Products	.6
	103.4

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

STATEMENT OF INVESTMENTS IN AFFILIATED ISSUERS

Registered Investment Companies	Value 12/31/16($)	Purchases($)	Sales($)	Value 12/31/17($)	Net Assets(%)	Dividends/ Distributions($)
Dreyfus Institutional Preferred Government Plus Money Market Fund	1,199,499	32,570,982	31,957,052	1,813,429	1.1	6,248
Dreyfus Institutional Preferred Government Money Market Fund, Institutional Shares	12,494,102	112,524,811	119,380,462	5,638,451	3.3	-
Total	**13,693,601**	**145,095,793**	**151,337,514**	**7,451,880**	**4.4**	**6,248**

See notes to financial statements.

STATEMENT OF ASSETS AND LIABILITIES

December 31, 2017

	Cost	Value
Assets ($):		
Investments in securities—See Statement of Investments		
(including securities on loan, valued at $14,471,941)—Note 1(b):		
Unaffiliated issuers	134,386,177	168,026,009
Affiliated issuers	7,451,880	7,451,880
Cash		31,779
Dividends and securities lending income receivable		209,262
Prepaid expenses		4,310
		175,723,240
Liabilities ($):		
Due to The Dreyfus Corporation and affiliates—Note 3(b)		139,283
Liability for securities on loan—Note 1(b)		5,638,451
Payable for shares of Beneficial Interest redeemed		148,135
Interest payable—Note 2		994
Accrued expenses		73,103
		5,999,966
Net Assets ($)		**169,723,274**
Composition of Net Assets ($):		
Paid-in capital		116,167,813
Accumulated undistributed investment income—net		798,237
Accumulated net realized gain (loss) on investments		19,117,392
Accumulated net unrealized appreciation (depreciation)		
on investments		33,639,832
Net Assets ($)		**169,723,274**

Net Asset Value Per Share	Initial Shares	Service Shares
Net Assets ($)	92,775,603	76,947,671
Shares Outstanding	4,112,992	3,427,550
Net Asset Value Per Share ($)	**22.56**	**22.45**

See notes to financial statements.

STATEMENT OF OPERATIONS
Year Ended December 31, 2017

Investment Income ($):	
Income:	
Cash dividends:	
Unaffiliated issuers	2,506,736
Affiliated issuers	6,248
Income from securities lending—Note 1(b)	38,540
Total Income	**2,551,524**
Expenses:	
Management fee—Note 3(a)	1,388,334
Distribution fees—Note 3(b)	172,800
Professional fees	63,862
Trustees' fees and expenses—Note 3(c)	55,871
Prospectus and shareholders' reports	53,107
Custodian fees—Note 3(b)	13,986
Loan commitment fees—Note 2	4,956
Shareholder servicing costs—Note 3(b)	1,344
Interest expense—Note 2	1,064
Miscellaneous	19,439
Total Expenses	**1,774,763**
Less—reduction in fees due to earnings credits—Note 3(b)	(115)
Net Expenses	**1,774,648**
Investment Income—Net	**776,876**
Realized and Unrealized Gain (Loss) on Investments—Note 4 ($):	
Net realized gain (loss) on investments	19,205,766
Net unrealized appreciation (depreciation) on investments	5,929,234
Net Realized and Unrealized Gain (Loss) on Investments	**25,135,000**
Net Increase in Net Assets Resulting from Operations	**25,911,876**

See notes to financial statements.

STATEMENT OF CHANGES IN NET ASSETS

	Year Ended December 31,	
	2017	2016
Operations ($):		
Investment income—net	776,876	1,868,362
Net realized gain (loss) on investments	19,205,766	3,001,502
Net unrealized appreciation (depreciation) on investments	5,929,234	19,665,475
Net Increase (Decrease) in Net Assets Resulting from Operations	**25,911,876**	**24,535,339**
Distributions to Shareholders from ($):		
Investment income—net:		
Initial Shares	(1,318,278)	(1,238,123)
Service Shares	(571,428)	(437,208)
Net realized gain on investments:		
Initial Shares	(1,947,592)	(8,219,760)
Service Shares	(1,048,153)	(3,656,285)
Total Distributions	**(4,885,451)**	**(13,551,376)**
Beneficial Interest Transactions ($):		
Net proceeds from shares sold:		
Initial Shares	7,641,567	9,957,409
Service Shares	16,117,819	15,951,441
Distributions reinvested:		
Initial Shares	3,265,870	9,457,883
Service Shares	1,619,581	4,093,493
Cost of shares redeemed:		
Initial Shares	(54,096,819)	(26,474,897)
Service Shares	(13,049,664)	(9,488,390)
Increase (Decrease) in Net Assets from Beneficial Interest Transactions	**(38,501,646)**	**3,496,939**
Total Increase (Decrease) in Net Assets	**(17,475,221)**	**14,480,902**
Net Assets ($):		
Beginning of Period	187,198,495	172,717,593
End of Period	**169,723,274**	**187,198,495**
Undistributed investment income—net	798,237	1,911,067
Capital Share Transactions (Shares):		
Initial Shares		
Shares sold	360,786	530,948
Shares issued for distributions reinvested	163,702	537,991
Shares redeemed	(2,544,770)	(1,445,546)
Net Increase (Decrease) in Shares Outstanding	**(2,020,282)**	**(376,607)**
Service Shares		
Shares sold	781,309	863,832
Shares issued for distributions reinvested	81,427	233,381
Shares redeemed	(633,009)	(514,524)
Net Increase (Decrease) in Shares Outstanding	**229,727**	**582,689**

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	2017	2016	2015	2014	2013
Per Share Data ($):					
Net asset value, beginning of period	20.09	18.95	23.03	20.87	15.68
Investment Operations:					
Investment income—net[a]	.10	.21	.18	.14	.20
Net realized and unrealized gain (loss) on investments	2.92	2.50	(.50)	2.35	5.24
Total from Investment Operations	3.02	2.71	(.32)	2.49	5.44
Distributions:					
Dividends from investment income—net	(.22)	(.21)	(.14)	(.21)	(.25)
Dividends from net realized gain on investments	(.33)	(1.36)	(3.62)	(.12)	-
Total Distributions	(.55)	(1.57)	(3.76)	(.33)	(.25)
Net asset value, end of period	22.56	20.09	18.95	23.03	20.87
Total Return (%)	15.38	15.47	(2.29)	12.09	34.99
Ratios/Supplemental Data (%):					
Ratio of total expenses to average net assets	.87	.85	.85	.85	.86
Ratio of net expenses to average net assets	.87	.85	.85	.85	.86
Ratio of net investment income to average net assets	.50	1.16	.89	.64	1.11
Portfolio Turnover Rate	64.86	65.52	80.27	83.06	68.72
Net Assets, end of period ($ x 1,000)	92,776	123,226	123,354	160,482	158,682

[a] *Based on average shares outstanding.*
See notes to financial statements.

Service Shares	Year Ended December 31, 2017	2016	2015	2014	2013
Per Share Data ($):					
Net asset value, beginning of period	20.00	18.88	22.97	20.83	15.65
Investment Operations:					
Investment income—net[a]	.06	.17	.15	.09	.16
Net realized and unrealized gain (loss) on investments	2.90	2.47	(.52)	2.34	5.23
Total from Investment Operations	2.96	2.64	(.37)	2.43	5.39
Distributions:					
Dividends from investment income—net	(.18)	(.16)	(.10)	(.17)	(.21)
Dividends from net realized gain on investments	(.33)	(1.36)	(3.62)	(.12)	-
Total Distributions	(.51)	(1.52)	(3.72)	(.29)	(.21)
Net asset value, end of period	22.45	20.00	18.88	22.97	20.83
Total Return (%)	15.04	15.20	(2.52)	11.76	34.70
Ratios/Supplemental Data (%):					
Ratio of total expenses to average net assets	1.12	1.10	1.10	1.10	1.11
Ratio of net expenses to average net assets	1.12	1.10	1.10	1.10	1.11
Ratio of net investment income to average net assets	.28	.94	.72	.40	.86
Portfolio Turnover Rate	64.86	65.52	80.27	83.06	68.72
Net Assets, end of period ($ x 1,000)	76,948	63,972	49,363	35,213	23,838

[a] *Based on average shares outstanding.*

See 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 to not accurately reflect 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, 2017 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†	168,026,009	-	-	**168,026,009**
Registered Investment Companies	7,451,880	-	-	**7,451,880**

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

At December 31, 2017, there were no transfers between levels of the fair value hierarchy. It is the fund's policy to recognize transfers between levels at the end of the reporting period.

(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, 2017, The Bank of New York Mellon earned $7,738 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.

(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, 2017, 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, 2017, the fund did not incur any interest or penalties.

Each tax year in the four-year period ended December 31, 2017 remains subject to examination by the Internal Revenue Service and state taxing authorities.

At December 31, 2017, the components of accumulated earnings on a tax basis were as follows: undistributed ordinary income $4,057,402, undistributed capital gains $15,941,184 and unrealized appreciation $33,516,329.

The tax character of distributions paid to shareholders during the fiscal periods ended December 31, 2017 and December 31, 2016 were as follows: ordinary income $1,889,706 and $1,675,331, and long-term capital gains $2,995,745 and $11,876,045, respectively.

NOTE 2—Bank Lines of Credit:

The fund participates with other Dreyfus-managed funds in an $830 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 4, 2017, the unsecured credit facility with Citibank, N.A. was $810 million. In connection therewith, the fund has agreed to pay its pro rata portion of commitment fees for each Facility. Interest is charged to the fund based on rates determined pursuant to the terms of the respective Facility at the time of borrowing.

The average amount of borrowings outstanding under the Facilities during the period ended December 31, 2017 was approximately $46,000 with a related weighted average annualized interest rate of 2.31%.

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, 2017, Service shares were charged $172,800 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, 2017, the fund was charged $896 for transfer agency services and $115 for cash management services. These fees are included in Shareholder servicing costs in the Statement of Operations. Cash management fees were offset by earnings credits of $115.

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, 2017, the fund was charged $13,986 pursuant to the custody agreement.

During the period ended December 31, 2017, the fund was charged $11,202 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 $109,957, Distribution Plan fees $16,043, custodian fees $4,589, Chief Compliance Officer fees $8,406 and transfer agency fees $288.

(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, 2017, amounted to $119,484,881 and $162,587,413, respectively.

At December 31, 2017, the cost of investments for federal income tax purposes was $141,961,560; accordingly, accumulated net unrealized appreciation on investments was $33,516,329, consisting of $35,326,382 gross unrealized appreciation and $1,810,053 gross unrealized depreciation.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying statement of assets and liabilities of Dreyfus Investment Portfolios, MidCap Stock Portfolio (one of the series comprising Dreyfus Investment Portfolios)(the "Fund"), including the statements of investments and investments in affiliated issuers, as of December 31, 2017, 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, the financial highlights for each of the five years in the period then ended and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of Dreyfus Investment Portfolios, MidCap Stock Portfolio at December 31, 2017, 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 its financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Basis for opinion

These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on the Fund's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Fund in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Fund is not required to have, nor were we engaged to perform, an audit of the Fund's internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, 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.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2017, by correspondence with the custodian and others or by other appropriate auditing procedures where replies were not received. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Ernst + Young LLP

We have served as the auditor of one or more Dreyfus investment companies since at least 1957, but we are unable to determine the specific year.

New York, New York
February 09, 2018

IMPORTANT TAX INFORMATION (Unaudited)

For federal tax purposes, the fund hereby reports 99.96% of the ordinary dividends paid during the fiscal year ended December 31, 2017 as qualifying for the corporate dividends received deduction. Shareholders will receive notification in early 2018 of the percentage applicable to the preparation of their 2017 income tax returns. Also, the fund hereby reports $0.3265 per share as a long-term capital gain distribution paid on March 22, 2017.

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 25-26, 2017, 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, 2017, 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 with representatives of Dreyfus and/or its affiliates the results of the comparisons and considered that the fund's total return performance was above the Performance Group median for all periods except for the one-year period when it was below the median and below the Performance Universe medians for all periods except the five- and ten-year periods when it was above the median. The Board considered the relative proximity of the fund's performance to the Performance Universe median during certain periods when the fund's performance was below the median. Dreyfus also provided a comparison of the fund's calendar year total returns to the returns of the fund's benchmark index, and it was considered that the fund's returns were above the returns of the index in five of the ten calendar years shown.

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 considered that the fund's contractual management fee was at the Expense Group median, the fund's actual management fee was at the Expense Group and Expense Universe medians, and the fund's total expense ratio was slightly below 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 Lipper category as the fund and (2) paid to Dreyfus or the Dreyfus-affiliated primary employer of the fund's primary portfolio manager(s) for advising any separate accounts and/or other types of client portfolios that are considered to have similar investment strategies and policies as the fund (the "Similar Clients"), and explained the nature of the Similar Clients. They discussed differences in fees paid and the relationship of the fees paid in light of any differences in the services provided and other relevant factors. The Board considered the relevance of the fee information provided for the Similar Clients to evaluate the appropriateness 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 also stated 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 took into consideration 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 continued to be appropriate under the circumstances and in light of the factors and the totality of the services provided as discussed 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 Dreyfus 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 the Agreement for the fund, or substantially similar agreements for other Dreyfus funds that the Board oversees, 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 fund's arrangements, or similar arrangements for other Dreyfus funds that the Board oversees, in prior years. The Board determined to renew the Agreement.

BOARD MEMBERS INFORMATION (Unaudited)

INDEPENDENT BOARD MEMBERS

Joseph S. DiMartino (74)
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: 127

Francine J. Bovich (66)
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., Director (May 2014-present)

No. of Portfolios for which Board Member Serves: 73

Gordon J. Davis (76)
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: 55

Isabel P. Dunst (70)
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: 33

Nathan Leventhal (74)
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: 47

Robin A. Melvin (54)
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: 101

Roslyn M. Watson (68)
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: 59

Benaree Pratt Wiley (71)
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: 81

INTERESTED BOARD MEMBERS

J. Charles Cardona (62)
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: 33

J. Charles Cardona is deemed to be an "interested person" (as defined under the Act) of the Company as a result of his previous affiliation with The Dreyfus Corporation.

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 Chief Executive Officer of MBSC Securities Corporation since August 2016. He is an officer of 63 investment companies (comprised of 127 portfolios) managed by the Manager. He is 59 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 64 investment companies (comprised of 152 portfolios) managed by the Manager. He is 46 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 64 investment companies (comprised of 152 portfolios) managed by the Manager. She is 55 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 64 investment companies (comprised of 152 portfolios) managed by the Manager. He is 51 years old and has been an employee of the Manager since December 1996.

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

Managing Counsel of BNY Mellon, and an officer of 64 investment companies (comprised of 152 portfolios) managed by the Manager. He is 56 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 64 investment companies (comprised of 152 portfolios) managed by the Manager. She is 55 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 64 investment companies (comprised of 152 portfolios) managed by the Manager. She is 42 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 64 investment companies (comprised of 152 portfolios) managed by the Manager. He is 52 years old and has been an employee of the Manager since October 1990.

NATALYA ZELENSKY, Vice President and Assistant Secretary since March 2017.

Counsel and Vice President of BNY Mellon since May 2016; Attorney at Wildermuth Endowment Strategy Fund/Wildermuth Advisory, LLC from November 2015 until May 2016; Assistant General Counsel at RCS Advisory Services from July 2014 until November 2015; Associate at Sutherland, Asbill & Brennan from January 2013 until January 2014; Associate at K&L Gates from October 2011 until January 2013. She is an officer of 64 investment companies (comprised of 152 portfolios) managed by Dreyfus. She is 32 years old and has been an employee of the Manager since May 2016.

JAMES WINDELS, Treasurer since November 2001.

Director – Mutual Fund Accounting of the Manager, and an officer of 64 investment companies (comprised of 152 portfolios) managed by the Manager. He is 59 years old and has been an employee of the Manager since April 1985.

RICHARD CASSARO, Assistant Treasurer since January 2008.

Senior Accounting Manager – Money Market and Municipal Bond Funds of the Manager, and an officer of 64 investment companies (comprised of 152 portfolios) managed by the Manager. He is 58 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 64 investment companies (comprised of 152 portfolios) managed by the Manager. He is 49 years old and has been an employee of the Manager since April 1991.

ROBERT S. ROBOL, Assistant Treasurer since August 2002.

Senior Accounting Manager – Dreyfus Financial Reporting of the Manager, and an officer of 64 investment companies (comprised of 152 portfolios) managed by the Manager. He is 53 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 64 investment companies (comprised of 152 portfolios) managed by the Manager. He is 50 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 64 investment companies (comprised of 152 portfolios) managed by the Manager. He is 50 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 (64 investment companies, comprised of 152 portfolios). He is 60 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 58 investment companies (comprised of 146 portfolios) managed by the Manager. She is 49 years old and has been an employee of the Distributor since 1997.

NOTES

NOTES

For More Information

Dreyfus Investment Portfolios, MidCap Stock Portfolio

200 Park Avenue
New York, NY 10166

Manager

The Dreyfus Corporation
200 Park Avenue
New York, NY 10166

Custodian

The Bank of New York Mellon
225 Liberty Street
New York, NY 10286

Transfer Agent & Dividend Disbursing Agent

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

Distributor

MBSC Securities Corporation
200 Park Avenue
New York, NY 10166

Telephone 1-800-258-4260 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, D.C. 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 Sustainable U.S. Equity Portfolio, Inc.

ANNUAL REPORT
December 31, 2017

BNY MELLON | Dreyfus

Contents

THE FUND

FOR MORE INFORMATION

A LETTER FROM THE PRESIDENT OF DREYFUS

Dear Shareholder:

We are pleased to present this annual report for The Dreyfus Sustainable U.S. Equity Portfolio, Inc., covering the 12-month period from January 1, 2017 through December 31, 2017. 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 set a series of new record highs and bonds produced modestly positive results during 2017. Financial markets early in the year were dominated by the inauguration of a new U.S. president, as equities and corporate-backed bonds surged higher in anticipation of more business-friendly regulatory, tax, and fiscal policies. U.S. and international stocks continued to rally in the spring as corporate earnings grew and global economic conditions improved. Later in the year, the passage of tax reform legislation fueled additional stock market gains.

Despite three short-term interest rate hikes and concerns early in the year that inflation might accelerate in a growing economy, bonds generally produced positive total returns in 2017. Corporate-backed securities and municipal bonds fared particularly well.

The markets' strong performance last year was supported by solid underlying fundamentals, including sustained economic growth, a robust labor market, and low inflation. We currently expect these favorable conditions to persist in 2018, but we remain watchful for economic and political developments that could negatively impact the markets. As always, we encourage you to discuss the risks and opportunities of today's investment environment with your financial advisor.

Thank you for your continued confidence and support.

Sincerely,

Renee Laroche-Morris
President
The Dreyfus Corporation
January 16, 2018

DISCUSSION OF FUND PERFORMANCE

For the period from January 1, 2017 through December 31, 2017, as provided by portfolio managers John Gilmore, Jeff Munroe, and Terry Coles of Newton Investment Management (North America) Limited, Sub-Investment Adviser

Market and Fund Performance Overview

For the 12-month period ended December 31, 2017, The Dreyfus Sustainable U.S. Equity Portfolio, Inc.'s Initial shares produced a total return of 15.33%, and the fund's Service shares returned 15.04%.[1] In comparison, the fund's benchmark, the S&P 500® Index (the "Index"), produced a total return of 21.82% for the same period.[2]

U.S. stocks gained ground amid rising corporate earnings and expectations of more stimulative U.S. government policies. The fund lagged the Index, mainly due to shortfalls in the consumer discretionary, financials, and industrials sectors.

Effective May 1, 2017, Newton Investment Management (North America) Limited became the sub-investment adviser to the fund, and John Gilmore, Jeff Munroe, and Terry Coles became the fund's portfolio managers.

The Fund's Investment Approach

Effective May 1, 2017, the fund seeks long-term capital appreciation. To pursue its goal, the fund normally invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of U.S. companies that demonstrate attractive investment attributes and sustainable business practices, and have no material unresolvable environmental, social, and governance (ESG) issues. The fund invests principally in common stocks, focusing on companies with market capitalizations of $5 billion or more at the time of purchase. The fund may invest up to 20% of its assets in the stocks of foreign companies, including up to 10% in the stocks of companies in emerging market countries.

We use quantitative and qualitative fundamental analyses to identify attractively priced companies with good products, strong management, and strategic direction that have adopted, or are making progress toward, a sustainable business approach. We employ an investment process that combines investment themes with fundamental research and analysis to select stocks for the fund's portfolio.

Prior to May 1, 2017, the fund sought capital growth, with income as a secondary objective, and pursued its goal by using a quantitative security selection process and investment screens to identify stocks that met the fund's socially responsible investment criteria.

Corporate Earnings Growth Bolstered Stocks

U.S. stocks advanced strongly during 2017. A declining unemployment rate and rising corporate earnings helped drive the Index to a series of new highs throughout the year. The passage of tax-reform legislation further bolstered stock market performance during the fourth quarter.

The market's rise was led by very large information technology companies that capitalized on trends toward online commerce, mobile communications, and cloud computing. The financials sector also produced impressive gains as net interest margins improved and regulatory burdens eased. In contrast, energy and telecommunication services stocks lost a degree of value.

Consumer Discretionary Stocks Dampened Fund Results

Over the first four months of 2017, the fund was managed using a quantitative security selection process. During that time, security selections in the health care and telecommunication services sectors fared well, but their positive contributions were somewhat offset by relative weakness in the consumer discretionary and consumer staples sectors. *Waters Corp., Agilent Technologies,* and *Tiffany & Co.* ranked among the fund's top holdings, while *Signet Jewelers* and *Campbell Soup* lagged market averages at the time.

Beginning on May 1, 2017, the current management team restructured the portfolio to reflect the fund's changed investment objective and mandate. Over the final eight months of the year, a handful of disappointing holdings overwhelmed more modestly positive contributions. In the consumer discretionary sector, household goods maker Newell Brands struggled with higher input costs and a shift in the company's distribution channels from brick-and-mortar retailers to e-commerce. Broadcaster *Discovery Communications* lost subscribers due to changing viewing habits. Travel website TripAdvisor's business transition provided limited improvement in financial results. In the financials sector, Mexican micro-finance lender Gentera reported weaker-than-expected quarterly results as loan growth decelerated. The fund's results in the industrials sector were undermined by *Equifax,* which contended with a massive data breach. Lack of exposure to lagging conglomerate *General Electric* over most of the year was not enough to fully offset weakness in other areas of the industrials sector.

On the other hand, the fund's stock selection strategy in the consumer staples sector supported relative performance. Blue Buffalo Pet Products gained value following the announcement of its entry into the mass grocery channel. In the information technology sector, South Korean lithium battery manufacturer Samsung SDI benefited from rising demand for electronic vehicle batteries and its exposure to organic light-emitting diode (OLED) technology. Software giant Microsoft reported higher revenues from all divisions, most notably its cloud computing businesses.

A Focus on Fundamentals and Sustainability

Stocks have maintained strong momentum as a result of easy monetary policies, cheap debt financing, and U.S. tax-reform legislation. Nonetheless, economic and market turbulence could increase as central banks withdraw monetary stimulus and the world continues to face challenging demographics, technological change, and heavy debt burdens.

Against this backdrop, we have continued to emphasize long-term investments with the capacity to grow in a variety of market and economic conditions. In addition, our focus on sustainability provides a useful perspective. As of the reporting period's end, the fund has maintained significantly overweighted positions in the information technology and consumer staples sectors, but we have identified relatively few opportunities meeting our investment criteria in the energy, utilities, real estate, and financials sectors.

January 16, 2018

[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. The fund's returns reflect the absorption of certain fund expenses by The Dreyfus Corporation pursuant to an agreement in effect through May 1, 2018, at which time it may be extended, terminated, or modified.*

[2] *Source: Lipper Inc. — The S&P 500® Index is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. Investors cannot invest directly in any index.*

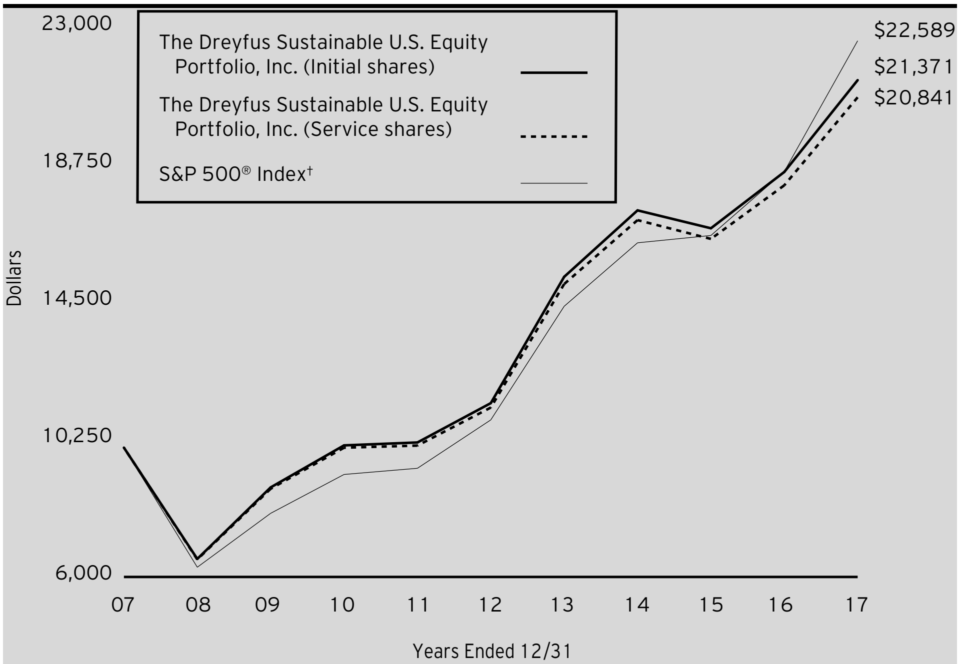
Please note: the position in any security highlighted with italicized typeface was sold during the reporting period.

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 consideration of ESG issues in the securities selection process may cause the fund to perform differently from funds that do not integrate consideration of ESG issues when selecting investments.

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 Sustainable U.S. Equity Portfolio, Inc. made available through insurance products may be similar to those of 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.

FUND PERFORMANCE



Comparison of change in value of $10,000 investment in The Dreyfus Sustainable U.S. Equity Portfolio, Inc. Initial shares and Service shares and the S&P 500® Index (the "Index")

† *Source: Lipper Inc.*

Past performance is not predictive of future performance. 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 Sustainable U.S. Equity Portfolio, Inc. on 12/31/07 to a $10,000 investment made in the Index on that date.

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 widely regarded as the best single gauge of large-cap U.S. equities. The Index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. 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.

Average Annual Total Returns as of 12/31/17	1 Year	5 Years	10 Years
Initial shares	**15.33%**	**13.44%**	**7.89%**
Service shares	**15.04%**	**13.14%**	**7.62%**
S&P 500® Index	**21.82%**	**15.78%**	**8.49%**

The performance data quoted represents past performance, which is no guarantee of future results. Share price and investment return fluctuate and an investor's shares may be worth more or less than original cost upon redemption. Current performance may be lower or higher than the performance quoted. Go to Dreyfus.com for the fund's most recent month-end returns.

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 graph and table does not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

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 Sustainable U.S. Equity Portfolio, Inc. from July 1, 2017 to December 31, 2017. 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, 2017

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 3.65	$ 4.96
Ending value (after expenses)	$ 1,071.30	$ 1,070.20

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, 2017

	Initial Shares	Service Shares
Expenses paid per $1,000†	$ 3.57	$ 4.84
Ending value (after expenses)	$ 1,021.68	$ 1,020.42

† *Expenses are equal to the fund's annualized expense ratio of .70% for Initial shares and .95% for Service shares, multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period).*

STATEMENT OF INVESTMENTS
December 31, 2017

Description	Shares	Value ($)
Common Stocks - 98.0%		
Banks - 3.3%		
Citigroup	104,294	**7,760,517**
Capital Goods - 2.9%		
Ferguson	95,367	**6,823,748**
Consumer Durables & Apparel - 5.6%		
Mattel	196,455	3,021,478
Newell Brands	145,391	4,492,582
PulteGroup	96,223	3,199,415
Under Armour, Cl. A	179,149 [a]	2,585,120
		13,298,595
Consumer Services - 1.6%		
McDonald's	21,619	**3,721,062**
Diversified Financials - 1.0%		
Gentera	2,836,532	**2,357,225**
Food & Staples Retailing - 4.7%		
Costco Wholesale	30,233	5,626,966
Walgreens Boots Alliance	73,937	5,369,305
		10,996,271
Food, Beverage & Tobacco - 2.6%		
Blue Buffalo Pet Products	184,212 [a]	**6,040,311**
Health Care Equipment & Services - 5.4%		
Cerner	68,386 [a]	4,608,533
Medtronic	102,197	8,252,408
		12,860,941
Household & Personal Products - 8.6%		
Colgate-Palmolive	99,046	7,473,021
Coty	278,271	5,534,810
Procter & Gamble	80,308	7,378,699
		20,386,530
Insurance - 4.9%		
Intact Financial	81,268	6,787,850
Principal Financial Group	69,222	4,884,304
		11,672,154
Materials - 2.5%		
Albemarle	45,691	**5,843,422**
Pharmaceuticals, Biotechnology & Life Sciences - 5.5%		
Gilead Sciences	181,686	**13,015,985**
Real Estate - 1.0%		
Redwood Trust	156,540 [b]	**2,319,923**
Retailing - 3.5%		
Dollar General	46,742	4,347,473

Description	Shares	Value ($)
Common Stocks - 98.0% (continued)		
Retailing - 3.5% (continued)		
TripAdvisor	111,385 [a]	3,838,327
		8,185,800
Semiconductors & Semiconductor Equipment - 6.9%		
Applied Materials	214,146	10,947,143
Maxim Integrated Products	103,453	5,408,523
		16,355,666
Software & Services - 24.1%		
Accenture, Cl. A	26,896	4,117,509
Alphabet, Cl. A	10,544 [a]	11,107,050
Alphabet, Cl. C	7,153 [a]	7,484,899
Cognizant Technology Solutions, Cl. A	79,047	5,613,918
Intuit	49,037	7,737,058
Microsoft	205,226	17,555,032
Western Union	178,894	3,400,775
		57,016,241
Technology Hardware & Equipment - 8.4%		
Cisco Systems	187,323	7,174,471
Samsung SDI, GDR	139,519 [c]	6,662,841
Stratasys	114,342 [a]	2,282,266
Trimble	89,765 [a]	3,648,050
		19,767,628
Transportation - 2.2%		
CH Robinson Worldwide	59,728	**5,321,167**
Utilities - 3.3%		
Eversource Energy	123,182	**7,782,639**
Total Common Stocks (cost $204,213,370)		**231,525,825**
Other Investment - 2.0%		
Registered Investment Company;		
Dreyfus Institutional Preferred Government Plus Money Market Fund (cost $4,831,655)	4,831,655 [d]	**4,831,655**
Total Investments (cost $209,045,025)	**100.0%**	**236,357,480**
Liabilities, Less Cash and Receivables	**.0%**	**(5,759)**
Net Assets	**100.0%**	**236,351,721**

GDR—Global Depository Receipt

[a] *Non-income producing security.*
[b] *Investment in real estate investment trust.*
[c] *Security exempt from registration pursuant to Rule 144A under the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers. At December 31, 2017, these securities were valued at $6,662,841 or 2.82% of net assets.*
[d] *Investment in affiliated money market mutual fund.*

STATEMENT OF INVESTMENTS (continued)

Portfolio Summary (Unaudited) †	Value (%)
Software & Services	24.1
Household & Personal Products	8.6
Technology Hardware & Equipment	8.4
Semiconductors & Semiconductor Equipment	6.9
Consumer Durables & Apparel	5.6
Pharmaceuticals, Biotechnology & Life Sciences	5.5
Health Care Equipment & Services	5.4
Insurance	4.9
Food & Staples Retailing	4.7
Retailing	3.5
Utilities	3.3
Banks	3.3
Capital Goods	2.9
Food, Beverage & Tobacco	2.6
Materials	2.5
Transportation	2.2
Money Market Investment	2.0
Consumer Services	1.6
Diversified Financials	1.0
Real Estate	1.0
	100.0

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

STATEMENT OF INVESTMENTS IN AFFILIATED ISSUERS

Registered Investment Companies	Value 12/31/16($)	Purchases($)	Sales($)	Value 12/31/17($)	Net Assets(%)	Dividends/ Distributions($)
Dreyfus Institutional Preferred Government Plus Money Market Fund	1,675,223	56,151,974	52,995,542	4,831,655	2.0	26,446
Dreyfus Institutional Preferred Government Money Market Fund, Institutional Shares	3,269,178	28,421,947	31,691,125	-	-	-
Total	**4,994,401**	**84,573,921**	**84,686,667**	**4,831,655**	**2.0**	**26,446**

See notes to financial statements.

STATEMENT OF ASSETS AND LIABILITIES

December 31, 2017

	Cost	Value
Assets ($):		
Investments in securities—See Statement of Investments:		
Unaffiliated issuers	204,213,370	231,525,825
Affiliated issuers	4,831,655	4,831,655
Cash		21,191
Dividends receivable		141,265
Prepaid expenses		103,019
		236,622,955
Liabilities ($):		
Due to The Dreyfus Corporation and affiliates—Note 3(c)		138,038
Payable for shares of Common Stock redeemed		62,730
Accrued expenses		70,466
		271,234
Net Assets ($)		**236,351,721**
Composition of Net Assets ($):		
Paid-in capital		163,511,027
Accumulated undistributed investment income—net		2,366,945
Accumulated net realized gain (loss) on investments		43,160,606
Accumulated net unrealized appreciation (depreciation) on investments and foreign currency transactions		27,313,143
Net Assets ($)		**236,351,721**

Net Asset Value Per Share	Initial Shares	Service Shares
Net Assets ($)	226,077,815	10,273,906
Shares Outstanding	5,614,003	258,137
Net Asset Value Per Share ($)	**40.27**	**39.80**

See notes to financial statements.

STATEMENT OF OPERATIONS

Year Ended December 31, 2017

Investment Income ($):	
Income:	
Cash dividends (net of $16,694 foreign taxes withheld at source):	
Unaffiliated issuers	4,176,914
Affiliated issuers	26,446
Income from securities lending—Note 1(c)	4,236
Total Income	**4,207,596**
Expenses:	
Management fee—Note 3(a)	1,544,822
Professional fees	162,717
Directors' fees and expenses—Note 3(d)	77,635
Prospectus and shareholders' reports	75,182
Distribution fees—Note 3(b)	27,562
Custodian fees—Note 3(c)	21,048
Loan commitment fees—Note 2	5,371
Shareholder servicing costs—Note 3(c)	1,931
Miscellaneous	21,455
Total Expenses	**1,937,723**
Less—reduction in expenses due to undertaking—Note 3(a)	(65,850)
Less—reduction in fees due to earnings credits—Note 3(c)	(210)
Net Expenses	**1,871,663**
Investment Income—Net	**2,335,933**
Realized and Unrealized Gain (Loss) on Investments—Note 4 ($):	
Net realized gain (loss) on investments and foreign currency transactions	43,290,426
Net realized gain (loss) on forward foreign currency exchange contracts	(3,555)
Net Realized Gain (Loss)	**43,286,871**
Net unrealized appreciation (depreciation) on investments and foreign currency transactions	(11,803,414)
Net Realized and Unrealized Gain (Loss) on Investments	**31,483,457**
Net Increase in Net Assets Resulting from Operations	**33,819,390**

See notes to financial statements.

STATEMENT OF CHANGES IN NET ASSETS

	Year Ended December 31,	
	2017	2016
Operations ($):		
Investment income—net	2,335,933	2,741,722
Net realized gain (loss) on investments	43,286,871	15,872,537
Net unrealized appreciation (depreciation) on investments	(11,803,414)	3,697,883
Net Increase (Decrease) in Net Assets Resulting from Operations	**33,819,390**	**22,312,142**
Distributions to Shareholders from ($):		
Investment income—net:		
Initial Shares	(2,632,049)	(2,857,548)
Service Shares	(108,956)	(102,266)
Net realized gain on investments:		
Initial Shares	(15,130,712)	(21,711,406)
Service Shares	(772,217)	(979,667)
Total Distributions	**(18,643,934)**	**(25,650,887)**
Capital Stock Transactions ($):		
Net proceeds from shares sold:		
Initial Shares	6,289,382	6,741,612
Service Shares	1,369,778	1,365,965
Distributions reinvested:		
Initial Shares	17,762,761	24,568,954
Service Shares	881,173	1,081,933
Cost of shares redeemed:		
Initial Shares	(33,706,023)	(34,374,138)
Service Shares	(3,477,410)	(1,341,096)
Increase (Decrease) in Net Assets from Capital Stock Transactions	**(10,880,339)**	**(1,956,770)**
Total Increase (Decrease) in Net Assets	**4,295,117**	**(5,295,515)**
Net Assets ($):		
Beginning of Period	232,056,604	237,352,119
End of Period	**236,351,721**	**232,056,604**
Undistributed investment income—net	2,366,945	2,740,173
Capital Share Transactions (Shares):		
Initial Shares		
Shares sold	163,577	187,407
Shares issued for distributions reinvested	481,245	711,731
Shares redeemed	(872,998)	(956,073)
Net Increase (Decrease) in Shares Outstanding	**(228,176)**	**(56,935)**
Service Shares		
Shares sold	35,925	38,332
Shares issued for distributions reinvested	24,109	31,617
Shares redeemed	(92,472)	(37,803)
Net Increase (Decrease) in Shares Outstanding	**(32,438)**	**32,146**

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	2017	2016	2015	2014	2013
Per Share Data ($):					
Net asset value, beginning of period	37.86	38.56	45.97	44.09	33.24
Investment Operations:					
Investment income—net[a]	.38	.44	.47	.45	.46
Net realized and unrealized gain (loss) on investments	5.14	3.15	(1.54)	5.07	10.87
Total from Investment Operations	5.52	3.59	(1.07)	5.52	11.33
Distributions:					
Dividends from investment income—net	(.46)	(.50)	(.47)	(.48)	(.48)
Dividends from net realized gain on investments	(2.65)	(3.79)	(5.87)	(3.16)	–
Total Distributions	(3.11)	(4.29)	(6.34)	(3.64)	(.48)
Net asset value, end of period	40.27	37.86	38.56	45.97	44.09
Total Return (%)	15.33	10.38	(3.20)	13.45	34.34
Ratios/Supplemental Data (%):					
Ratio of total expenses to average net assets	.80	.86	.86	.84	.86
Ratio of net expenses to average net assets	.77	.86	.86	.84	.86
Ratio of net investment income to average net assets	.99	1.21	1.14	1.02	1.19
Portfolio Turnover Rate	119.51	60.67	59.57	45.05	38.81
Net Assets, end of period ($ x 1,000)	226,078	221,172	227,483	270,483	264,713

[a] *Based on average shares outstanding.*
See notes to financial statements.

	Year Ended December 31,				
Service Shares	2017	2016	2015	2014	2013
Per Share Data ($):					
Net asset value, beginning of period	37.46	38.19	45.58	43.76	33.01
Investment Operations:					
Investment income—net[a]	.28	.34	.36	.33	.36
Net realized and unrealized gain (loss) on investments	5.08	3.12	(1.52)	5.04	10.78
Total from Investment Operations	5.36	3.46	(1.16)	5.37	11.14
Distributions:					
Dividends from investment income—net	(.37)	(.40)	(.36)	(.39)	(.39)
Dividends from net realized gain on investments	(2.65)	(3.79)	(5.87)	(3.16)	–
Total Distributions	(3.02)	(4.19)	(6.23)	(3.55)	(.39)
Net asset value, end of period	39.80	37.46	38.19	45.58	43.76
Total Return (%)	15.04	10.08	(3.41)	13.13	33.99
Ratios/Supplemental Data (%):					
Ratio of total expenses to average net assets	1.05	1.11	1.11	1.09	1.11
Ratio of net expenses to average net assets	1.02	1.11	1.11	1.09	1.11
Ratio of net investment income to average net assets	.74	.96	.89	.76	.93
Portfolio Turnover Rate	119.51	60.67	59.57	45.05	38.81
Net Assets, end of period ($ x 1,000)	10,274	10,884	9,869	10,632	8,767

[a] *Based on average shares outstanding.*

See notes to financial statements.

NOTE 1—Significant Accounting Policies:

The Dreyfus Sustainable U.S. Equity Portfolio, 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 long-term capital appreciation. 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. Newton Investment Management (North America) Limited ("Newton"), a wholly-owned subsidiary of BNY Mellon and an affiliate of Dreyfus, serves as the fund's sub-investment adviser. Effective May 1, 2017, Newton replaced Mellon Capital Management as the sub-investment adviser to the fund.

The fund's Board of Directors (the "Board") approved, effective May 1, 2017, a change in the fund's name from "The Dreyfus Socially Responsible Growth Fund, Inc." to "The Dreyfus Sustainable U.S. Equity Portfolio, Inc.".

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 to not accurately reflect fair value, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded (for example, a foreign exchange or market), but before the fund calculates its net asset value, the fund may value these investments at fair value as determined in accordance with the procedures approved by the Board. 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.

Investments denominated in foreign currencies are translated to U.S. dollars at the prevailing rates of exchange.

Forward foreign currency exchange contracts ("forward contracts") are valued at the forward rate and are generally categorized within Level 2 of the fair value hierarchy.

The following is a summary of the inputs used as of December 31, 2017 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†	208,894,161	-	-	**208,894,161**
Equity Securities - Foreign Common Stocks†	6,662,841	15,968,823††	-	**22,631,664**
Registered Investment Companies	4,831,655	-	-	**4,831,655**

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

†† *Securities classified within Lecel 2 at period end as the values were determined pursuant to the fund's fair valuation procedures.*

At December 31, 2017, the amount of securities transferred between levels equals fair value of exchange traded equity securities reported as Level 2 in the table above. It is the fund's policy to recognize transfers between levels at the end of the reporting period.

(b) Foreign currency transactions: The fund does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in the market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss on investments.

Net realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized on securities transactions between trade and settlement date, and 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 exchange gains and losses arise from changes in the value of assets and liabilities other than investments resulting from changes in exchange rates. Foreign currency gains and losses on foreign currency transactions are also included with net realized and unrealized gain or loss on investments.

(c) 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, 2017, The Bank of New York Mellon earned $1,058 from lending portfolio securities, pursuant to the securities lending agreement.

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

(e) 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.

(f) 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, 2017, 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, 2017, the fund did not incur any interest or penalties.

Each tax year in the four-year period ended December 31, 2017 remains subject to examination by the Internal Revenue Service and state taxing authorities.

At December 31, 2017, the components of accumulated earnings on a tax basis were as follows: undistributed ordinary income $9,612,130, undistributed capital gains $37,625,134 and unrealized appreciation $25,603,430.

The tax character of distributions paid to shareholders during the fiscal periods ended December 31, 2017 and December 31, 2016 were as follows: ordinary income $4,614,655 and $2,959,814, and long-term capital gains $14,029,279 and $22,691,073, respectively.

During the period ended December 31, 2017, as a result of permanent book to tax differences, primarily due to the tax treatment for foreign currency gains and losses and passive foreign investment companies, the fund increased accumulated undistributed investment income-net by $31,844 and decreased accumulated net realized gain (loss) on investments by the same amount. Net assets and net asset value per share were not affected by this reclassification.

NOTE 2—Bank Lines of Credit:

The fund participates with other Dreyfus-managed funds in an $830 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 4, 2017, the unsecured credit facility with Citibank, N.A. was $810 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, 2017, the fund did not borrow under the Facilities.

NOTE 3—Management Fee, Sub-Investment Advisory Fee and Other Transactions with Affiliates:

(a) Pursuant to the management agreement with Dreyfus, the management fee is computed at an annual rate of .60% of the value of the fund's average daily net assets and is payable monthly. Effective as of May 1, 2017, the Board approved a reduction in the management fee from an annual rate of .75% to an annual rate of .60% of the value of the fund's average daily net assets.

Dreyfus has contractually agreed, from May 1, 2017 through May 1, 2018, to waive receipt of its fees and/or assume the direct expenses of the fund so that the expenses of neither class (excluding Rule 12b-1 Distribution Plan fees, Shareholder Services Plan fees, taxes, interest expense, brokerage commission, commitment fees on borrowings and extraordinary expenses) exceed .70% of the value of the fund's average daily net assets. The reduction in expenses, pursuant to the undertaking, amounted to $65,850 during the period ended December 31, 2017.

Pursuant to the separate sub-investment advisory agreement between Dreyfus and Newton, Newton serves as the fund's sub-investment adviser responsible for the day-to-day management of the fund's portfolio. Dreyfus pays the sub-investment adviser a monthly fee at an annual percentage of the value of the fund's average daily net assets. Dreyfus has obtained an exemptive order from the SEC (the "Order"), upon which the fund may rely, to use a manager of managers approach that permits Dreyfus, subject to certain conditions and approval by the Board, to enter into and materially amend sub-investment advisory agreements with one or more sub-investment advisers who are either unaffiliated with Dreyfus or are wholly-owned subsidiaries (as defined under the Act) of Dreyfus' ultimate parent company, BNY Mellon, without obtaining shareholder approval. The Order also allows the fund to disclose the sub-investment advisory fee paid by Dreyfus to any unaffiliated sub-investment adviser in the aggregate with other unaffiliated sub-investment advisers in documents filed with the SEC and provided to shareholders. In addition, pursuant to the Order, it is not necessary to disclose the sub-investment advisory fee payable by Dreyfus separately to a sub-investment adviser that is a wholly-owned subsidiary of BNY Mellon in documents filed with the SEC and provided to shareholders; such fees are to be aggregated with fees payable to Dreyfus. Dreyfus has ultimate responsibility (subject to oversight by the Board) to supervise any sub-investment adviser and recommend the hiring, termination, and replacement of any sub-investment adviser to the Board.

(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, 2017, Service shares were charged $27,562 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, 2017, 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, 2017, the fund was charged $1,139 for transfer agency services and $145 for cash management services. These fees are included in Shareholder servicing costs in the Statement of Operations. Cash management fees were offset by earnings credits of $145.

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, 2017, the fund was charged $21,048 pursuant to the custody agreement. These fees were partially offset by earnings credits of $65.

During the period ended December 31, 2017, the fund was charged $11,202 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 $121,055 and Distribution Plan fees $2,192, custodian fees $6,005, Chief Compliance Officer fees $8,406 and transfer agency fees $385, which are offset against an expense reimbursement currently in effect in the amount of $5.

(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 and forward contracts, during the period ended December 31, 2017, amounted to $281,200,480 and $311,362,644, respectively.

Derivatives: A derivative is a financial instrument whose performance is derived from the performance of another asset. The fund enters into International Swaps and Derivatives Association, Inc. Master Agreements or similar agreements (collectively, "Master Agreements") with its over-the-counter ("OTC") derivative contract counterparties in order to, among other things, reduce its credit risk to counterparties. Master Agreements include provisions for general obligations, representations, collateral and events of default or termination. Under a Master Agreement, the fund may offset with the counterparty certain derivative financial instrument's payables and/or receivables with collateral held and/or posted and create one single net payment in the event of default or termination.

Each type of derivative instrument that was held by the fund during the period ended December 31, 2017 is discussed below.

Forward Foreign Currency Exchange Contracts: The fund enters into forward contracts in order to hedge its exposure to changes in foreign currency exchange rates on its foreign portfolio holdings, to settle foreign currency transactions or as a part of its investment strategy. When executing forward contracts, the fund is obligated to buy or sell a foreign currency at a specified rate on a certain date in the future. With respect to sales of forward contracts, the fund incurs a loss if the value of the contract increases between the date the forward contract is opened and the date the forward contract is closed. The fund realizes a gain if the value of the contract decreases between those dates. With respect to purchases of forward contracts, the fund incurs a loss if the value of the contract decreases between the date the forward contract is opened and the date the forward contract is closed. The fund realizes a gain if the value of the contract increases between those dates. Any realized or unrealized gains or losses which occurred during the period are reflected in the Statement of Operations. The fund is exposed to foreign currency risk as a result of changes in value of underlying financial instruments. The fund is also exposed to credit risk associated with counterparty nonperformance on these forward contracts, which is generally limited to the unrealized gain on each open contract. This risk may be mitigated by Master Agreements, if any, between the fund and the counterparty and the posting of collateral, if any, by the counterparty to the fund to cover the fund's exposure to the counterparty. At December 31, 2017, there were no outstanding forward contracts.

The following summarizes the average market value of derivatives outstanding during the period ended December 31, 2017:

	Average Market Value ($)
Forward contracts	46,992

At December 31, 2017, the cost of investments for federal income tax purposes was $210,754,738; accordingly, accumulated net unrealized appreciation on investments was $25,602,742, consisting of $37,023,061 gross unrealized appreciation and $11,420,319 gross unrealized depreciation.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of The Dreyfus Sustainable U.S. Equity Portfolio, Inc. (formerly, The Dreyfus Socially Responsible Growth Fund, Inc.)

Opinion on the Financial Statements

We have audited the accompanying statement of assets and liabilities of The Dreyfus Sustainable U.S. Equity Portfolio, Inc. (formerly, The Dreyfus Socially Responsible Growth Fund, Inc.) (the "Fund"), including the statements of investments and investments in affiliated issuers, as of December 31, 2017, 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, the financial highlights for each of the five years in the period then ended and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of The Dreyfus Sustainable U.S. Equity Portfolio, Inc. (formerly, The Dreyfus Socially Responsible Growth Fund, Inc.) at December 31, 2017, 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 its financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Basis for opinion

These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on the Fund's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Fund in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Fund is not required to have, nor were we engaged to perform, an audit of the Fund's internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, 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.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2017, by correspondence with the custodian and others or by other appropriate auditing procedures where replies were not received. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Ernst + Young LLP

We have served as the auditor of one or more Dreyfus investment companies since at least 1957, but we are unable to determine the specific year.

New York, New York
February 09, 2018

IMPORTANT TAX INFORMATION (Unaudited)

For federal tax purposes, the portfolio hereby reports 97.13% of the ordinary dividends paid during the fiscal year ended December 31, 2017 as qualifying for the corporate dividends received deduction. Shareholders will receive notification in early 2018 of the percentage applicable to the preparation of their 2017 income tax returns. Also, the fund hereby reports $.3123 per share as a short-term capital gain distribution and $2.3384 per share as a long-term capital gain distribution paid on March 20, 2017.

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

At a meeting of the fund's Board of Directors held on July 25-26, 2017, 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 Lipper category as that of the fund, all for various periods ended May 31, 2017, (2) at the request of Dreyfus, the fund's performance with the performance of a group of social criteria funds from various Lipper categories ("Performance Group 2") and with a broader group of social criteria funds ("Performance Universe 2"), all for various periods ended May 31, 2017, 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. The Board discussed with representatives of Dreyfus and/or its affiliates the results of the comparisons and considered that the fund's total return performance was at or above the Performance Group 1 median for all periods, except for the one- and five-year period when it was below the Performance Group 1 median; below the Performance Group 2 median for all periods except the ten-year period, when it was above the median; and above the Performance Universe 1 and 2 medians for all periods except for the five-year period, when it was below the medians. The Board considered the relative proximity of the fund's performance to the median of Performance Group 1, Performance Group Universe 1 and/or Performance Universe 2 in certain periods when the fund's performance was below median. Dreyfus also provided a comparison of the fund's calendar year total returns to the returns of the fund's benchmark index, and it was considered that the fund's returns were above the returns of the index in four of the ten calendar years shown. The Board also considered that the fund's investment strategies and portfolio management changed (including the addition of Newton Investment Management (North America) Limited as subadviser to the fund) in May 2017.

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 considered that the fund's contractual management fee was below the Expense Group 1 and 2 medians; 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 expense ratio was above the Expense Group 1 and 2 medians and above the Expense Universe 1 and 2 medians.

Dreyfus has contractually agreed, until May 1, 2018, to waive receipt of its fees and/or assume the direct expenses of the fund so that the expenses of neither class (excluding Rule 12b-1 fees, shareholder services fees, taxes, interest, brokerage commissions, commitment fees on borrowings and extraordinary expenses) exceed .70%.

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

Board considered the relevance of the fee information provided for the Similar Clients to evaluate the appropriateness 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 stated 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 stated 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 took into consideration 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 continued to be appropriate under the circumstances and in light of the factors and the totality of the services provided as discussed 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 Dreyfus 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 the Agreement for the fund, or substantially similar agreements for other Dreyfus funds that the Board oversees, 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 fund's arrangements, or substantially similar arrangements for other Dreyfus funds that the Board oversees, in prior years. The Board determined to renew the Agreement.

BOARD MEMBERS INFORMATION (Unaudited)

INDEPENDENT BOARD MEMBERS

Joseph S. DiMartino (74)
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: 127

Francine J. Bovich (66)
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., Director (May 2014-present)

No. of Portfolios for which Board Member Serves: 73

Gordon J. Davis (76)
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: 55

Isabel P. Dunst (70)
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: 33

Nathan Leventhal (74)
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: 47

Robin A. Melvin (54)
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: 101

Roslyn M. Watson (68)
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: 59

Benaree Pratt Wiley (71)
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: 81

J. Charles Cardona (62)
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: 33

J. Charles Cardona is deemed to be an "interested person" (as defined under the Act) of the fund as a result of his previous affiliation with The Dreyfus Corporation.

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 Chief Executive Officer of MBSC Securities Corporation since August 2016. He is an officer of 63 investment companies (comprised of 127 portfolios) managed by the Manager. He is 59 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 64 investment companies (comprised of 152 portfolios) managed by the Manager. He is 46 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 64 investment companies (comprised of 152 portfolios) managed by the Manager. She is 55 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 64 investment companies (comprised of 152 portfolios) managed by the Manager. He is 51 years old and has been an employee of the Manager since December 1996.

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

Managing Counsel of BNY Mellon, and an officer of 64 investment companies (comprised of 152 portfolios) managed by the Manager. He is 56 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 64 investment companies (comprised of 152 portfolios) managed by the Manager. She is 55 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 64 investment companies (comprised of 152 portfolios) managed by the Manager. She is 42 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 64 investment companies (comprised of 152 portfolios) managed by the Manager. He is 52 years old and has been an employee of the Manager since October 1990.

NATALYA ZELENSKY, Vice President and Assistant Secretary since March 2017.

Counsel and Vice President of BNY Mellon since May 2016; Attorney at Wildermuth Endowment Strategy Fund/Wildermuth Advisory, LLC from November 2015 until May 2016; Assistant General Counsel at RCS Advisory Services from July 2014 until November 2015; Associate at Sutherland, Asbill & Brennan from January 2013 until January 2014; Associate at K&L Gates from October 2011 until January 2013. She is an officer of 64 investment companies (comprised of 152 portfolios) managed by Dreyfus. She is 32 years old and has been an employee of the Manager since May 2016.

JAMES WINDELS, Treasurer since November 2001.

Director – Mutual Fund Accounting of the Manager, and an officer of 64 investment companies (comprised of 152 portfolios) managed by the Manager. He is 59 years old and has been an employee of the Manager since April 1985.

RICHARD CASSARO, Assistant Treasurer since January 2008.

Senior Accounting Manager – Money Market and Municipal Bond Funds of the Manager, and an officer of 64 investment companies (comprised of 152 portfolios) managed by the Manager. He is 58 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 64 investment companies (comprised of 152 portfolios) managed by the Manager. He is 49 years old and has been an employee of the Manager since April 1991.

ROBERT S. ROBOL, Assistant Treasurer since August 2002.

Senior Accounting Manager – Dreyfus Financial Reporting of the Manager, and an officer of 64 investment companies (comprised of 152 portfolios) managed by the Manager. He is 53 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 64 investment companies (comprised of 152 portfolios) managed by the Manager. He is 50 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 64 investment companies (comprised of 152 portfolios) managed by the Manager. He is 50 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 (64 investment companies, comprised of 152 portfolios). He is 60 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 58 investment companies (comprised of 146 portfolios) managed by the Manager. She is 49 years old and has been an employee of the Distributor since 1997.

For More Information

The Dreyfus Sustainable U.S. Equity Portfolio, Inc.

200 Park Avenue
New York, NY 10166

Manager

The Dreyfus Corporation
200 Park Avenue
New York, NY 10166

Sub-Investment Adviser

Newton Investment Management
(North America) Limited
160 Queen Victoria Street
London, EC4V, 4LA, UK

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, D.C. (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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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.

Management's Discussion of Fund Performance

Performance summary

For the year ended December 31, 2017, 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, 12/31/16 to 12/31/17, excluding variable product issuer charges. If variable product issuer charges were included, returns would be lower.

Series I Shares	10.56%
Series II Shares	10.33
Russell 1000 Value Index▼ (Broad Market Index)	13.66
Bloomberg Barclays U.S. Government/Credit Index▼ (Style-Specific Index)	4.00
Lipper VUF Mixed-Asset Target Allocation Growth Funds Index■ (Peer Group Index)	16.46

Source(s): ▼FactSet Research Systems Inc.; ■Lipper Inc.

Market conditions and your Fund

Despite highly destructive hurricanes that threatened to derail a years-long economic recovery, the US economy continued to expand throughout the year ended December 31, 2017. Gross domestic product – the value of all goods and services produced in the US – expanded in the first three quarters of 2017. Inflation remained subdued even as unemployment continued its multiyear decline.

Given signs of an improving economy, the US Federal Reserve (the Fed) raised interest rates three times during the reporting period, most recently in December 2017; each rate hike was 25 basis points. (A basis point is 0.01%.) The Fed pledged that "realized and expected economic conditions relative to its objectives of maximum employment and 2 percent inflation" will guide its future actions. At the close of the reporting period, Fed policy remained accommodative, and the fed funds target rate stood at a range of 1.25% to 1.50%.[1]

Higher inventories and a worsening outlook caused oil prices and many energy stocks to decline during the first half of 2017. However, oil prices rose significantly in the second half of the reporting period as expectations for lower supplies increased, partly due to continued OPEC production cuts, and demand began normalizing.

Major US stock market indexes repeatedly hit all-time highs throughout the reporting period. The stock market rally that began after the 2016 presidential election continued throughout the reporting period, fueled by generally positive economic data, strong corporate earnings and improved consumer confidence. Finally, after much debate in Congress, a tax reform bill was signed into law in December 2017. While its enactment further strengthened stocks, its effect on the US economy remained uncertain.

For the reporting period as a whole, financials, consumer discretionary and telecommunication services were the strongest-performing sectors for the Fund, while consumer staples and materials were the weakest-performing sectors for the Fund, relative to the Russell 1000 Value Index.

During the year, the financials sector was the largest contributor to the Fund's performance versus the Russell 1000 Value Index due to strong stock selection in and overweight exposure to the sector. Specifically, **Citigroup**, **Bank of America** and **Morgan Stanley** were the Fund's top contributors. These companies benefited from investor optimism about future interest rates, an improving economy and lower corporate tax rates. Financials also benefited when the Fed's Comprehensive Capital Analysis and Review was better than expected, providing a favorable view of the financial strength of US banks and their ability to return capital to their shareholders.

Stock selection in the consumer discretionary sector also benefited the Fund's performance relative to the Russell 1000 Value Index during the year. **Carnival** was a key contributor in this sector. The stock performed well and posted a return of over 30% for the reporting period, leading the cruise operator to raise its outlook after reporting better pricing and strong forward-booking volumes for 2017. **Michael Kors** also contributed to the Fund's relative results. Mid-year, the company reported better-than-expected results and a better revenue outlook due to fewer promotions and increased sales within its high end product lines.

Stock selection in the telecommunication services sector, as well as underweight exposure relative to the Russell 1000 Value Index, contributed to Fund performance during the year. The Fund's lack of exposure to some of the weaker-performing names in the sector, namely AT&T, helped on a relative basis, as the sector posted negative returns for the reporting period. Similarly, the Fund's lack of exposure to the real estate sector also contributed to relative returns. The Fund

Portfolio Composition

By sector	% of total net assets
Financials	28.0%
Energy	11.9
Information Technology	11.1
Health Care	10.8
Consumer Discretionary	8.5
Unknown	7.4
Consumer Staples	5.0
Industrials	4.3
Telecommunication Services	2.6
Materials	1.7
Real Estate	1.4
Utilities	0.8
Money Market Funds Plus Other Assets Less Liabilities	6.5

Top 10 Equity Holdings*

	% of total net assets
1. Citigroup Inc.	3.6%
2. Bank of America Corp.	3.0
3. JPMorgan Chase & Co.	2.5
4. Morgan Stanley	2.0
5. Citizens Financial Group, Inc.	1.7
6. Royal Dutch Shell PLC-Class A	1.5
7. Oracle Corp.	1.5
8. Occidental Petroleum Corp.	1.4
9. Devon Energy Corp.	1.3
10. General Motors Co.	1.3

Total Net Assets	$45.6 million
Total Number of Holdings*	256

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, 2017.

remained materially underweight in these sectors because we believed they were overvalued because investors had driven stock prices up in a quest for yield in a low-interest rate environment.

Stock selection within the industrials sector contributed to the Fund's performance relative to the Russell 1000 Value Index during the reporting period. **CSX**, a rail-based transportation services firm, was one of the top contributors as the stock posted a return of over 50% for the fiscal year. Early in 2017, the company announced the arrival of Hunter Harrison, a highly respected chief executive officer (CEO) within the industry, and the stock rallied on investors' expectations of improved profitability. Mr. Harrison passed away in December; however, the company quickly appointed a new experienced CEO with a history of working with Mr. Harrison for many years. Material underweight exposure to **General Electric** was also a driver of relative Fund performance as the stock posted a negative return for the year. We sold our position in the company during the reporting period.

Stock selection within the consumer staples sector was a large detractor from relative Fund performance for the reporting period. **Walgreens Boots Alliance** posted a negative return for the year after rumors emerged that Amazon (not a Fund holding) may be entering the pharmacy space, driving investor concerns.

Stock selection in the materials sector also detracted from the Fund's performance versus the Russell 1000 Value Index during the reporting period. Within the sector, the largest detractor was **The Mosaic Company**, a phosphate and potash supplier. During the first half of 2017, the stock price fell after the company reported sales and profits had decreased sharply year over year. Operating earnings were down due to lower phosphate and potash prices caused by excessive supply.

The Fund's underweight allocation to the utilities sector also detracted from performance relative to the Russell 1000 Value Index during the reporting period. The Fund remained materially underweight in this sector because we believed it was overvalued.

The Fund uses high grade bonds as a source of income and to dampen return volatility. Although the bond portion of the Fund posted positive returns for the reporting period, bonds generally underperformed equities and detracted from Fund performance relative to the Russell 1000 Value Index. Similarly, the Fund's allocation to convertible securities posted positive returns on an absolute basis, but detracted from relative performance as convertibles underperformed the Russell 1000 Value Index. The Fund's cash position was a detractor in a strong equity market.

We used forward foreign currency contracts for the purpose of hedging currency exposure of non-US-based companies held in the portfolio. Forward foreign currency contracts were used solely for the purpose of hedging and not for speculative purposes or leverage. The use of forward foreign currency contracts had a negative impact on the Fund's performance, largely due to the weakness 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 slight negative impact on the Fund's absolute performance, but also reduced volatility relative to the Russell 1000 Value Index for the reporting period.

At the end of the reporting period, the Fund's largest overweight exposures relative to the Russell 1000 Value Index were in the financials and energy sectors, while the largest underweight exposures were in the real estate and utilities sectors.

Thank you for your investment in Invesco V.I. Managed Volatility Fund and for sharing our long-term investment horizon.

1 Source: US Federal Reserve

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.

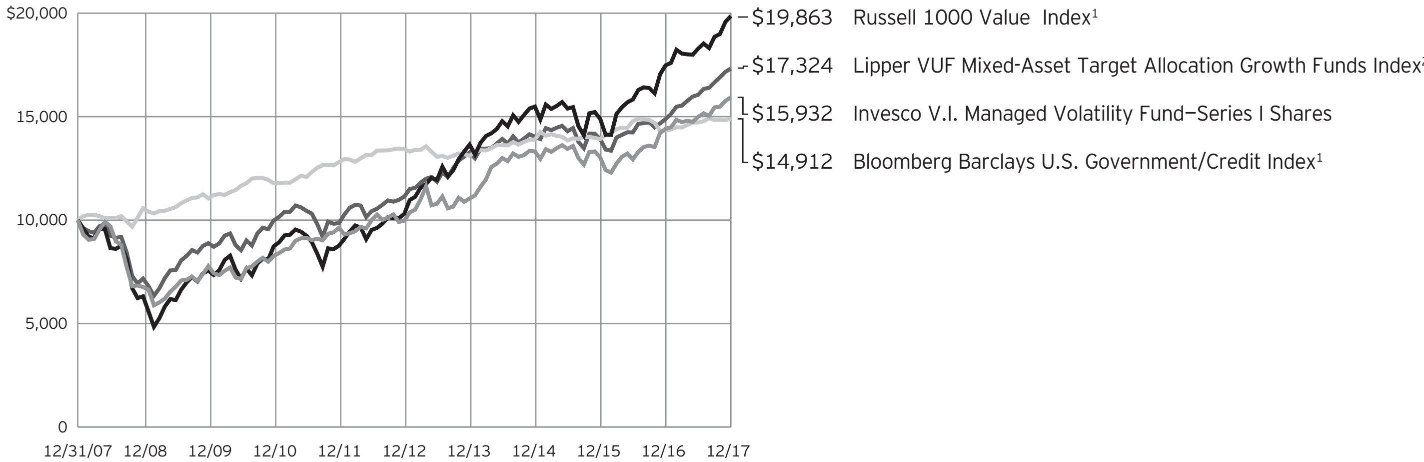
Duy Nguyen
Chartered Financial Analyst, Portfolio Manager and Chief Investment Officer of Invesco's Global Solutions Development and Implementation Team, is manager of Invesco V.I. Managed Volatility Fund. He joined Invesco in 2000. Mr. Nguyen earned a BBA from The University of Texas at Austin and an MS from the University of Houston.

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 12/31/07



1 Source: FactSet Research Systems Inc.
2 Source: Lipper Inc.

Past performance cannot guarantee comparable future results.

Average Annual Total Returns	
As of 12/31/17	
Series I Shares	
Inception (12/30/94)	7.48%
10 Years	4.77
5 Years	9.83
1 Year	10.56
Series II Shares	
Inception (4/30/04)	9.28%
10 Years	4.51
5 Years	9.56
1 Year	10.33

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 1.16% and 1.41%, 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 1.17% and 1.42%, 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, 2019. 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, 2017, and is based on total net assets.
■ Unless otherwise noted, all data provided by Invesco.

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 near, at 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. Convertible securities may be rated below investment grade.

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 risk/real estate risk. Investments in real estate related instruments may be affected by economic, legal, cultural, environmental or technological factors that affect property values, rents or occupancies of real estate related to the Fund's holdings. 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 worthless on 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, 2017

	Shares	Value
Common Stocks & Other Equity Interests-62.64%		
Aerospace & Defense-0.97%		
General Dynamics Corp.	2,177	$ 442,911
Apparel, Accessories & Luxury Goods-0.48%		
Michael Kors Holdings Ltd.[b]	3,447	216,989
Asset Management & Custody Banks-1.70%		
Northern Trust Corp.	3,284	328,039
State Street Corp.	4,593	448,322
		776,361
Automobile Manufacturers-1.29%		
General Motors Co.	14,306	586,403
Biotechnology-0.44%		
Amgen Inc.	1,141	198,420
Broadcasting-0.16%		
CBS Corp.-Class B	1,212	71,508
Building Products-0.65%		
Johnson Controls International PLC	7,736	294,819
Cable & Satellite-1.36%		
Charter Communications, Inc.-Class A[b]	739	248,274
Comcast Corp.-Class A	9,294	372,225
		620,499
Communications Equipment-1.76%		
Cisco Systems, Inc.	13,343	511,037
Juniper Networks, Inc.	10,174	289,959
		800,996
Data Processing & Outsourced Services-0.44%		
PayPal Holdings, Inc.[b]	2,753	202,676
Diversified Banks-9.12%		
Bank of America Corp.	46,193	1,363,617
Citigroup Inc.	22,077	1,642,750
JPMorgan Chase & Co.	10,713	1,145,648
		4,152,015
Diversified Metals & Mining-0.52%		
BHP Billiton Ltd. (Australia)	10,248	235,876
Drug Retail-2.34%		
CVS Health Corp.	7,601	551,073
Walgreens Boots Alliance, Inc.	7,062	512,842
		1,063,915
Electric Utilities-0.28%		
FirstEnergy Corp.	4,143	126,859
Fertilizers & Agricultural Chemicals-1.05%		
Agrium Inc. (Canada)	2,019	232,185
Mosaic Co. (The)	9,568	245,515
		477,700

	Shares	Value
Health Care Distributors-0.89%		
McKesson Corp.	2,597	$ 405,002
Health Care Equipment-1.44%		
Baxter International Inc.	4,203	271,682
Medtronic PLC	4,788	386,631
		658,313
Home Improvement Retail-0.84%		
Kingfisher PLC (United Kingdom)	84,164	383,728
Hotels, Resorts & Cruise Lines-1.11%		
Carnival Corp.	7,621	505,806
Industrial Machinery-0.77%		
Ingersoll-Rand PLC	3,940	351,409
Insurance Brokers-1.77%		
Aon PLC	2,576	345,184
Marsh & McLennan Cos., Inc.	2,394	194,848
Willis Towers Watson PLC	1,763	265,666
		805,698
Integrated Oil & Gas-3.54%		
Occidental Petroleum Corp.	8,343	614,545
Royal Dutch Shell PLC-Class A (United Kingdom)	20,159	674,973
TOTAL S.A. (France)	5,892	325,080
		1,614,598
Integrated Telecommunication Services-0.62%		
Orange S.A. (France)	4,166	72,289
Verizon Communications Inc.	3,950	209,074
		281,363
Internet Software & Services-0.86%		
eBay Inc.[b]	10,443	394,119
Investment Banking & Brokerage-3.50%		
Charles Schwab Corp. (The)	6,112	313,973
Goldman Sachs Group, Inc. (The)	1,489	379,338
Morgan Stanley	17,178	901,330
		1,594,641
IT Consulting & Other Services-0.88%		
Cognizant Technology Solutions Corp.-Class A	5,627	399,629
Managed Health Care-0.64%		
Anthem, Inc.	1,304	293,413
Multi-Line Insurance-1.03%		
American International Group, Inc.	7,857	468,120
Oil & Gas Equipment & Services-1.66%		
Baker Hughes, a GE Co.	7,394	233,946
TechnipFMC PLC (United Kingdom)	16,649	521,280
		755,226

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

	Shares	Value
Oil & Gas Exploration & Production-4.60%		
Anadarko Petroleum Corp.	8,347	$ 447,733
Apache Corp.	13,171	556,080
Canadian Natural Resources Ltd. (Canada)	13,614	486,547
Devon Energy Corp.	14,651	606,551
		2,096,911
Other Diversified Financial Services-0.54%		
Voya Financial, Inc.	4,937	244,233
Packaged Foods & Meats-0.80%		
Mondelez International, Inc.-Class A	8,535	365,298
Pharmaceuticals-3.82%		
Bristol-Myers Squibb Co.	4,297	263,320
Merck & Co., Inc.	6,288	353,826
Novartis AG (Switzerland)	4,162	351,995
Pfizer Inc.	13,880	502,734
Sanofi (France)	3,113	268,029
		1,739,904
Railroads-1.05%		
CSX Corp.	8,715	479,412
Regional Banks-4.95%		
Citizens Financial Group, Inc.	18,085	759,208
Comerica Inc.	2,625	227,876
Fifth Third Bancorp	16,555	502,279
First Horizon National Corp.	12,043	240,740
PNC Financial Services Group, Inc. (The)	3,646	526,081
		2,256,184
Semiconductors-1.71%		
Intel Corp.	8,041	371,173
QUALCOMM Inc.	6,373	407,999
		779,172
Systems Software-1.45%		
Oracle Corp.	13,953	659,698
Tobacco-1.10%		
Philip Morris International Inc.	4,736	500,358
Wireless Telecommunication Services-0.51%		
Vodafone Group PLC-ADR (United Kingdom)	7,285	232,391
Total Common Stocks & Other Equity Interests (Cost $22,054,392)		28,532,573

	Principal Amount	Value
Bonds & Notes-23.23%		
Aerospace & Defense-0.23%		
Northrop Grumman Corp., Sr. Unsec. Global Notes, 1.75%, 06/01/2018	$ 80,000	79,953
Precision Castparts Corp., Sr. Unsec. Global Notes, 1.25%, 01/15/2018	25,000	24,993
		104,946
Air Freight & Logistics-0.01%		
United Parcel Service, Inc., Sr. Unsec. Notes, 3.40%, 11/15/2046	$ 4,000	$ 3,875
Airlines-0.13%		
American Airlines Pass Through Trust, Series 2014-1, Class A, Sr. Sec. First Lien Pass Through Ctfs., 3.70%, 04/01/2028	20,768	21,287
United Airlines Pass Through Trust, Series 2014-2, Class A, Sr. Sec. First Lien Pass Through Ctfs., 3.75%, 09/03/2026	26,559	27,552
Virgin Australia Pass Through Trust (Australia), Series 2013-1, Class A, Sec. Gtd. Pass Through Ctfs., 5.00%, 04/23/2025[(c)]	8,744	9,116
		57,955
Application Software-0.83%		
Citrix Systems, Inc., Sr. Unsec. Conv. Bonds, 0.50%, 04/15/2019	117,000	151,588
Nuance Communications, Inc., Sr. Unsec. Conv. Bonds, 1.00%, 12/15/2022[(d)]	127,000	121,841
RealPage, Inc., Sr. Unsec. Conv. Notes, 1.50%, 11/15/2022[(c)]	24,000	29,820
Workday, Inc., Sr. Unsec. Conv. Notes, 0.25%, 10/01/2022[(c)]	75,000	74,344
		377,593
Asset Management & Custody Banks-0.77%		
Apollo Management Holdings L.P., Sr. Unsec. Gtd. Notes, 4.00%, 05/30/2024[(c)]	40,000	40,977
Blackstone Holdings Finance Co. LLC, Sr. Unsec. Gtd. Notes, 5.00%, 06/15/2044[(c)]	150,000	173,714
Brookfield Asset Management Inc. (Canada), Sr. Unsec. Notes, 4.00%, 01/15/2025	25,000	25,689
Carlyle Holdings Finance LLC, Sr. Unsec. Gtd. Notes, 3.88%, 02/01/2023[(c)]	15,000	15,368
KKR Group Finance Co. III LLC, Sr. Unsec. Gtd. Bonds, 5.13%, 06/01/2044[(c)]	85,000	94,355
		350,103
Automobile Manufacturers-0.55%		
Ford Motor Credit Co. LLC, Sr. Unsec. Global Notes, 4.13%, 08/04/2025	200,000	207,130
General Motors Co., Sr. Unsec. Global Notes, 6.60%, 04/01/2036	16,000	19,537
General Motors Financial Co., Inc., Sr. Unsec. Gtd. Global Notes, 5.25%, 03/01/2026	21,000	23,124
		249,791
Biotechnology-0.86%		
AbbVie Inc., Sr. Unsec. Global Notes, 4.50%, 05/14/2035	38,000	41,835
BioMarin Pharmaceutical Inc., Sr. Unsec. Sub. Conv. Notes, 1.50%, 10/15/2020	117,000	139,157
Celgene Corp., Sr. Unsec. Global Notes, 4.63%, 05/15/2044	100,000	107,012

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

	Principal Amount	Value
Biotechnology-(continued)		
Gilead Sciences, Inc., Sr. Unsec. Global Notes, 4.40%, 12/01/2021	$ 25,000	$ 26,674
Neurocrine Biosciences, Inc., Sr. Unsec. Conv. Notes, 2.25%, 05/15/2024[c]	62,000	79,321
		393,999
Brewers-0.50%		
Anheuser-Busch InBev Finance, Inc. (Belgium), Sr. Unsec. Gtd. Global Notes, 2.65%, 02/01/2021	30,000	30,170
3.30%, 02/01/2023	25,000	25,608
4.70%, 02/01/2036	45,000	50,620
4.90%, 02/01/2046	47,000	54,642
Heineken NV (Netherlands), Sr. Unsec. Notes, 3.50%, 01/29/2028[c]	35,000	35,770
Molson Coors Brewing Co., Sr. Unsec. Gtd. Global Notes, 1.45%, 07/15/2019	13,000	12,841
4.20%, 07/15/2046	16,000	16,357
		226,008
Broadcasting-1.15%		
Liberty Interactive LLC, Sr. Unsec. Conv. Deb., 1.75%, 10/05/2023[c][d]	85,000	98,547
Liberty Media Corp., Sr. Unsec. Conv. Deb., 2.25%, 10/05/2021[d]	55,000	57,544
Sr. Unsec. Conv. Notes, 1.38%, 10/15/2023	299,000	345,554
Liberty Formula One, Sr. Unsec. Conv. Notes, 1.00%, 01/30/2023[c]	20,000	22,425
		524,070
Cable & Satellite-0.82%		
Charter Communications Operating, LLC/ Charter Communications Operating Capital Corp., Sr. Sec. Gtd. First Lien Global Notes, 4.46%, 07/23/2022	60,000	62,656
Comcast Corp., Sr. Unsec. Gtd. Global Notes, 5.70%, 05/15/2018	150,000	152,133
DISH Network Corp., Sr. Unsec. Conv. Bonds, 3.38%, 08/15/2026	147,000	160,322
		375,111
Communications Equipment-0.82%		
Ciena Corp., Sr. Unsec. Conv. Bonds, 4.00%, 12/15/2020	75,000	98,062
Finisar Corp., Sr. Unsec. Conv. Bonds, 0.50%, 12/15/2021[d]	39,000	36,368
Viavi Solutions Inc., Sr. Unsec. Conv. Deb., 0.63%, 08/15/2018[d]	167,000	172,427
Sr. Unsec. Conv. Notes, 1.00%, 03/01/2024[c]	68,000	67,363
		374,220

	Principal Amount	Value
Consumer Finance-0.06%		
American Express Co., Unsec. Sub. Global Notes, 3.63%, 12/05/2024	$ 18,000	$ 18,545
Synchrony Financial, Sr. Unsec. Global Notes, 3.95%, 12/01/2027	10,000	9,975
		28,520
Data Processing & Outsourced Services-0.34%		
Blackhawk Network Holdings, Inc., Sr. Unsec. Conv. Bonds, 1.50%, 01/15/2022	119,000	121,454
Visa Inc., Sr. Unsec. Global Notes, 4.15%, 12/14/2035	30,000	33,348
		154,802
Diversified Banks-1.35%		
Bank of America Corp., Sr. Unsec. Medium-Term Global Notes, 3.50%, 04/19/2026	25,000	25,581
Sr. Unsec. Medium-Term Notes, 3.25%, 10/21/2027	10,000	9,933
Citigroup Inc., Sr. Unsec. Global Notes, 3.67%, 07/24/2028	15,000	15,232
Unsec. Sub. Notes, 4.00%, 08/05/2024	60,000	62,650
4.75%, 05/18/2046	15,000	16,587
Commonwealth Bank of Australia (Australia), Sr. Unsec. Notes, 2.25%, 03/10/2020[c]	40,000	39,887
JPMorgan Chase & Co., Sr. Unsec. Global Notes, 3.20%, 06/15/2026	15,000	15,004
4.26%, 02/22/2048	10,000	10,841
Unsec. Sub. Global Notes, 4.25%, 10/01/2027	15,000	15,970
Series V, Jr. Unsec. Sub. Global Notes, 5.00%[e]	150,000	152,795
U.S. Bancorp, Series W, Unsec. Sub. Medium-Term Notes, 3.10%, 04/27/2026	10,000	9,938
Wells Fargo & Co., Sr. Unsec. Medium-Term Notes, 3.55%, 09/29/2025	30,000	30,818
Unsec. Sub. Medium-Term Notes, 4.10%, 06/03/2026	95,000	99,699
4.65%, 11/04/2044	100,000	109,212
		614,147
Diversified Capital Markets-0.57%		
Credit Suisse AG (Switzerland), Sr. Unsec. Conv. Medium-Term Notes, 0.50%, 06/24/2024[c]	260,000	257,842
Diversified Chemicals-0.10%		
Eastman Chemical Co., Sr. Unsec. Global Notes, 2.70%, 01/15/2020	43,000	43,296
Drug Retail-0.17%		
CVS Health Corp., Sr. Unsec. Global Bonds, 3.38%, 08/12/2024	20,000	20,132

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

	Principal Amount	Value
Drug Retail-(continued)		
Walgreens Boots Alliance Inc., Sr. Unsec. Global Notes, 3.30%, 11/18/2021	$ 32,000	$ 32,559
4.50%, 11/18/2034	24,000	25,117
		77,808
Electric Utilities-0.11%		
Duke Energy Corp., Sr. Unsec. Global Notes, 2.10%, 06/15/2018	40,000	40,015
NextEra Energy Capital Holdings Inc., Sr. Unsec. Gtd. Deb., 3.55%, 05/01/2027	11,000	11,223
		51,238
Environmental & Facilities Services-0.06%		
Waste Management, Inc., Sr. Unsec. Gtd. Global Notes, 3.90%, 03/01/2035	25,000	26,272
Fertilizers & Agricultural Chemicals-0.03%		
Monsanto Co., Sr. Unsec. Global Notes, 2.13%, 07/15/2019	15,000	14,951
Food Retail-0.00%		
Alimentation Couche-Tard Inc. (Canada), Sr. Unsec. Gtd. Notes, 4.50%, 07/26/2047(c)	2,000	2,088
Gas Utilities-0.02%		
NiSource Finance Corp., Sr. Unsec. Gtd. Global Notes, 4.38%, 05/15/2047	9,000	9,897
General Merchandise Stores-0.04%		
Dollar General Corp., Sr. Unsec. Global Notes, 3.25%, 04/15/2023	20,000	20,290
Health Care Equipment-1.36%		
Becton, Dickinson and Co., Sr. Unsec. Global Notes, 4.88%, 05/15/2044	170,000	182,211
Sr. Unsec. Notes, 2.68%, 12/15/2019	15,000	15,060
DexCom, Inc., Sr. Unsec. Conv. Notes, 0.75%, 05/15/2022(c)	88,000	83,105
Insulet Corp., Sr. Unsec. Conv. Notes, 1.38%, 11/15/2024(c)	13,000	13,203
Medtronic, Inc., Sr. Unsec. Gtd. Global Notes, 3.15%, 03/15/2022	58,000	59,434
4.38%, 03/15/2035	20,000	22,573
NuVasive, Inc., Sr. Unsec. Conv. Bonds, 2.25%, 03/15/2021	80,000	94,200
Wright Medical Group N.V., Sr. Unsec. Conv. Bonds, 2.25%, 11/15/2021	39,000	47,677
Wright Medical Group, Inc., Sr. Unsec. Gtd. Conv. Bonds, 2.00%, 02/15/2020	99,000	102,032
		619,495
Health Care REIT's-0.06%		
HCP, Inc., Sr. Unsec. Global Notes, 3.88%, 08/15/2024	25,000	25,619

	Principal Amount	Value
Health Care Services-0.19%		
Express Scripts Holding Co., Sr. Unsec. Gtd. Global Notes, 2.25%, 06/15/2019	$ 30,000	$ 29,959
Laboratory Corp. of America Holdings, Sr. Unsec. Notes, 3.20%, 02/01/2022	33,000	33,673
4.70%, 02/01/2045	22,000	23,871
		87,503
Home Improvement Retail-0.06%		
Home Depot, Inc. (The), Sr. Unsec. Global Notes, 2.00%, 04/01/2021	27,000	26,744
Hotel and Resort REIT's-0.02%		
Hospitality Properties Trust, Sr. Unsec. Notes, 4.50%, 06/15/2023	10,000	10,466
Insurance Brokers-0.01%		
Willis North America, Inc., Sr. Unsec. Gtd. Global Notes, 3.60%, 05/15/2024	5,000	5,089
Integrated Oil & Gas-0.33%		
Chevron Corp., Sr. Unsec. Global Notes, 1.37%, 03/02/2018	77,000	76,950
Occidental Petroleum Corp., Sr. Unsec. Global Notes, 3.40%, 04/15/2026	15,000	15,374
Shell International Finance B.V. (Netherlands), Sr. Unsec. Gtd. Global Notes, 4.00%, 05/10/2046	37,000	39,471
Suncor Energy Inc. (Canada), Sr. Unsec. Notes, 3.60%, 12/01/2024	18,000	18,419
		150,214
Integrated Telecommunication Services-1.44%		
AT&T Inc., Sr. Unsec. Global Notes, 3.00%, 06/30/2022	28,000	28,075
3.40%, 05/15/2025	15,000	14,768
4.50%, 05/15/2035	25,000	24,909
4.90%, 08/14/2037	69,000	70,181
5.15%, 03/15/2042	150,000	156,058
4.80%, 06/15/2044	40,000	39,678
Telefónica Emisiones, S.A.U. (Spain), Sr. Unsec. Gtd. Global Notes, 7.05%, 06/20/2036	150,000	201,692
Verizon Communications Inc., Sr. Unsec. Global Notes, 4.40%, 11/01/2034	120,000	122,561
		657,922
Internet & Direct Marketing Retail-0.50%		
Amazon.com, Inc., Sr. Unsec. Global Notes, 4.80%, 12/05/2034	9,000	10,588
Ctrip.com International, Ltd. (China), Sr. Unsec. Conv. Bonds, 1.25%, 09/15/2019(d)	113,000	115,684
Liberty Expedia Holdings, Inc., Sr. Unsec. Conv. Deb., 1.00%, 07/05/2022(c)(d)	53,000	53,132
QVC, Inc., Sr. Sec. Gtd. First Lien Global Notes, 5.45%, 08/15/2034	50,000	50,334
		229,738

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

	Principal Amount	Value
Internet Software & Services-0.14%		
eBay Inc., Sr. Unsec. Global Notes, 2.50%, 03/09/2018	$ 65,000	$ 65,064
Investment Banking & Brokerage-1.00%		
Goldman Sachs Group, Inc. (The), Sr. Unsec. Global Notes, 4.02%, 10/31/2038	10,000	10,297
Unsec. Sub. Notes, 4.25%, 10/21/2025	27,000	28,240
GS Finance Corp., Series 0001, Sr. Unsec. Conv. Medium-Term Notes, 0.25%, 07/08/2024	198,000	204,603
Morgan Stanley, Sr. Unsec. Medium-Term Global Notes, 2.38%, 07/23/2019	175,000	175,246
4.00%, 07/23/2025	35,000	36,674
		455,060
Life & Health Insurance-0.58%		
Athene Global Funding, Sec. Notes, 2.88%, 10/23/2018[(c)]	31,000	31,167
4.00%, 01/25/2022[(c)]	45,000	46,456
Jackson National Life Global Funding, Sr. Sec. Notes, 2.10%, 10/25/2021[(c)]	10,000	9,816
3.25%, 01/30/2024[(c)]	15,000	15,159
Nationwide Financial Services Inc., Sr. Unsec. Notes, 5.30%, 11/18/2044[(c)]	50,000	59,491
Prudential Financial, Inc., Jr. Unsec. Sub. Global Notes, 8.88%, 06/15/2068	60,000	61,785
Reliance Standard Life Global Funding II, Sr. Sec. First Lien Notes, 3.05%, 01/20/2021[(c)]	20,000	20,279
Teachers Insurance and Annuity Association of America, Unsec. Sub. Notes, 4.27%, 05/15/2047[(c)]	17,000	18,007
		262,160
Movies & Entertainment-0.17%		
Live Nation Entertainment, Inc., Sr. Unsec. Conv. Bonds, 2.50%, 05/15/2019	61,000	79,033
Multi-Line Insurance-0.18%		
American Financial Group, Inc., Sr. Unsec. Notes, 4.50%, 06/15/2047	20,000	20,863
American International Group, Inc., Sr. Unsec. Global Notes, 2.30%, 07/16/2019	20,000	19,990
4.38%, 01/15/2055	40,000	40,887
		81,740
Office REIT's-0.39%		
Government Properties Income Trust, Sr. Unsec. Global Notes, 4.00%, 07/15/2022	25,000	25,173
Highwoods Realty L.P., Sr. Unsec. Notes, 3.20%, 06/15/2021	150,000	151,381
		176,554

	Principal Amount	Value
Oil & Gas Drilling-0.21%		
Ensco Jersey Finance Ltd., Sr. Unsec. Gtd. Conv. Bonds, 3.00%, 01/31/2024	$ 73,000	$ 65,153
Nabors Industries Inc., Sr. Unsec. Gtd. Conv. Notes, 0.75%, 01/15/2024[(c)]	40,000	30,750
		95,903
Oil & Gas Equipment & Services-0.36%		
Helix Energy Solutions Group, Inc., Sr. Unsec. Conv. Notes, 4.25%, 05/01/2022	40,000	39,950
Weatherford International Ltd., Sr. Unsec. Gtd. Conv. Notes, 5.88%, 07/01/2021	114,000	123,832
		163,782
Oil & Gas Exploration & Production-0.43%		
Anadarko Petroleum Corp., Sr. Unsec. Notes, 6.60%, 03/15/2046	18,000	23,218
Chesapeake Energy Corp., Sr. Unsec. Gtd. Conv. Notes, 5.50%, 09/15/2026[(c)]	37,000	33,878
Concho Resources Inc., Sr. Unsec. Gtd. Global Notes, 3.75%, 10/01/2027	17,000	17,231
4.88%, 10/01/2047	19,000	20,844
ConocoPhillips Co., Sr. Unsec. Gtd. Global Notes, 2.88%, 11/15/2021	46,000	46,570
4.15%, 11/15/2034	49,000	52,186
		193,927
Oil & Gas Storage & Transportation-0.83%		
Enable Midstream Partners, LP, Sr. Unsec. Global Notes, 2.40%, 05/15/2019	200,000	198,902
Enbridge Inc. (Canada), Sr. Unsec. Global Notes, 5.50%, 12/01/2046	16,000	19,298
Energy Transfer, LP, Sr. Unsec. Notes, 4.90%, 03/15/2035	19,000	18,837
Enterprise Products Operating LLC, Sr. Unsec. Gtd. Notes, 2.55%, 10/15/2019	20,000	20,069
Kinder Morgan Inc., Sr. Unsec. Gtd. Notes, 5.30%, 12/01/2034	23,000	24,588
MPLX LP, Sr. Unsec. Global Bonds, 4.50%, 07/15/2023	65,000	68,745
Sr. Unsec. Global Notes, 5.50%, 02/15/2023	25,000	25,758
		376,197
Other Diversified Financial Services-0.11%		
ERAC USA Finance LLC, Sr. Unsec. Gtd. Notes, 2.35%, 10/15/2019[(c)]	50,000	49,873
Packaged Foods & Meats-0.11%		
General Mills, Inc., Sr. Unsec. Global Notes, 2.20%, 10/21/2019	45,000	45,003
Mead Johnson Nutrition Co. (United Kingdom), Sr. Unsec. Gtd. Global Notes, 4.13%, 11/15/2025	3,000	3,184
		48,187

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

	Principal Amount	Value
Pharmaceuticals-1.14%		
Allergan Funding SCS, Sr. Unsec. Gtd. Global Notes, 4.85%, 06/15/2044	$ 150,000	$ 161,035
Bayer US Finance LLC (Germany), Sr. Unsec. Gtd. Notes, 3.00%, 10/08/2021[(c)]	200,000	202,139
Jazz Investments I Ltd., Sr. Unsec. Gtd. Conv. Bonds, 1.88%, 08/15/2021	76,000	76,427
Medicines Co. (The), Sr. Unsec. Conv. Bonds, 2.75%, 07/15/2023	37,000	34,017
Mylan N.V., Sr. Unsec. Gtd. Global Notes, 3.15%, 06/15/2021	17,000	17,107
Pacira Pharmaceuticals, Inc., Sr. Unsec. Conv. Notes, 2.38%, 04/01/2022[(c)]	26,000	27,300
		518,025
Property & Casualty Insurance-0.48%		
Allstate Corp. (The), Sr. Unsec. Bonds, 3.28%, 12/15/2026	10,000	10,167
Liberty Mutual Group Inc., Sr. Unsec. Gtd. Bonds, 4.85%, 08/01/2044[(c)]	115,000	128,195
Old Republic International Corp., Sr. Unsec. Conv. Notes, 3.75%, 03/15/2018	59,000	82,084
		220,446
Railroads-0.06%		
Union Pacific Corp., Sr. Unsec. Notes, 4.15%, 01/15/2045	25,000	27,070
Regional Banks-0.03%		
Citizens Financial Group, Inc., Sr. Unsec. Global Notes, 2.38%, 07/28/2021	15,000	14,815
Renewable Electricity-0.35%		
Oglethorpe Power Corp., Sr. Sec. First Mortgage Bonds, 4.55%, 06/01/2044	150,000	157,726
Retail REIT's-0.33%		
Realty Income Corp., Sr. Unsec. Notes, 2.00%, 01/31/2018	150,000	149,989
Semiconductors-0.89%		
Broadcom Corp./Broadcom Cayman Finance Ltd., Sr. Unsec. Gtd. Notes, 3.63%, 01/15/2024[(c)]	50,000	49,776
Microchip Technology Inc., Sr. Unsec. Sub. Conv. Notes, 1.63%, 02/15/2027[(c)]	74,000	87,089
Micron Technology, Inc., Series G, Sr. Unsec. Conv. Global Bonds, 3.00%, 11/15/2028[(d)]	98,000	141,794
ON Semiconductor Corp., Sr. Unsec. Gtd. Conv. Bonds, 1.00%, 12/01/2020	76,000	97,375
Silicon Laboratories Inc., Sr. Unsec. Conv. Notes, 1.38%, 03/01/2022[(c)]	21,000	24,268
Texas Instruments Inc., Sr. Unsec. Notes, 2.63%, 05/15/2024	5,000	4,963
		405,265
Specialized Finance-0.40%		
Air Lease Corp., Sr. Unsec. Global Notes, 2.63%, 09/04/2018	45,000	45,140
3.00%, 09/15/2023	24,000	23,841
4.25%, 09/15/2024	35,000	36,772

	Principal Amount	Value
Specialized Finance-(continued)		
Aviation Capital Group LLC, Sr. Unsec. Notes, 2.88%, 09/17/2018[(c)]	$ 35,000	$ 35,123
4.88%, 10/01/2025[(c)]	40,000	43,515
		184,391
Specialized REIT's-0.58%		
Crown Castle Towers LLC, Sr. Sec. Gtd. First Lien Notes, 4.88%, 08/15/2020[(c)]	178,000	186,255
EPR Properties, Sr. Unsec. Gtd. Global Notes, 4.75%, 12/15/2026	75,000	77,101
		263,356
Specialty Chemicals-0.01%		
Sherwin-Williams Co. (The), Sr. Unsec. Global Notes, 4.50%, 06/01/2047	3,000	3,291
Systems Software-0.40%		
FireEye, Inc., Series A, Sr. Unsec. Conv. Bonds, 1.00%, 06/01/2020[(d)]	51,000	47,876
Series B, Sr. Unsec. Conv. Bonds, 1.63%, 06/01/2022[(d)]	51,000	46,856
Microsoft Corp., Sr. Unsec. Global Notes, 3.50%, 02/12/2035	37,000	38,543
Oracle Corp., Sr. Unsec. Global Notes, 1.90%, 09/15/2021	50,000	49,232
		182,507
Technology Distributors-0.07%		
Avnet, Inc., Sr. Unsec. Global Notes, 4.63%, 04/15/2026	30,000	30,985
Technology Hardware, Storage & Peripherals-0.49%		
Apple Inc., Sr. Unsec. Global Notes, 2.15%, 02/09/2022	39,000	38,511
3.35%, 02/09/2027	10,000	10,252
Dell International LLC/EMC Corp., Sr. Sec. Gtd. First Lien Notes, 5.45%, 06/15/2023[(c)]	26,000	28,125
SanDisk Corp., Sr. Unsec. Gtd. Conv. Bonds, 0.50%, 10/15/2020	140,000	132,156
Seagate HDD Cayman, Sr. Unsec. Gtd. Global Bonds, 5.75%, 12/01/2034	16,000	15,404
		224,448
Total Bonds & Notes (Cost $10,106,707)		10,581,406
U.S. Treasury Securities-7.36%		
U.S. Treasury Notes-6.93%		
1.25%, 01/31/2019	710,000	705,609
1.75%, 11/30/2019	2,128,000	2,122,633
1.88%, 12/15/2020	235,000	234,325
2.00%, 11/30/2022	39,200	38,842
2.13%, 11/30/2024	55,000	54,272
2.25%, 11/15/2027	100	99
		3,155,780

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

	Principal Amount	Value
U.S. Treasury Bonds-0.43%		
4.50%, 02/15/2036	$ 75,000	$ 96,511
2.75%, 08/15/2047	99,600	99,634
		196,145
Total U.S. Treasury Securities (Cost $3,353,182)		3,351,925
	Shares	
Preferred Stocks-0.24%		
Asset Management & Custody Banks-0.24%		
AMG Capital Trust II, $2.58 Conv. Pfd. (Cost $106,269)	1,700	107,844
Money Market Funds-6.08%		
Invesco Government & Agency Portfolio-Institutional Class, 1.18%[f]	969,668	969,668
Invesco Liquid Assets Portfolio-Institutional Class, 1.40%[f]	692,532	$ 692,601
Invesco Treasury Portfolio-Institutional Class, 1.17%[f]	1,108,192	1,108,192
Total Money Market Funds (Cost $2,770,475)		2,770,461
TOTAL INVESTMENTS IN SECURITIES-99.55% (Cost $38,391,025)		45,344,209
OTHER ASSETS LESS LIABILITIES-0.45%		205,949
NET ASSETS-100.00%		$45,550,158

Investment Abbreviations:

ADR - American Depositary Receipt
Conv. - Convertible
Ctfs. - Certificates
Deb. - Debentures
Gtd. - Guaranteed
Jr. - Junior
Pfd. - Preferred
REIT - Real Estate Investment Trust
Sec. - Secured
Sr. - Senior
Sub. - Subordinated
Unsec. - Unsecured

Notes to Schedule of Investments:

[a] Industry and/or sector classifications used in this report are generally according to the Global Industry Classification Standard, which was developed by and is the exclusive property and a service mark of MSCI Inc. and Standard & Poor's.
[b] Non-income producing security.
[c] 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, 2017 was $2,317,038, which represented 5.09% of the Fund's Net Assets.
[d] Security has an irrevocable call by the issuer or mandatory put by the holder. Maturity date reflects such call or put.
[e] Perpetual bond with no specified maturity date.
[f] The money market fund and the Fund are affiliated by having the same investment adviser. The rate shown is the 7-day SEC standardized yield as of December 31, 2017.

Open Forward Foreign Currency Contracts

Settlement Date	Counterparty	Contract to Deliver		Contract to Receive		Unrealized Appreciation (Depreciation)
01/19/2018	State Street Bank and Trust Co.	USD	3,517	AUD	4,586	$ 61
01/19/2018	State Street Bank and Trust Co.	USD	7,278	CAD	9,357	169
01/19/2018	State Street Bank and Trust Co.	USD	5,593	CHF	5,490	50
01/19/2018	State Street Bank and Trust Co.	USD	10,642	EUR	8,972	137
01/19/2018	State Street Bank and Trust Co.	USD	10,324	GBP	7,692	69
Subtotal — Appreciation						486
01/19/2018	Bank of New York Mellon (The)	AUD	108,499	USD	81,971	(2,685)
01/19/2018	Bank of New York Mellon (The)	CAD	232,001	USD	180,265	(4,378)
01/19/2018	Bank of New York Mellon (The)	CHF	132,251	USD	133,654	(2,298)
01/19/2018	Bank of New York Mellon (The)	EUR	217,300	USD	255,828	(5,236)
01/19/2018	Bank of New York Mellon (The)	GBP	354,761	USD	473,937	(5,381)
01/19/2018	State Street Bank and Trust Co.	AUD	108,499	USD	82,002	(2,654)
01/19/2018	State Street Bank and Trust Co.	CAD	232,016	USD	180,321	(4,333)
01/19/2018	State Street Bank and Trust Co.	CHF	132,250	USD	133,653	(2,299)
01/19/2018	State Street Bank and Trust Co.	EUR	217,300	USD	255,961	(5,103)
01/19/2018	State Street Bank and Trust Co.	GBP	354,763	USD	473,971	(5,351)
Subtotal — Depreciation						(39,718)
Total Forward Foreign Currency Contracts — Currency Risk						$(39,232)

Abbreviations:

AUD - Australian Dollar
CAD - Canadian Dollar
CHF - Swiss Franc
EUR - Euro
GBP - British Pound Sterling
USD - U.S. Dollar

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

Statement of Assets and Liabilities

December 31, 2017

Assets:	
Investments in securities, at value (Cost $35,620,550)	$42,573,748
Investments in affiliated money market funds, at value (Cost $2,770,475)	2,770,461
Other investments:	
Unrealized appreciation on forward foreign currency contracts outstanding	486
Foreign currencies, at value (Cost $19,783)	20,100
Receivable for:	
Investments sold	162,109
Fund shares sold	29,241
Dividends and interest	133,673
Investment for trustee deferred compensation and retirement plans	71,518
Other assets	1,855
Total assets	45,763,191
Liabilities:	
Other investments:	
Unrealized depreciation on forward foreign currency contracts outstanding	39,718
Payable for:	
Fund shares reacquired	37,543
Accrued fees to affiliates	18,690
Accrued trustees' and officers' fees and benefits	620
Accrued other operating expenses	40,508
Trustee deferred compensation and retirement plans	75,954
Total liabilities	213,033
Net assets applicable to shares outstanding	$45,550,158
Net assets consist of:	
Shares of beneficial interest	$36,920,465
Undistributed net investment income	579,917
Undistributed net realized gain	1,135,244
Net unrealized appreciation	6,914,532
	$45,550,158
Net Assets:	
Series I	$44,104,166
Series II	$ 1,445,992
Shares outstanding, no par value, with an unlimited number of shares authorized:	
Series I	3,376,662
Series II	111,941
Series I:	
Net asset value per share	$ 13.06
Series II:	
Net asset value per share	$ 12.92

Statement of Operations

For the year ended December 31, 2017

Investment income:	
Dividends (net of foreign withholding taxes of $18,715)	$ 865,339
Dividends from affiliated money market funds	16,270
Interest	380,221
Total investment income	1,261,830
Expenses:	
Advisory fees	296,522
Administrative services fees	123,515
Custodian fees	19,834
Distribution fees — Series II	3,685
Transfer agent fees	18,803
Trustees' and officers' fees and benefits	21,381
Reports to shareholders	16,237
Professional services fees	53,326
Other	8,214
Total expenses	561,517
Less: Fees waived	(2,447)
Net expenses	559,070
Net investment income	702,760
Realized and unrealized gain (loss) from:	
Net realized gain (loss) from:	
Investment securities	2,757,707
Foreign currencies	1,785
Forward foreign currency contracts	(94,515)
Futures contracts	(25,150)
	2,639,827
Change in net unrealized appreciation (depreciation) of:	
Investment securities	1,644,945
Foreign currencies	730
Forward foreign currency contracts	(92,727)
	1,552,948
Net realized and unrealized gain	4,192,775
Net increase in net assets resulting from operations	$4,895,535

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, 2017 and 2016

	2017	2016
Operations:		
Net investment income	$ 702,760	$ 625,840
Net realized gain (loss)	2,639,827	(1,186,418)
Change in net unrealized appreciation	1,552,948	5,466,222
Net increase in net assets resulting from operations	4,895,535	4,905,644
Distributions to shareholders from net investment income:		
Series I	(610,486)	(906,262)
Series II	(16,351)	(22,509)
Total distributions from net investment income	(626,837)	(928,771)
Distributions to shareholders from net realized gains:		
Series I	–	(1,460,269)
Series II	–	(42,846)
Total distributions from net realized gains	–	(1,503,115)
Share transactions–net:		
Series I	(10,218,192)	(4,579,259)
Series II	(145,427)	(110,167)
Net increase (decrease) in net assets resulting from share transactions	(10,363,619)	(4,689,426)
Net increase (decrease) in net assets	(6,094,921)	(2,215,668)
Net assets:		
Beginning of year	51,645,079	53,860,747
End of year (includes undistributed net investment income of $579,917 and $420,045, respectively)	$ 45,550,158	$51,645,079

Notes to Financial Statements

December 31, 2017

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. Pricing services generally value debt obligations assuming orderly transactions of institutional round lot size, but a fund may hold or transact in the same securities in smaller, odd lot sizes. Odd lots often trade at lower prices than institutional round lots. 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 investment 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. Bond premiums and discounts are amortized and/or accreted over the lives of the respective securities. Pay-in-kind interest income and non-cash dividend income received in the form of securities in-lieu of cash are recorded at the fair value of the securities received. Dividend income (net of withholding tax, if any) is recorded on the ex-dividend date.

The Fund may periodically participate in litigation related to Fund investments. As such, the Fund may receive proceeds from litigation settlements. Any proceeds received are included in the Statement of Operations as realized gain (loss) for investments no longer held and as unrealized gain (loss) for investments still held.

Brokerage commissions and mark ups are considered transaction costs and are recorded as an increase to the cost basis of securities purchased and/or a reduction of proceeds on a sale of securities. Such transaction costs are included in the determination of net realized and unrealized gain (loss) from investment securities reported in the Statement of Operations and the Statement of Changes in Net Assets and the net realized and unrealized gains (losses) on securities per share in the Financial Highlights. Transaction costs are included in the calculation of the Fund's net asset value and, accordingly, they reduce the Fund's total returns. These transaction costs are not considered operating expenses and are not reflected in net investment income reported in the Statement of Operations and 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.

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 accrues daily and pays monthly 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. and separate sub-advisory agreements with Invesco PowerShares Capital Management LLC and Invesco Asset Management (India) Private Limited (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, 2018, 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, 2018. During its term, the fee waiver agreement cannot be terminated or amended to increase expense limits or reduce the advisory fee waiver 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, 2019, 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, 2017, the Adviser waived advisory fees of $2,447.

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, 2017, Invesco was paid $50,000 for accounting and fund administrative services and was reimbursed $73,515 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, 2017, 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. The fees are accrued daily and paid monthly. 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, 2017, expenses incurred under the Plan are detailed in the Statement of Operations as *Distribution fees*.

For the year ended December 31, 2017, the Fund incurred $268 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, 2017. 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.

The Fund's policy is to recognize transfers in and out of the valuation levels as of the end of the reporting period. During the year ended December 31, 2017, there were no material transfers between valuation levels.

	Level 1	Level 2	Level 3	Total
Investments in Securities				
Common Stocks & Other Equity Interests	$27,631,299	$ 901,274	$–	$28,532,573
Bonds and Notes	–	10,581,406	–	10,581,406
U.S. Treasury Securities	–	3,351,925	–	3,351,925
Preferred Stocks	–	107,844	–	107,844
Money Market Funds	2,770,461	–	–	2,770,461
Total Investments in Securities	30,401,760	14,942,449	–	45,344,209
Other Investments — Assets*				
Forward Foreign Currency Contracts	–	486	–	486
Other Investments — Liabilities*				
Forward Foreign Currency Contracts	–	(39,718)	–	(39,718)
Total Other Investments	–	(39,232)	–	(39,232)
Total Investments	$30,401,760	$14,903,217	$–	$45,304,977

* Unrealized appreciation (depreciation).

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, 2017:

	Value
Derivative Assets	**Currency Risk**
Unrealized appreciation on forward foreign currency contracts outstanding	$486
Derivatives not subject to master netting agreements	–
Total Derivative Assets subject to master netting agreements	$486

	Value
Derivative Liabilities	**Currency Risk**
Unrealized depreciation on forward foreign currency contracts outstanding	$(39,718)
Derivatives not subject to master netting agreements	–
Total Derivative Liabilities subject to master netting agreements	$(39,718)

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, 2017.

	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)	$ –	$(19,978)	$(19,978)	$–	$–	$(19,978)
State Street Bank and Trust Co.	486	(19,740)	(19,254)	–	–	(19,254)
Total	$486	$(39,718)	$(39,232)	$–	$–	$(39,232)

Effect of Derivative Investments for the year ended December 31, 2017

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	Equity Risk	Total
Realized Gain (Loss):			
Forward foreign currency contracts	$ (94,515)	$ –	$ (94,515)
Futures contracts	–	(25,150)	(25,150)
Change in Net Unrealized Appreciation (Depreciation):			
Forward foreign currency contracts	(92,727)	–	(92,727)
Total	$(187,242)	$(25,150)	$(212,392)

The table below summarizes the twelve months average notional value of forward foreign currency contracts and the two days average notional value of futures contracts outstanding during the period.

	Forward Foreign Currency Contracts	Futures Contracts
Average notional value	$2,832,114	$3,824,288

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, 2017, the Fund engaged in securities purchases of $99,345.

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, 2017 and 2016:

	2017	2016
Ordinary income	$626,837	$1,039,201
Long-term capital gain	–	1,392,685
Total distributions	$626,837	$2,431,886

Tax Components of Net Assets at Period-End:

	2017
Undistributed ordinary income	$ 670,231
Undistributed long-term gain	1,351,361
Net unrealized appreciation — investments	6,670,010
Net unrealized appreciation — foreign currencies	580
Temporary book/tax differences	(62,489)
Shares of beneficial interest	36,920,465
Total net assets	$45,550,158

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, tax treatment of futures contracts and adjustments to contingent payment debt instruments.

The temporary book/tax differences are a result of timing differences between book and tax recognition of income and/or expenses. The Fund's temporary book/tax differences are the result of the trustee deferral of compensation and retirement plan benefits.

Capital loss carryforward is calculated and reported as of a specific date. Results of transactions and other activity after that date may affect the amount of capital loss carryforward actually available for the Fund to utilize. Capital losses generated in years beginning after December 22, 2010 can be carried forward for an unlimited period, whereas previous losses expire in eight tax years. Capital losses with an expiration period may not be used to offset capital gains until all net capital losses without an expiration date have been utilized. Capital loss carryforwards with no expiration date will retain their character as either short-term or long-term capital losses instead of as short-term capital losses as under prior law. The ability to utilize capital loss carryforwards in the future may be limited under the Internal Revenue Code and related regulations based on the results of future transactions.

The Fund does not have a capital loss carryforward as of December 31, 2017.

NOTE 9—Investment Transactions

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, 2017 was $7,995,651 and $18,737,343, respectively. During the same period, purchases and sales of U.S. Treasury obligations were $34,669,589 and $34,602,721, respectively. Cost of investments, including any derivatives, 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 Investments on a Tax Basis	
Aggregate unrealized appreciation of investments	$7,612,472
Aggregate unrealized (depreciation) of investments	(942,462)
Net unrealized appreciation of investments	$6,670,010

Cost of investments for tax purposes is $38,634,967.

NOTE 10—Reclassification of Permanent Differences

Primarily as a result of differing book/tax treatment of contingent payment debt instruments sold, on December 31, 2017, undistributed net investment income was increased by $83,949 and undistributed net realized gain was decreased by $83,949. This reclassification had no effect on the net assets of the Fund.

NOTE 11—Share Information

	Summary of Share Activity			
	Years ended December 31,			
	2017[a]		2016	
	Shares	Amount	Shares	Amount
Sold:				
Series I	283,126	$ 3,509,281	300,423	$ 3,419,830
Series II	13,842	167,061	8,242	92,158
Issued as reinvestment of dividends:				
Series I	48,606	610,486	209,985	2,366,531
Series II	1,316	16,351	5,856	65,355
Reacquired:				
Series I	(1,147,686)	(14,337,959)	(918,562)	(10,365,620)
Series II	(26,720)	(328,839)	(23,850)	(267,680)
Net increase (decrease) in share activity	(827,516)	$(10,363,619)	(417,906)	$ (4,689,426)

[a] There are entities that are record owners of more than 5% of the outstanding shares of the Fund and in the aggregate own 60% of the outstanding shares of the Fund. The Fund and the Fund's principal underwriter or 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 12/31/17	$11.97	$0.18[d]	$ 1.08	$ 1.26	$(0.17)	$ –	$(0.17)	$13.06	10.56%	$44,104	1.13%[e]	1.13%[e]	1.42%[d][e]	91%
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	1.16	1.26	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
Series II														
Year ended 12/31/17	11.84	0.15[d]	1.07	1.22	(0.14)	–	(0.14)	12.92	10.33	1,446	1.38[e]	1.38[e]	1.17[d][e]	91
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	1.41	1.01	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

[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] Net investment income per share and the ratio of net investment income to average net assets includes significant dividends received during the year ended December 31, 2017. Net investment income per share and the ratio of net investment income to average net assets excluding the significant dividends are $0.14 and 1.11%, $0.11 and 0.86% for Series I and Series II shares, respectively.
[e] Ratios are based on average daily net assets (000's omitted) of $47,946 and $1,474 for Series I and Series II shares, respectively.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of AIM Variable Insurance Funds (Invesco Variable Insurance Funds)
and Shareholders of Invesco V.I. Managed Volatility Fund

Opinion on the Financial Statements

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of Invesco V.I. Managed Volatility Fund (one of the funds constituting AIM Variable Insurance Funds (Invesco Variable Insurance Funds), hereafter referred to as the "Fund") as of December 31, 2017, the related statement of operations for the year ended December 31, 2017, the statement of changes in net assets for each of the two years in the period ended December 31, 2017, including the related notes, and the financial highlights for each of the five years in the period ended December 31, 2017 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2017, 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 ended December 31, 2017 and the financial highlights for each of the five years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on the Fund's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Fund in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our procedures included confirmation of securities owned as of December 31, 2017 by correspondence with the custodian, transfer agent and brokers; when replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Houston, TX

February 14, 2018

We have served as the auditor of one or more of the investment companies in the Invesco/PowerShares group of investment companies since at least 1995. We have not determined the specific year we began serving as auditor.

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, 2017 through December 31, 2017.

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 (07/01/17)	Ending Account Value (12/31/17)[1]	Expenses Paid During Period[2]	Ending Account Value (12/31/17)	Expenses Paid During Period[2]	Annualized Expense Ratio
Series I	$1,000.00	$1,063.00	$5.88	$1,019.51	$5.75	1.13%
Series II	1,000.00	1,062.00	7.17	1,018.25	7.02	1.38

[1] The actual ending account value is based on the actual total return of the Fund for the period July 1, 2017 through December 31, 2017, after actual expenses and will differ from the hypothetical ending account value which is based on the Fund's expense ratio and a hypothetical annual return of 5% before expenses.

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

Tax Information

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

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

The Fund designates the following amounts or, if subsequently determined to be different, the maximum amount allowable for its fiscal year ended December 31, 2017:

Federal and State Income Tax	
Corporate Dividends Received Deduction*	93.71%
U.S. Treasury Obligations*	3.72%

* 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); Trustee, The Invesco Funds; Vice Chair, Investment Company Institute; and Member of Executive Board, SMU Cox School of Business Formerly: Advisor to the Board, Invesco Advisers, Inc. (formerly known as Invesco Institutional (N.A.), Inc.); 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)	158	None
Philip A. Taylor[2] – 1954 Trustee and Senior Vice President	2006	Head of the Americas and Senior Managing Director, Invesco Ltd.; Director, 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: Co-Chairman, Co-President and Co-Chief Executive Officer, Invesco Advisers, Inc. (formerly known as Invesco Institutional (N.A.), Inc.) (registered investment adviser); 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.	158	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: Member of the Audit Committee, Investment Company Institute; Member of the Executive Committee and Chair of the Governance Committee, Independent Directors Council	158	Director and Chairman of the Audit Committee, ALPS (Attorneys Liability Protection Society) (insurance company); Director and Member of the Audit Committee and Compensation Committee, Ferroglobe PLC (metallurgical company)
David C. Arch – 1945 Trustee	2010	Chairman of Blistex Inc. (consumer health care products manufacturer); Member, World Presidents' Organization	158	Board member of the Illinois Manufacturers' Association
Jack M. Fields – 1952 Trustee	1997	Chief Executive Officer, Twenty First Century Group, Inc. (government affairs company); and Chairman, 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) (human resources provider); 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	158	None
Cynthia Hostetler – 1962 Trustee	2017	Non-Executive Director and Trustee of a number of public and private business corporations Formerly: Head of Investment Funds and Private Equity, Overseas Private Investment Corporation; President, First Manhattan Bancorporation, Inc.; Attorney, Simpson Thacher & Bartlett LLP	158	Vulcan Materials Company (construction materials company); Trilinc Global Impact Fund; Aberdeen Investment Funds (4 portfolios); Artio Global Investment LLC (mutual fund complex); Edgen Group, Inc. (specialized energy and infrastructure products distributor)
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; Director, Arvest Bank	158	Insperity, Inc. (formerly known as Administaff) (human resources provider)
Prema Mathai-Davis – 1950 Trustee	1998	Retired.	158	None
Teresa M. Ressel – 1962 Trustee	2017	Non-executive director and trustee of a number of public and private business corporations Formerly: Chief Financial Officer, Olayan America, The Olayan Group (international investor/commercial/industrial); Chief Executive Officer, UBS Securities LLC; Group Chief Operating Officer, Americas, UBS AG; Assistant Secretary for Management & Budget and CFO, US Department of the Treasury	158	Atlantic Power Corporation (power generation company); ON Semiconductor Corp. (semiconductor supplier)
Ann Barnett Stern – 1957 Trustee	2017	President and Chief Executive Officer, Houston Endowment Inc. (private philanthropic institution) Formerly: Executive Vice President and General Counsel, Texas Children's Hospital; Attorney, Beck, Redden and Secrest, LLP; Business Law Instructor, University of St. Thomas; Attorney, Andrews & Kurth LLP	158	Federal Reserve Bank of Dallas
Raymond Stickel, Jr. – 1944 Trustee	2005	Retired. Formerly: Director, Mainstay VP Series Funds, Inc. (25 portfolios); Partner, Deloitte & Touche	158	None
Robert C. Troccoli – 1949 Trustee	2016	Adjunct Professor, University of Denver — Daniels College of Business Formerly: Senior Partner, KPMG LLP	158	None
Christopher L. Wilson – 1957 Trustee	2017	Non-executive director and trustee of a number of public and private business corporations Formerly: Managing Partner, CT2, LLC (investing and consulting firm); President/Chief Executive Officer, Columbia Funds, Bank of America Corporation; President/Chief Executive Officer, CDC IXIS Asset Management Services, Inc.; Principal & Director of Operations, Scudder Funds, Scudder, Stevens & Clark, Inc.; Assistant Vice President, Fidelity Investments	158	TD Asset Management USA Inc. (mutual fund complex) (22 portfolios); ISO New England, Inc. (non-profit organization managing regional electricity market)

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				
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, PowerShares Actively Managed Exchange-Traded Commodity Fund Trust and PowerShares Exchange-Traded Self-Indexed 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
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, PowerShares Actively Managed Exchange-Traded Commodity Fund Trust and PowerShares Exchange-Traded Self-Indexed Fund Trust; Manager and Secretary, Invesco Indexing LLC 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
Gregory G. McGreevey – 1962 Senior Vice President	2012	Senior Managing Director, Invesco Ltd.; Director, Chairman, President, and Chief Executive Officer, Invesco Advisers, Inc. (formerly known as Invesco Institutional (N.A.), Inc.) (registered investment adviser); Senior Vice President, Invesco Management Group, Inc.; Director, Invesco Mortgage Capital, Inc. and Invesco Senior Secured Management, Inc.; and Senior Vice President, The Invesco Funds Formerly: Assistant Vice President, The Invesco Funds	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, PowerShares Actively Managed Exchange-Traded Commodity Fund Trust and PowerShares Exchange-Traded Self-Indexed 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)				
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, PowerShares Actively Managed Exchange-Traded Commodity Fund Trust and PowerShares Exchange-Traded Self-Indexed Fund Trust Formerly: Assistant Vice President, The Invesco Funds	N/A	N/A
Crissie M. Wisdom − 1969 Anti-Money Laundering Compliance Officer	2013	Anti-Money Laundering Compliance Officer, Invesco Advisers, Inc. (formerly known as Invesco Institutional (N.A.), Inc.) (registered investment adviser), Invesco Capital Markets, Inc. (formerly known as Van Kampen Funds Inc.), Invesco Distributors, Inc., Invesco Investment Services, Inc., Invesco Management Group, Inc., 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, PowerShares Actively Managed Exchange-Traded Commodity Fund Trust and PowerShares Exchange-Traded Self-Indexed 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.

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Houston, TX 77046-1173

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Houston, TX 77002-5678

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

ANNUAL REPORT
December 31, 2017

Janus Henderson VIT Forty Portfolio (formerly named Janus Aspen Forty Portfolio)

Janus Aspen Series

HIGHLIGHTS

- Portfolio management perspective
- Investment strategy behind your portfolio
- Portfolio performance, characteristics and holdings

Janus Henderson
INVESTORS

Table of Contents

Janus Henderson VIT Forty Portfolio

Janus Henderson VIT 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, 2017, Janus Henderson VIT Forty Portfolio's Institutional Shares and Service Shares returned 30.31% and 29.99%, respectively, versus a return of 30.21% for the Portfolio's primary benchmark, the Russell 1000® Growth Index. The Portfolio's secondary benchmark, the S&P 500® Index, returned 21.83% for the period.

INVESTMENT ENVIRONMENT

U.S. equities registered strong gains in 2017. Equities enjoyed a strong start to the year, as investors considered the potential impact of some of the Trump administration's proposed corporate tax cuts and pro-growth initiatives. Strong corporate earnings and signs of a strengthening global economy continued to bolster stocks throughout the year. U.S. equities continued to climb higher in the fourth quarter as corporate tax reform appeared likely, and was eventually signed into law. Volatility remained low throughout most of the year.

PERFORMANCE DISCUSSION

The Portfolio outperformed both its primary benchmark, the Russell 1000 Growth Index, and its secondary benchmark, the S&P 500 Index, during the period. As part of our investment strategy, we seek companies that have built clear, sustainable, competitive moats around their businesses, which should help them grow market share within their respective industries over time. Important competitive advantages could include a strong brand, network effects from a product or service that would be hard for a competitor to replicate, a lower cost structure than competitors in the industry, a distribution advantage or patent protection over valuable intellectual property. We think emphasizing these sustainable competitive advantages can be a meaningful driver of outperformance over longer time horizons because the market often underestimates the duration of growth for these companies and the long-term potential return to shareholders. This year we saw a number of companies in our portfolio put up impressive results, further validating our view that they are well positioned to grow in excess of the market.

Activision Blizzard was our largest contributor. Activision Blizzard's stock has appreciated as the market has begun to recognize that the company's digital transition enables a more durable cash flow stream and new avenues to monetize its franchises. As gaming moves from physical game cartridges toward digital platforms, it reduces costs for Activision and makes it less reliant on the release of a new gaming console to drive game sales. A digital gaming environment also allows Activision to sell digital items to gamers in real time. Going forward, we believe Activision can improve monetization of games it acquired from King Digital by inserting advertisements into those games for the first time. We also see a significant opportunity for the company to monetize viewership of its games through eSports.

Mastercard also added meaningfully to our results. The stock was up after the company raised guidance and issued an upbeat outlook at its investor day. We were encouraged to see the company is expanding its addressable market, moving more into business-to-business and business-to-consumer payments. Mastercard is a longtime holding that we have discussed in previous commentaries, and our reasons for owning the company remain the same. Over the long term, we believe payments companies such as Mastercard are poised to benefit as consumers and businesses switch from cash and check to plastic and electronic payments. Mastercard is well positioned to benefit from this shift because a majority of its revenues are generated outside the U.S., where many markets have a lower penetration of card and electronic payments and are experiencing significantly faster electronic purchase volume growth.

Microsoft was another significant contributor. Better-than-expected earnings results have helped confirm Microsoft's successful transition from an on-premises software company to a cloud-based business with a steady, subscription-based revenue model for many of its services. We continue to like the company's position as the second-largest enterprise cloud provider, and believe the company is well positioned for growth as businesses seek more cost-effective, cloud-based IT solutions.

While pleased with the performance of most stocks in our portfolio, we held companies that produced disappointing results. Celgene was our largest detractor. The stock was down after the company's fourth quarter announcement that it would discontinue a trial for one of its potential Crohn's disease treatments due to disappointing data on the drug. Also in the fourth quarter, Celgene lowered 2020 guidance and announced weaker-than-expected sales of its drug Otezla. While these results are disappointing, we continue to hold the stock. We believe the current valuation fails to give credit for the cash flow generation of its blood cancer drug, Revlimid, and that the market is underestimating the potential of some of the innovative treatments in Celgene's pipeline.

Allergan was another detractor. Patent disputes concerning Restasis, the firm's blockbuster medicine for dry eye, have weighed on the stock. A federal judge invalidated Allergan's patent. Meanwhile, several generic drug makers have also been challenging Allergan's patent through inter partes review (IPR). We've been disappointed with management's execution, but continue to hold the position and are optimistic about the duration of growth of the company's medical aesthetics franchise.

General Electric (GE) also detracted from our performance. We were disappointed in GE's cash flow conversion from its industrial businesses, and sold the position during the period.

OUTLOOK

We believe stock valuations are reasonable in the context of a low interest rate environment, but acknowledge that rising rates could pose a challenge for equity markets in 2018. That said, we like how our portfolio is positioned for a backdrop of rising interest rates.

Many of our holdings underpin some of the most powerful secular growth themes in today's economy: the shift from traditional brick and mortar shopping to online spending, the switch of enterprise software from on-premises to the cloud, a proliferation of connected devices in the home and business, the shift in autos from the combustible engine to electronic vehicles and a growing global middle class, to name a few. Innovative companies tied to such themes should be able to demonstrate resilient earnings growth, which will be required to support valuations in a rising rate environment.

On the margins, we've also made a few changes to our portfolio, modestly reducing our technology exposure as some of our holdings approached their valuation targets, and increasing our exposure to the financial services industry. We believe these financial companies should benefit from a more favorable regulatory environment, tax reform and rising interest rates.

Thank you for your investment in Janus Henderson VIT Forty Portfolio.

Janus Henderson VIT Forty Portfolio (unaudited)
Portfolio At A Glance
December 31, 2017

5 Top Performers - Holdings

	Contribution
Activision Blizzard Inc	2.48%
Mastercard Inc	2.13%
Microsoft Corp	2.04%
Alphabet Inc	2.00%
Amazon.com Inc	1.93%

5 Bottom Performers - Holdings

	Contribution
Celgene Corp	-0.79%
Allergan PLC	-0.67%
General Electric Co	-0.40%
Bristol-Myers Squibb Co	-0.22%
DexCom Inc	-0.09%

5 Top Performers - Sectors*

	Portfolio Contribution	Portfolio Weighting (Average % of Equity)	Russell 1000 Growth Index Weighting
Information Technology	4.77%	41.13%	35.35%
Consumer Discretionary	1.30%	14.84%	19.34%
Consumer Staples	1.19%	1.36%	7.98%
Telecom Services	0.30%	0.00%	1.00%
Energy	0.21%	0.00%	0.68%

5 Bottom Performers - Sectors*

	Portfolio Contribution	Portfolio Weighting (Average % of Equity)	Russell 1000 Growth Index Weighting
Health Care	-4.71%	18.39%	14.65%
Other**	-1.03%	3.56%	0.00%
Industrials	-0.88%	5.84%	11.56%
Financials	-0.74%	9.45%	3.11%
Materials	-0.42%	3.65%	3.67%

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 Henderson VIT Forty Portfolio (unaudited)
Portfolio At A Glance
December 31, 2017

5 Largest Equity Holdings - (% of Net Assets)

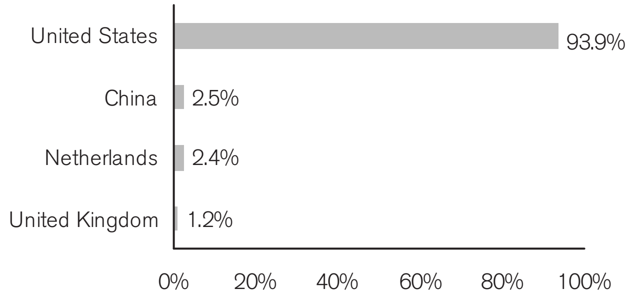
Alphabet Inc	
Internet Software & Services	5.9%
Mastercard Inc	
Information Technology Services	5.4%
salesforce.com Inc	
Software	4.9%
Microsoft Corp	
Software	4.8%
Activision Blizzard Inc	
Software	3.8%
	24.8%

Asset Allocation - (% of Net Assets)

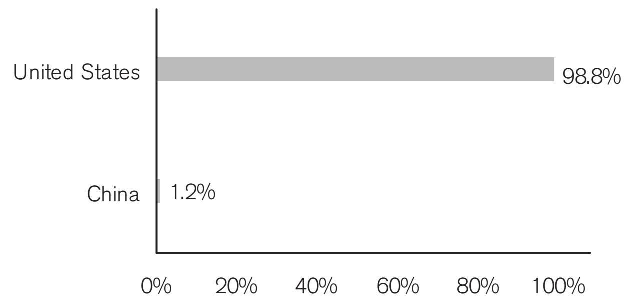
Common Stocks	96.0%
Investment Companies	5.0%
Other	(1.0)%
	100.0%

Top Country Allocations - Long Positions - (% of Investment Securities)

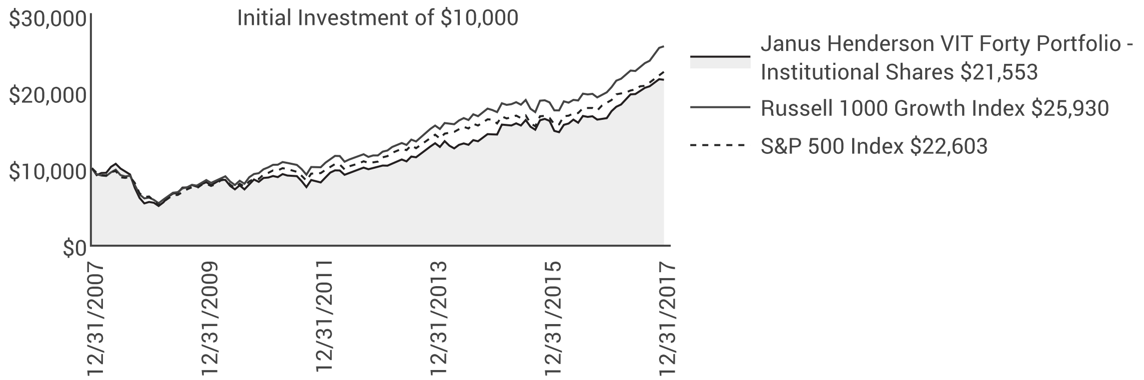
As of December 31, 2017



As of December 31, 2016



Janus Henderson VIT Forty Portfolio (unaudited)
Performance



Average Annual Total Return - for the periods ended December 31, 2017	One Year	Five Year	Ten Year	Since Inception*	Expense Ratios - per the May 1, 2017 prospectuses: Total Annual Fund Operating Expenses
Institutional Shares	30.31%	16.35%	7.98%	11.44%	0.74%
Service Shares	29.99%	16.06%	7.71%	11.13%	0.99%
Russell 1000 Growth Index	30.21%	17.33%	10.00%	7.67%	
S&P 500 Index	21.83%	15.79%	8.50%	8.03%	
Morningstar Quartile - Institutional Shares	2nd	2nd	3rd	1st	
Morningstar Ranking - based on total returns for Large Growth Funds	489/1,431	428/1,339	709/1,140	19/635	

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 800.668.0434 or visit janushenderson.com/VITperformance.

This Portfolio has a performance-based management fee that may adjust up or down based on the Portfolio's performance.

Performance may be affected by risks that include those associated with non-diversification, portfolio turnover, short sales, potential conflicts of interest, foreign and emerging markets, initial public offerings (IPOs), high-yield and high-risk securities, undervalued, overlooked and smaller capitalization companies, real estate related securities including Real Estate Investment Trusts (REITs), derivatives, and commodity-linked investments. Each product has different risks. Please see the prospectus for more information about risks, holdings and other details.

High absolute short-term performance is not typical and may not be achieved in the future. Such results should not be the sole basis for evaluating material facts in making an investment decision.

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.

See important disclosures on the next page.

Janus Henderson VIT Forty Portfolio (unaudited)
Performance

There is no assurance that the investment process will consistently lead to successful investing.

See Notes to Schedule of Investments and Other Information for index definitions.

Index performance does not reflect the expenses of managing a portfolio as an index is unmanaged and not available for direct investment.

See "Useful Information About Your Portfolio Report."

*The Portfolio's inception date – May 1 ,1997

Janus Henderson VIT 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 (7/1/17)	Ending Account Value (12/31/17)	Expenses Paid During Period (7/1/17 - 12/31/17)†	Beginning Account Value (7/1/17)	Ending Account Value (12/31/17)	Expenses Paid During Period (7/1/17 - 12/31/17)†	Net Annualized Expense Ratio (7/1/17 - 12/31/17)
Institutional Shares	$1,000.00	$1,094.70	$4.49	$1,000.00	$1,020.92	$4.33	0.85%
Service Shares	$1,000.00	$1,093.30	$5.80	$1,000.00	$1,019.66	$5.60	1.10%

† Expenses Paid During Period are equal to the Net Annualized Expense Ratio multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period). Expenses in the examples include the effect of applicable fee waivers and/or expense reimbursements, if any. Had such waivers and/or reimbursements not been in effect, your expenses would have been higher. Please refer to the Notes to Financial Statements or the Portfolio's prospectuses for more information regarding waivers and/or reimbursements.

Janus Henderson VIT Forty Portfolio
Schedule of Investments
December 31, 2017

	Shares	Value
Common Stocks – 96.0%		
Aerospace & Defense – 1.6%		
General Dynamics Corp	59,190	$12,042,205
Auto Components – 2.0%		
Aptiv PLC	182,068	15,444,828
Automobiles – 0.4%		
Tesla Inc*	10,251	3,191,649
Banks – 3.4%		
Citigroup Inc	351,521	26,156,678
Biotechnology – 6.3%		
Celgene Corp*	201,991	21,079,781
Regeneron Pharmaceuticals Inc*	49,844	18,739,350
Shire PLC (ADR)	59,393	9,213,042
		49,032,173
Capital Markets – 7.7%		
Charles Schwab Corp	361,578	18,574,262
Goldman Sachs Group Inc	76,202	19,413,222
Intercontinental Exchange Inc	310,057	21,877,622
		59,865,106
Chemicals – 2.9%		
Air Products & Chemicals Inc	21,710	3,562,177
Sherwin-Williams Co	45,567	18,684,293
		22,246,470
Construction Materials – 1.0%		
Vulcan Materials Co	61,911	7,947,515
Electronic Equipment, Instruments & Components – 1.5%		
TE Connectivity Ltd	125,056	11,885,322
Equity Real Estate Investment Trusts (REITs) – 2.1%		
American Tower Corp	112,448	16,042,956
Health Care Equipment & Supplies – 4.9%		
Boston Scientific Corp*	702,799	17,422,387
DexCom Inc*	97,161	5,576,070
Intuitive Surgical Inc*	41,356	15,092,459
		38,090,916
Health Care Providers & Services – 1.7%		
Humana Inc	54,017	13,399,997
Hotels, Restaurants & Leisure – 1.4%		
Starbucks Corp	186,126	10,689,216
Information Technology Services – 6.6%		
Mastercard Inc	274,704	41,579,197
PayPal Holdings Inc*	134,579	9,907,706
		51,486,903
Internet & Direct Marketing Retail – 7.5%		
Amazon.com Inc*	24,791	28,992,331
Ctrip.com International Ltd (ADR)*	211,818	9,341,174
Netflix Inc*	30,306	5,817,540
Priceline Group Inc*	8,123	14,115,662
		58,266,707
Internet Software & Services – 10.8%		
Alibaba Group Holding Ltd (ADR)*	59,790	10,309,590
Alphabet Inc - Class C*	43,499	45,517,353
CoStar Group Inc*	47,766	14,184,114
Facebook Inc*	77,325	13,644,769
		83,655,826
Media – 0.8%		
Live Nation Entertainment Inc*	151,779	6,461,232
Pharmaceuticals – 3.9%		
Allergan PLC	96,620	15,805,100
Zoetis Inc	195,015	14,048,881
		29,853,981

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

Janus Henderson VIT Forty Portfolio
Schedule of Investments
December 31, 2017

	Shares	Value
Common Stocks – (continued)		
Road & Rail – 1.5%		
CSX Corp	214,545	$11,802,120
Semiconductor & Semiconductor Equipment – 6.0%		
ASML Holding NV	108,844	18,919,264
Texas Instruments Inc	264,508	27,625,215
		46,544,479
Software – 16.5%		
Activision Blizzard Inc	468,734	29,680,237
Adobe Systems Inc*	113,062	19,812,985
Microsoft Corp	433,196	37,055,586
salesforce.com Inc*	375,333	38,370,293
Workday Inc*	33,479	3,406,153
		128,325,254
Technology Hardware, Storage & Peripherals – 3.5%		
Apple Inc	158,841	26,880,662
Textiles, Apparel & Luxury Goods – 2.0%		
NIKE Inc	252,646	15,803,007
Total Common Stocks (cost $521,936,250)		745,115,202
Investment Companies – 5.0%		
Money Markets – 5.0%		
Janus Cash Liquidity Fund LLC, 1.2731%[∞,£] (cost $38,903,503)	38,903,503	38,903,503
Total Investments (total cost $560,839,753) – 101.0%		784,018,705
Liabilities, net of Cash, Receivables and Other Assets – (1.0)%		(7,791,873)
Net Assets – 100%		$776,226,832

Summary of Investments by Country - (Long Positions) (unaudited)

Country	*Value*	*% of Investment Securities*
United States	$736,235,635	93.9 %
China	19,650,764	2.5
Netherlands	18,919,264	2.4
United Kingdom	9,213,042	1.2
Total	$784,018,705	100.0 %

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

Janus Henderson VIT Forty Portfolio
Schedule of Investments
December 31, 2017

Schedules of Affiliated Investments – (% of Net Assets)

	Dividend Income(1)	Realized Gain/(Loss)(1)	Change in Unrealized Appreciation/ Depreciation(1)	Value at 12/31/17
Investment Companies – 5.0%				
Investments Purchased with Cash Collateral from Securities Lending – 0%				
Janus Cash Collateral Fund LLC, 1.2573%°°	$ 202Δ	$ —	$ —	$ —
Money Markets – 5.0%				
Janus Cash Liquidity Fund LLC, 1.2731%°°	233,019	—	—	38,903,503
Total Affiliated Investments – 5.0%	$ 233,221	$ —	$ —	$ 38,903,503

(1) For securities that were affiliated for a portion of the year ended December 31, 2017, this column reflects amounts for the entire year ended December 31, 2017 and not just the period in which the security was affiliated.

	Share Balance at 12/31/16	Purchases	Sales	Share Balance at 12/31/17
Investment Companies – 5.0%				
Investments Purchased with Cash Collateral from Securities Lending – 0%				
Janus Cash Collateral Fund LLC, 1.2573%°°	—	16,693,600	(16,693,600)	—
Money Markets – 5.0%				
Janus Cash Liquidity Fund LLC, 1.2731%°°	8,949,000	286,910,503	(256,956,000)	38,903,503

See Notes to Schedule of Investments and Other Information and Notes to Financial Statements.

Janus Henderson VIT Forty Portfolio
Notes to Schedule of Investments and Other Information

Russell 1000® Growth Index	Russell 1000® Growth Index reflects the performance of U.S. large-cap equities with higher price-to-book ratios and higher forecasted growth values.
S&P 500® Index	S&P 500® Index reflects U.S. large-cap equity performance and represents broad U.S. equity market 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, 2017.
£	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.
Δ	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, 2017. 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	$ 745,115,202	$ -	$ -
Investment Companies	-	38,903,503	-
Total Assets	$ 745,115,202	$ 38,903,503	$ -

Janus Henderson VIT Forty Portfolio
Statement of Assets and Liabilities
December 31, 2017

Assets:		
Unaffiliated investments, at value[(1)]	$	745,115,202
Affiliated investments, at value[(2)]		38,903,503
Non-interested Trustees' deferred compensation		14,921
Receivables:		
Investments sold		410,796
Dividends		165,386
Portfolio shares sold		149,511
Dividends from affiliates		31,645
Other assets		6,799
Total Assets		784,797,763
Liabilities:		
Due to custodian		11,089
Payables:		
Portfolio shares repurchased		4,785,246
Investments purchased		3,024,939
Advisory fees		480,381
12b-1 Distribution and shareholder servicing fees		103,145
Transfer agent fees and expenses		36,571
Professional fees		28,989
Non-interested Trustees' deferred compensation fees		14,921
Non-interested Trustees' fees and expenses		5,555
Portfolio administration fees		5,375
Custodian fees		2,726
Accrued expenses and other payables		71,994
Total Liabilities		8,570,931
Net Assets	$	776,226,832
Net Assets Consist of:		
Capital (par value and paid-in surplus)	$	438,539,598
Undistributed net investment income/(loss)		(14,921)
Undistributed net realized gain/(loss) from investments and foreign currency transactions		114,520,485
Unrealized net appreciation/(depreciation) of investments, foreign currency translations and non-interested Trustees' deferred compensation		223,181,670
Total Net Assets	$	776,226,832
Net Assets - Institutional Shares	$	309,258,324
Shares Outstanding, $0.01 Par Value (unlimited shares authorized)		7,778,394
Net Asset Value Per Share	$	39.76
Net Assets - Service Shares	$	466,968,508
Shares Outstanding, $0.01 Par Value (unlimited shares authorized)		12,340,917
Net Asset Value Per Share	$	37.84

(1) Includes cost of $521,936,250.
(2) Includes cost of $38,903,503.

See Notes to Financial Statements.

Janus Henderson VIT Forty Portfolio
Statement of Operations
For the year ended December 31, 2017

Investment Income:		
Dividends	$	6,323,264
Dividends from affiliates		233,019
Affiliated securities lending income, net		202
Other income		39
Foreign tax withheld		(16,123)
Total Investment Income		6,540,401
Expenses:		
Advisory fees		5,457,390
12b-1Distribution and shareholder servicing fees:		
Service Shares		1,140,191
Transfer agent administrative fees and expenses:		
Institutional Shares		148,265
Service Shares		228,038
Other transfer agent fees and expenses:		
Institutional Shares		10,216
Service Shares		9,000
Shareholder reports expense		69,906
Portfolio administration fees		64,309
Professional fees		37,626
Registration fees		24,367
Custodian fees		21,378
Non-interested Trustees' fees and expenses		16,918
Other expenses		44,517
Total Expenses		7,272,121
Net Investment Income/(Loss)		(731,720)
Net Realized Gain/(Loss) on Investments:		
Investments and foreign currency transactions		115,587,643
Total Net Realized Gain/(Loss) on Investments		115,587,643
Change in Unrealized Net Appreciation/Depreciation:		
Investments, foreign currency translations and non-interested Trustees' deferred compensation		79,778,500
Total Change in Unrealized Net Appreciation/Depreciation		79,778,500
Net Increase/(Decrease) in Net Assets Resulting from Operations	$	194,634,423

See Notes to Financial Statements.

Janus Henderson VIT Forty Portfolio
Statements of Changes in Net Assets

		Year ended December 31, 2017		Year ended December 31, 2016
Operations:				
Net investment income/(loss)	$	(731,720)	$	(19,397)
Net realized gain/(loss) on investments		115,587,643		40,288,179
Change in unrealized net appreciation/depreciation		79,778,500		(26,711,467)
Net Increase/(Decrease) in Net Assets Resulting from Operations		194,634,423		13,557,315
Dividends and Distributions to Shareholders:				
Distributions from Net Realized Gain from Investment Transactions				
Institutional Shares		(15,738,032)		(37,062,653)
Service Shares		(24,926,390)		(65,123,788)
Net Decrease from Dividends and Distributions to Shareholders		(40,664,422)		(102,186,441)
Capital Share Transactions:				
Institutional Shares		(8,524,718)		(7,170,480)
Service Shares		(56,736,961)		(13,410,718)
Net Increase/(Decrease) from Capital Share Transactions		(65,261,679)		(20,581,198)
Net Increase/(Decrease) in Net Assets		88,708,322		(109,210,324)
Net Assets:				
Beginning of period		687,518,510		796,728,834
End of period	$	776,226,832	$	687,518,510
Undistributed Net Investment Income/(Loss)	$	(14,921)	$	121,926

See Notes to Financial Statements.

Janus Henderson VIT Forty Portfolio
Financial Highlights

Institutional Shares

For a share outstanding during each year ended December 31	2017	2016	2015	2014	2013
Net Asset Value, Beginning of Period	$32.19	$36.37	$40.27	$53.34	$40.95
Income/(Loss) from Investment Operations:					
Net investment income/(loss)	0.02[(1)]	0.05[(1)]	0.03[(1)]	0.03[(1)]	0.38
Net realized and unrealized gain/(loss)	9.58	0.58	4.77	3.08	12.34
Total from Investment Operations	9.60	0.63	4.80	3.11	12.72
Less Dividends and Distributions:					
Dividends (from net investment income)	—	—	—	(0.09)	(0.33)
Distributions (from capital gains)	(2.03)	(4.81)	(8.70)	(16.09)	—
Total Dividends and Distributions	(2.03)	(4.81)	(8.70)	(16.18)	(0.33)
Net Asset Value, End of Period	$39.76	$32.19	$36.37	$40.27	$53.34
Total Return*	30.31%	2.20%	12.22%	8.73%	31.23%
Net Assets, End of Period (in thousands)	$309,258	$257,009	$295,725	$299,546	$355,429
Average Net Assets for the Period (in thousands)	$297,125	$273,374	$298,904	$307,359	$491,231
Ratios to Average Net Assets**:					
Ratio of Gross Expenses	0.82%	0.72%	0.69%	0.57%	0.55%
Ratio of Net Expenses (After Waivers and Expense Offsets)	0.82%	0.72%	0.69%	0.57%	0.55%
Ratio of Net Investment Income/(Loss)	0.05%	0.15%	0.08%	0.07%	0.31%
Portfolio Turnover Rate	39%	53%	55%	46%	61%

Service Shares

For a share outstanding during each year ended December 31	2017	2016	2015	2014	2013
Net Asset Value, Beginning of Period	$30.79	$35.08	$39.21	$52.40	$40.28
Income/(Loss) from Investment Operations:					
Net investment income/(loss)	(0.07)[(1)]	(0.03)[(1)]	(0.06)[(1)]	(0.07)[(1)]	—[(2)]
Net realized and unrealized gain/(loss)	9.15	0.55	4.63	2.99	12.38
Total from Investment Operations	9.08	0.52	4.57	2.92	12.38
Less Dividends and Distributions:					
Dividends (from net investment income)	—	—	—	(0.02)	(0.26)
Distributions (from capital gains)	(2.03)	(4.81)	(8.70)	(16.09)	—
Total Dividends and Distributions	(2.03)	(4.81)	(8.70)	(16.11)	(0.26)
Net Asset Value, End of Period	$37.84	$30.79	$35.08	$39.21	$52.40
Total Return*	29.99%	1.94%	11.94%	8.47%	30.89%
Net Assets, End of Period (in thousands)	$466,969	$430,510	$501,003	$492,253	$526,971
Average Net Assets for the Period (in thousands)	$457,168	$464,943	$501,868	$493,575	$486,845
Ratios to Average Net Assets**:					
Ratio of Gross Expenses	1.06%	0.97%	0.94%	0.82%	0.81%
Ratio of Net Expenses (After Waivers and Expense Offsets)	1.06%	0.97%	0.94%	0.82%	0.81%
Ratio of Net Investment Income/(Loss)	(0.19)%	(0.09)%	(0.17)%	(0.17)%	0.04%
Portfolio Turnover Rate	39%	53%	55%	46%	61%

* Total return not annualized for periods of less than one full year.

** Annualized for periods of less than one full year.

(1) Per share amounts are calculated based on average shares outstanding during the year or period.

(2) Less than $0.005 on a per share basis.

See Notes to Financial Statements.

1. Organization and Significant Accounting Policies

Janus Henderson VIT Forty Portfolio (formerly named Janus Aspen Forty Portfolio) (the "Portfolio") is a series 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 12 portfolios, each of which offers multiple share classes, 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, 2017 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.

On December 22, 2017, the Tax Cuts and Jobs Act was signed into law. Currently, Management does not believe the bill will have a material impact on the Fund's intention to continue to qualify as a regulated investment company, which is generally not subject to U.S. federal income tax.

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") of 2010 provided for widespread regulation of financial institutions, consumer financial products and services, broker-dealers, OTC derivatives, investment advisers, credit rating agencies, and mortgage lending, which 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"). There is considerable uncertainty about how Brexit will be conducted, how negotiations of necessary treaties and trade agreements will proceed, or how financial markets will react. In addition, 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 Management LLC ("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 certain qualified broker-dealers and institutions. 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 in accordance with the Agency Securities Lending and Repurchase Agreement. 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, 2017.

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 based on the Portfolio's relative performance compared to the cumulative investment record of its benchmark index over a 36-month performance measurement period or shorter time period, as applicable.

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, 2017, the performance adjusted investment advisory fee rate before any waivers and/or reimbursements of expenses is 0.72%.

Janus Services LLC ("Janus Services"), a wholly-owned subsidiary of Janus Capital, is the Portfolio's transfer agent. 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 and shareholder servicing fees" in the Statement of Operations.

Janus Capital furnishes certain administration, compliance, and accounting services to the Portfolio, including providing office space for the Portfolio and providing personnel to serve as officers to the Portfolio. The Portfolio reimburses Janus Capital for certain of its costs in providing these services (to the extent Janus Capital seeks reimbursement and such costs are not otherwise waived). These costs include some or all of the salaries, fees, and expenses of Janus Capital employees and Portfolio officers, including the Portfolio's Chief Compliance Officer and compliance staff, who provide specified administration and compliance services to 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. Total compensation of $17,105 was paid to the Chief Compliance Officer and certain compliance staff by the Trust during the year ended December 31, 2017. 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

Henderson 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, 2017 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, 2017 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 $416,450 were paid by the Trust to the Trustees under the Deferred Plan during the year ended December 31, 2017.

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, 2017 can be found in a table located in the Schedule of Investments.

The Portfolio is permitted to purchase or sell securities ("cross-trade") between itself and other funds or accounts managed by Janus Capital 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, 2017, the Portfolio engaged in cross trades amounting to $30,250,413 in sales, resulting in a net realized gain of $7,731,992. The net realized gain 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. 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.

Janus Henderson VIT Forty Portfolio
Notes to Financial Statements

Undistributed Ordinary Income	Undistributed Long-Term Gains	Accumulated Capital Losses	Loss Deferrals: Late-Year Ordinary Loss	Loss Deferrals: Post-October Capital Loss	Other Book to Tax Differences	Net Tax Appreciation/ (Depreciation)
$ 9,774,498	$ 105,016,326	$ -	$ -	$ -	$ (12,204)	$222,908,614

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, 2017 are noted below. 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)
$ 561,110,091	$229,937,793	$ (7,029,179)	$ 222,908,614

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, 2017

Distributions			
From Ordinary Income	From Long-Term Capital Gains	Tax Return of Capital	Net Investment Loss
$ -	$ 40,664,422	$ -	$ -

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)

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
$ -	$ 594,873	$ (594,873)

5. Capital Share Transactions

	Year ended December 31, 2017		*Year ended December 31, 2016*	
	Shares	*Amount*	*Shares*	*Amount*
Institutional Shares:				
Shares sold	790,876	$ 28,902,402	699,774	$ 23,356,199
Reinvested dividends and distributions	427,548	15,738,032	1,192,492	37,062,653
Shares repurchased	(1,424,785)	(53,165,152)	(2,038,134)	(67,589,332)
Net Increase/(Decrease)	(206,361)	$ (8,524,718)	(145,868)	$ (7,170,480)
Service Shares:				
Shares sold	1,169,490	$ 40,949,527	1,166,469	$ 37,891,921
Reinvested dividends and distributions	710,558	24,926,390	2,187,564	65,123,788
Shares repurchased	(3,522,268)	(122,612,878)	(3,651,743)	(116,426,427)
Net Increase/(Decrease)	(1,642,220)	$(56,736,961)	(297,710)	$(13,410,718)

6. Purchases and Sales of Investment Securities

For the year ended December 31, 2017, the aggregate cost of purchases and proceeds from sales of investment securities (excluding any short-term securities, short-term options contracts, TBAs, and in-kind transactions, as applicable) 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*
$285,253,584	$ 416,415,195	$ -	$ -

7. Recent Accounting Pronouncements

The Securities and Exchange Commission ("SEC") adopted new rules as well as amendments to its rules to modernize the reporting and disclosure of information by registered investment companies. In addition, the SEC adopted amendments to Regulation S-X, which require standardized, enhanced disclosure about derivatives in investment company financial statements, as well as other amendments. The compliance date of the amendments to Regulation S-X was August 1, 2017. This report incorporates the amendments to Regulation S-X.

The FASB issued Accounting Standards Update No. 2017-08*, Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities* ("ASU 2017-08") to amend the amortization period for certain purchased callable debt securities held at a premium. The guidance requires certain premiums on callable debt securities to be amortized to the earliest call date. The amortization period for callable debt securities purchased at a discount will not be impacted. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. Management is currently evaluating the impacts of ASU 2017-08 on the financial statements.

8. Merger Related Matters

On October 3, 2016, Janus Capital Group Inc. ("JCGI"), the direct parent of 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 "Merger"). Pursuant to the Merger Agreement, a newly formed, direct wholly-owned subsidiary of Henderson merged with and into JCGI, with JCGI as the surviving corporation and a direct wholly-owned subsidiary of Henderson. The Merger was effective May 30, 2017.

The consummation of the Merger may have been deemed to be an "assignment" (as defined in the 1940 Act) of the advisory agreement between the Portfolio and Janus Capital in effect on the date of the Merger. As a result, the consummation of the Merger may have caused the investment advisory agreement to terminate automatically in accordance with its terms.

On December 8, 2016, the Trustees approved, subject to shareholder approval, 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 Merger (the "Post-Merger Advisory Agreement"). At the same meeting, the Trustees approved submitting the Post-Merger Advisory Agreement, among other proposals, to Portfolio shareholders for approval.

Special Meeting(s) of Shareholders were held on April 6, 2017, and adjourned and reconvened on April 18, 2017.

Approval of Advisory Agreements
On April 18, 2017, shareholders of the Portfolio approved the Post-Merger Advisory Agreement with Janus Capital. The Post- Merger Advisory Agreement took effect upon the consummation of the Merger.

9. Subsequent Event

Management has evaluated whether any events or transactions occurred subsequent to December 31, 2017 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 Henderson VIT Forty Portfolio
Independent Auditor's Report

To the Board of Trustees of Janus Aspen Series and Shareholders of Janus Henderson VIT Forty Portfolio:

Opinion on the Financial Statements
We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of Janus Henderson VIT Forty Portfolio (one of the portfolios constituting Janus Aspen Series, referred to hereafter as the "Portfolio") as of December 31, 2017, the related statement of operations for the year ended December 31, 2017, the statements of changes in net assets for each of the two years in the period ended December 31, 2017, including the related notes, and the financial highlights for each of the five years in the period ended December 31, 2017 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Portfolio as of December 31, 2017, 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 ended December 31, 2017 and the financial highlights for each of the five years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion
These financial statements are the responsibility of the Portfolio's management. Our responsibility is to express an opinion on the Portfolio's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Portfolio in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our procedures included confirmation of securities owned as of December 31, 2017 by correspondence with the custodian, transfer agent and brokers; when replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Denver, Colorado
February 16, 2018

We have served as the auditor of one or more investment companies in Janus Henderson Funds since 1990.

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 1-800-525-1093; (ii) on the Portfolio's website at janushenderson.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 janushenderson.com/proxyvoting and from the SEC's website at http://www.sec.gov.

Full Holdings

The Portfolio is required to disclose its complete holdings in the quarterly holdings report on Form N-Q within 60 days of the end of the first and third fiscal quarters, and in the annual report and semiannual report to Portfolio shareholders. These reports (i) are 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) are available without charge, upon request, by calling a Janus Henderson representative at 1-877-335-2687 (toll free) . Portfolio holdings consisting of at least the names of the holdings are generally available on a monthly basis with a 30-day lag. Holdings are generally posted approximately two business days thereafter under Full Holdings for the Portfolio at janushenderson.com/vit.

APPROVAL OF ADVISORY AGREEMENTS DURING THE PERIOD

December 2017

The Trustees of Janus Investment Fund and Janus Aspen Series, each of whom serves as an "independent" Trustee (the "Trustees"), oversee the management of each Fund of Janus Investment Fund and each Portfolio of Janus Aspen Series (each, a "Fund" and collectively, the "Funds"), and as required by law, determine annually whether to continue the investment advisory agreement for each Fund and the subadvisory agreements for the 14 Funds that utilize subadvisers.

In connection with their most recent consideration of those agreements for each Fund, the Trustees received and reviewed information provided by Janus Capital and the respective subadvisers in response to requests of the Trustees and their independent legal counsel. They also received and reviewed information and analysis provided by, and in response to requests of, their independent fee consultant. Throughout their consideration of the agreements, the Trustees were advised by their independent legal counsel. The Trustees met with management to consider the agreements, and also met separately in executive session with their independent legal counsel and their independent fee consultant.

Additionally, in connection with their consideration of whether to continue the investment advisory agreement and subadvisory agreement for each Fund, as applicable, the Trustees also received and reviewed information in connection with the transaction to combine the respective businesses of Henderson Group plc and Janus Capital Group, Inc., the parent company of Janus Capital (the "Transaction"), announced in October 2016, which closed in the second quarter of 2017. In this regard, the Trustees reviewed information regarding the impact of the Transaction on the services to be provided by Janus Capital and each subadviser, as applicable, to the Funds under such agreements prior to the close of the Transaction as well as the services provided after the Transaction closed.

At a meeting held on December 7, 2017, based on the Trustees' evaluation of the information provided by Janus Capital, the subadvisers, and the independent fee consultant, as well as other information, the Trustees determined that the overall arrangements between each Fund and Janus Capital and each subadviser, as applicable, were fair and reasonable in light of the nature, extent and quality of the services provided by Janus Capital, its affiliates and the subadvisers, the fees charged for those services, and other matters that the Trustees considered relevant in the exercise of their business judgment. At that meeting, the Trustees unanimously approved the continuation of the investment advisory agreement for each Fund, and the subadvisory agreement for each subadvised Fund, for the period from February 1, 2018 through February 1, 2019, subject to earlier termination as provided for in each agreement.

In considering the continuation of those agreements, the Trustees reviewed and analyzed various factors that they determined were relevant, including the factors described below, none of which by itself was considered dispositive. However, the material factors and conclusions that formed the basis for the Trustees' determination to approve the continuation of the agreements are discussed separately below. Also included is a summary of the independent fee consultant's conclusions and opinions that arose during, and were included as part of, the Trustees' consideration of the agreements. "Management fees," as used herein, reflect actual annual advisory fees and any administration fees (excluding out of pocket costs), net of any waivers.

Nature, Extent and Quality of Services

The Trustees reviewed the nature, extent and quality of the services provided by Janus Capital and the subadvisers to the Funds, taking into account the investment objective, strategies and policies of each Fund, and the knowledge the Trustees gained from their regular meetings with management on at least a quarterly basis and their ongoing review of information related to the Funds. In addition, the Trustees reviewed the resources and key personnel of Janus Capital and each subadviser, particularly noting those employees who provide investment and risk management services to the Funds. The Trustees also considered other services provided to the Funds by Janus Capital or the subadvisers, such as managing the execution of portfolio transactions and the selection of broker-dealers for those transactions. The Trustees considered Janus Capital's role as administrator to the Funds, noting that Janus Capital does not receive a fee for its services but is reimbursed for its out-of-pocket costs. The Trustees considered the role of Janus Capital in monitoring adherence to the Funds' investment restrictions, providing support services for the Trustees and Trustee committees, and overseeing communications with shareholders and the activities of other service providers, including monitoring compliance with various policies and procedures of the Funds and with applicable securities laws and regulations.

In this regard, the independent fee consultant noted that Janus Capital provides a number of different services for the Funds and Fund shareholders, ranging from investment management services to various other servicing functions, and that, in its opinion, Janus Capital is a capable provider of those services. The independent fee consultant also provided its belief that Janus Capital has developed a number of institutional competitive advantages that should enable it to provide superior investment and service performance over the long term.

The Trustees concluded that the nature, extent and quality of the services provided by Janus Capital or the subadviser to each Fund were appropriate and consistent with the terms of the respective advisory and subadvisory agreements, and that, taking into account steps taken to address those Funds whose performance lagged that of their peers for certain periods, the Funds were likely to benefit from the continued provision of those services. They also concluded that Janus Capital and each subadviser had sufficient personnel, with the appropriate education and experience, to serve the Funds effectively and had demonstrated its ability to attract well-qualified personnel.

Performance of the Funds

The Trustees considered the performance results of each Fund over various time periods. They noted that they considered Fund performance data throughout the year, including periodic meetings with each Fund's portfolio manager(s), and also reviewed information comparing each Fund's performance with the performance of comparable funds and peer groups identified by Broadridge Financial Solutions, Inc. ("Broadridge"), an independent data provider, and with the Fund's benchmark index. In this regard, the independent fee consultant found that the overall Funds' performance has been strong: for the 36 months ended September 30, 2017, approximately 70% of the Funds were in the top two quartiles of performance, as reported by Morningstar, and for the 12 months ended September 30, 2017, approximately 46% of the Funds were in the top two quartiles of performance, as reported by Morningstar.

The Trustees considered the performance of each Fund, noting that performance may vary by share class, and noted the following:

Alternative Funds

- For Janus Henderson Diversified Alternatives Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2017 and the second Broadridge quartile for the 12 months ended May 31, 2017.
- For Janus Henderson International Long/Short Equity Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 12 months ended May 31, 2017. The Trustees noted the reasons for the Fund's underperformance, the steps Janus Capital had taken or was taking to improve performance, and the Fund's limited performance history.

Asset Allocation Funds

- For Janus Henderson Global Allocation Fund – Conservative, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2017 and the second Broadridge quartile for the 12 months ended May 31, 2017. The Trustees noted the reasons for the Fund's underperformance, the steps Janus Capital had taken or was taking to improve performance, and that the performance trend was improving.

- For Janus Henderson Global Allocation Fund – Growth, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2017 and the second Broadridge quartile for the 12 months ended May 31, 2017. The Trustees noted the reasons for the Fund's underperformance, the steps Janus Capital had taken or was taking to improve performance, and that the performance trend was improving.
- For Janus Henderson Global Allocation Fund – Moderate, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2017 and the third Broadridge quartile for the 12 months ended May 31, 2017. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital had taken or was taking to improve performance.

Fixed-Income Funds

- For Janus Henderson Flexible Bond Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2017 and the bottom Broadridge quartile for the 12 months ended May 31, 2017. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Henderson Global Bond Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2017 and the bottom Broadridge quartile for the 12 months ended May 31, 2017. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Henderson Global Unconstrained Bond Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2017 and the bottom Broadridge quartile for the 12 months ended May 31, 2017. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Henderson High-Yield Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2017 and the third Broadridge quartile for the 12 months ended May 31, 2017.
- For Janus Henderson Multi-Sector Income Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2017 and the second Broadridge quartile for the 12 months ended May 31, 2017.
- For Janus Henderson Real Return Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2017 and the first Broadridge quartile for the 12 months ended May 31, 2017.
- For Janus Henderson Short-Term Bond Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2017 and the third Broadridge quartile for the 12 months ended May 31, 2017. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Henderson Strategic Income Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2017 and the second Broadridge quartile for the 12 months ended May 31, 2017.

Global and International Equity Funds

- For Janus Henderson Asia Equity Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2017 and the first Broadridge quartile for the 12 months ended May 31, 2017.

- For Janus Henderson Emerging Markets Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2017 and the third Broadridge quartile for the 12 months ended May 31, 2017.
- For Janus Henderson European Focus Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2017 and the bottom Broadridge quartile for the 12 months ended May 31, 2017. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Henderson Global Equity Income Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2017 and the second Broadridge quartile for the 12 months ended May 31, 2017. The Trustees noted the reasons for the Fund's underperformance, the steps Janus Capital had taken or was taking to improve performance, and that the performance trend was improving.
- For Janus Henderson Global Life Sciences Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2017 and the second Broadridge quartile for the 12 months ended May 31, 2017.
- For Janus Henderson Global Real Estate Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2017 and the first Broadridge quartile for the 12 months ended May 31, 2017.
- For Janus Henderson Global Research Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2017 and the second Broadridge quartile for the 12 months ended May 31, 2017. The Trustees noted the reasons for the Fund's underperformance, while also noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, the steps Janus Capital had taken or was taking to improve performance, and that the performance trend was improving.
- For Janus Henderson Global Select Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2017 and the first Broadridge quartile for the 12 months ended May 31, 2017. The Trustees noted the reasons for the Fund's underperformance, the steps Janus Capital had taken or was taking to improve performance, and that the performance trend was improving.
- For Janus Henderson Global Technology Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2017 and the third Broadridge quartile for the 12 months ended May 31, 2017. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Henderson Global Value Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2017 and the bottom Broadridge quartile for the 12 months ended May 31, 2017. The Trustees noted the reasons for the Fund's underperformance, while also noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital and Perkins had taken or were taking to improve performance.
- For Janus Henderson International Opportunities Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2017 and the bottom Broadridge quartile for the 12 months ended May 31, 2017.
- For Janus Henderson International Small Cap Fund, the Trustees noted that, due to limited performance for the Fund, performance history was not a material factor.
- For Janus Henderson International Value Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2017 and the bottom Broadridge quartile for the 12 months ended May 31, 2017. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital and Perkins had taken or were taking to improve performance.
- For Janus Henderson Overseas Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2017 and the first Broadridge quartile for the 12 months ended May 31, 2017. The Trustees noted the reasons for the Fund's underperformance, while also noting that

the Fund has a performance fee structure that results in lower management fees during periods of underperformance, the steps Janus Capital had taken or was taking to improve performance, and that the performance trend was improving.

Money Market Funds

- For Janus Henderson Government Money Market Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2017 and the third Broadridge quartile for the 12 months ended May 31, 2017. The Trustees noted the reasons for the Fund's underperformance.
- For Janus Henderson Money Market Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2017 and the third Broadridge quartile for the 12 months ended May 31, 2017. The Trustees noted the reasons for the Fund's underperformance.

Multi-Asset Funds

- For Janus Henderson Adaptive Global Allocation Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 12 months ended May 31, 2017.
- For Janus Henderson All Asset Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2017 and the third Broadridge quartile for the 12 months ended May 31, 2017. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Henderson Dividend & Income Builder Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2017 and the second Broadridge quartile for the 12 months ended May 31, 2017.
- For Janus Henderson Value Plus Income Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2017 and the second Broadridge quartile for the 12 months ended May 31, 2017.

Multi-Asset U.S. Equity Funds

- For Janus Henderson Balanced Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2017 and the first Broadridge quartile for the 12 months ended May 31, 2017.
- For Janus Henderson Contrarian Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2017 and the first Broadridge quartile for the 12 months ended May 31, 2017. The Trustees noted the reasons for the Fund's underperformance, while also noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, the steps Janus Capital had taken or was taking to improve performance, and that the performance trend was improving.
- For Janus Henderson Enterprise Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2017 and the second Broadridge quartile for the 12 months ended May 31, 2017.
- For Janus Henderson Forty Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2017 and the third Broadridge quartile for the 12 months ended May 31, 2017.
- For Janus Henderson Growth and Income Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2017 and the first Broadridge quartile for the 12 months ended May 31, 2017.
- For Janus Henderson Research Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2017 and the third Broadridge quartile for the 12 months ended May 31, 2017.

- For Janus Henderson Triton Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2017 and the third Broadridge quartile for the 12 months ended May 31, 2017.
- For Janus Henderson U.S. Growth Opportunities Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 12 months ended May 31, 2017. The Trustees noted the reasons for the Fund's underperformance, the steps Janus Capital had taken or was taking to improve performance, and the Fund's limited performance history.
- For Janus Henderson Venture Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2017 and the bottom Broadridge quartile for the 12 months ended May 31, 2017.

Quantitative Equity Funds

- For Janus Henderson Emerging Markets Managed Volatility Fund, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 12 months ended May 31, 2017. The Trustees noted the reasons for the Fund's underperformance, the steps Janus Capital and Intech had taken or were taking to improve performance, and the Fund's limited performance history.
- For Janus Henderson Global Income Managed Volatility Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2017 and the third Broadridge quartile for the 12 months ended May 31, 2017.
- For Janus Henderson International Managed Volatility Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2017 and the bottom Broadridge quartile for the 12 months ended May 31, 2017. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital and Intech had taken or were taking to improve performance.
- For Janus Henderson U.S. Managed Volatility Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2017 and the bottom Broadridge quartile for the 12 months ended May 31, 2017.

U.S. Equity Funds

- For Janus Henderson Large Cap Value Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2017 and the bottom Broadridge quartile for the 12 months ended May 31, 2017. The Trustees noted the reasons for the Fund's underperformance, while also noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital and Perkins had taken or were taking to improve performance.
- For Janus Henderson Mid Cap Value Fund, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2017 and the second Broadridge quartile for the 12 months ended May 31, 2017.
- For Janus Henderson Select Value Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2017 and the second Broadridge quartile for the 12 months ended May 31, 2017.
- For Janus Henderson Small Cap Value Fund, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2017 and the second Broadridge quartile for the 12 months ended May 31, 2017.

Janus Aspen Series

- For Janus Henderson Balanced Portfolio, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2017 and the first Broadridge quartile for the 12 months ended May 31, 2017.
- For Janus Henderson Enterprise Portfolio, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2017 and the second Broadridge quartile for the 12 months ended May 31, 2017.

- For Janus Henderson Flexible Bond Portfolio, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2017 and the bottom Broadridge quartile for the 12 months ended May 31, 2017. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Henderson Forty Portfolio, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2017 and the third Broadridge quartile for the 12 months ended May 31, 2017.
- For Janus Henderson Global Allocation Portfolio – Moderate, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2017 and the second Broadridge quartile for the 12 months ended May 31, 2017. The Trustees noted the reasons for the Fund's underperformance, the steps Janus Capital had taken or was taking to improve performance, and that the performance trend was improving.
- For Janus Henderson Global Research Portfolio, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2017 and the third Broadridge quartile for the 12 months ended May 31, 2017. The Trustees noted the reasons for the Fund's underperformance, while also noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Henderson Global Technology Portfolio, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2017 and the second Broadridge quartile for the 12 months ended May 31, 2017.
- For Janus Henderson Global Unconstrained Bond Portfolio, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 12 months ended May 31, 2017. The Trustees noted the reasons for the Fund's underperformance, the steps Janus Capital had taken or was taking to improve performance, and the Fund's limited performance history.
- For Janus Henderson Mid Cap Value Portfolio, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2017 and the second Broadridge quartile for the 12 months ended May 31, 2017. The Trustees noted the reasons for the Fund's underperformance, while also noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, the steps Janus Capital and Perkins had taken or were taking to improve performance, and that the performance trend was improving.
- For Janus Henderson Overseas Portfolio, the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2017 and the first Broadridge quartile for the 12 months ended May 31, 2017. The Trustees noted the reasons for the Fund's underperformance, while also noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, the steps Janus Capital had taken or was taking to improve performance, and that the performance trend was improving.
- For Janus Henderson Research Portfolio, the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2017 and the third Broadridge quartile for the 12 months ended May 31, 2017.
- For Janus Henderson U.S. Low Volatility Portfolio, the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2017 and the bottom Broadridge quartile for the 12 months ended May 31, 2017.

In consideration of each Fund's performance, the Trustees concluded that, taking into account the factors relevant to performance, as well as other considerations, including steps taken to improve performance, the Fund's performance warranted continuation of the Fund's investment advisory and subadvisory agreement(s).

Costs of Services Provided

The Trustees examined information regarding the fees and expenses of each Fund in comparison to similar information for other comparable funds as provided by Broadridge, an independent data provider. They also reviewed an analysis of that information provided by their independent fee consultant and noted that the rate of management (investment advisory and any administration, but excluding out-of-pocket costs) fees for many of the Funds, after applicable waivers, was below the average management fee rate of the respective peer group of funds selected by an independent data provider. The Trustees also examined information regarding the subadvisory fees charged for subadvisory services, as applicable, noting that all such fees were paid by Janus Capital out of its management fees collected from such Fund.

The independent fee consultant provided its belief that the management fees charged by Janus Capital to each of the Funds under the current investment advisory and administration agreements are reasonable in relation to the services provided by Janus Capital. The independent fee consultant found: (1) the total expenses and management fees of the Funds to be reasonable relative to other mutual funds; (2) total expenses, on average, were 10% below the average total expenses of their respective Broadridge Expense Group peers and 18% below the average total expenses for their Broadridge Expense Universes; (3) management fees for the Funds, on average, were 8% below the average management fees for their Expense Groups and 9% below the average for their Expense Universes; and (4) Fund expenses at the functional level for each asset and share class category were reasonable. The Trustees also considered the total expenses for each share class of each Fund compared to the average total expenses for its Broadridge Expense Group peers and to average total expenses for its Broadridge Expense Universe.

The independent fee consultant concluded that, based on its strategic review of expenses at the complex, category and individual fund level, Fund expenses were found to be reasonable relative to both Expense Group and Expense Universe benchmarks. Further, for certain Funds, the independent fee consultant also performed a systematic “focus list” analysis of expenses in the context of the performance or service delivered to each set of investors in each share class in each selected Fund. Based on this analysis, the independent fee consultant found that the combination of service quality/performance and expenses on these individual Funds and share classes were reasonable in light of performance trends, performance histories, and existence of performance fees, breakpoints, and expense waivers on such Funds.

The Trustees considered the methodology used by Janus Capital and each subadviser in determining compensation payable to portfolio managers, the competitive environment for investment management talent, and the competitive market for mutual funds in different distribution channels.

The Trustees also reviewed management fees charged by Janus Capital and each subadviser to comparable separate account clients and to comparable non-affiliated funds subadvised by Janus Capital or by a subadviser (for which Janus Capital or the subadviser provides only or primarily portfolio management services). Although in most instances subadvisory and separate account fee rates for various investment strategies were lower than management fee rates for Funds having a similar strategy, the Trustees considered that Janus Capital noted that, under the terms of the management agreements with the Funds, Janus Capital performs significant additional services for the Funds that it does not provide to those other clients, including administration services, oversight of the Funds’ other service providers, trustee support, regulatory compliance and numerous other services, and that, in serving the Funds, Janus Capital assumes many legal risks and other costs that it does not assume in servicing its other clients. Moreover, they noted that the independent fee consultant found that: (1) the management fees Janus Capital charges to the Funds are reasonable in relation to the management fees Janus Capital charges to its institutional clients and to the fees Janus Capital charges to funds subadvised by Janus Capital; (2) these institutional and subadvised accounts have different service and infrastructure needs; (3) Janus mutual fund investors enjoy reasonable fees relative to the fees charged to Janus institutional and subadvised fund investors; (4) in three of seven product categories, the Funds receive proportionally better pricing than the industry in relation to Janus institutional clients; and (5) in seven of eight strategies, Janus Capital has lower management fees than funds subadvised by Janus Capital’s portfolio managers.

The Trustees considered the fees for each Fund for its fiscal year ended in 2016, and noted the following with regard to each Fund’s total expenses, net of applicable fee waivers (the Fund’s “total expenses”):

Alternative Funds

- For Janus Henderson Diversified Alternatives Fund, the Trustees noted that, although the Fund’s total expenses exceeded the peer group average for one share class, overall the Fund’s total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund’s expenses.
- For Janus Henderson International Long/Short Equity Fund, the Trustees noted that, although the Fund’s total expenses exceeded the peer group average for one share class, overall the Fund’s total expenses were

reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses effective June 5, 2017.

Asset Allocation Funds

- For Janus Henderson Global Allocation Fund – Conservative, the Trustees noted that, although the Fund's total expenses exceeded the peer group average for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Henderson Global Allocation Fund – Growth, the Trustees noted that the Fund's total expenses were below the peer group average for all share classes.
- For Janus Henderson Global Allocation Fund – Moderate, the Trustees noted that, although the Fund's total expenses exceeded the peer group average for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.

Fixed-Income Funds

- For Janus Henderson Flexible Bond Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group average for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Henderson Global Bond Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group average for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Henderson Global Unconstrained Bond Fund, the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2017 and the bottom Broadridge quartile for the 12 months ended May 31, 2017. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Henderson High-Yield Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group average for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Henderson Multi-Sector Income Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group average for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Henderson Real Return Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group average for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Henderson Short-Term Bond Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group average for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to waive 11 basis points of management fees effective February 1, 2018 and also has contractually agreed to limit the Fund's expenses.
- For Janus Henderson Strategic Income Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group average for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses effective June 5, 2017.

Global and International Equity Funds

- For Janus Henderson Asia Equity Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group average for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.

- For Janus Henderson Emerging Markets Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group average for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses effective June 5, 2017.
- For Janus Henderson European Focus Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group average for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses effective June 5, 2017.
- For Janus Henderson Global Equity Income Fund, the Trustees noted that the Fund's total expenses were below the peer group average for all share classes.
- For Janus Henderson Global Life Sciences Fund, the Trustees noted that the Fund's total expenses were below the peer group average for all share classes.
- For Janus Henderson Global Real Estate Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group average one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Henderson Global Research Fund, the Trustees noted that the Fund's total expenses were below the peer group average for all share classes.
- For Janus Henderson Global Select Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group average for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Henderson Global Technology Fund, the Trustees noted that the Fund's total expenses were below the peer group average for all share classes.
- For Janus Henderson Global Value Fund, the Trustees noted that the Fund's total expenses were below the peer group average for all share classes.
- For Janus Henderson International Opportunities Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group average for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses effective June 5, 2017.
- For Janus Henderson International Small Cap Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group average for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses effective June 5, 2017.
- For Janus Henderson International Value Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group average for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Henderson Overseas Fund, the Trustees noted that the Fund's total expenses were below the peer group average for all share classes.

Money Market Funds

- For Janus Henderson Government Money Market Fund, the Trustees noted that the Fund's total expenses were below the peer group average for both share classes. In addition, the Trustees considered that Janus Capital voluntarily waives one-half of its advisory fee and other expenses in order to maintain a positive yield.
- For Janus Henderson Money Market Fund, the Trustees noted that the Fund's total expenses were below the peer group average for both share classes. In addition, the Trustees considered that Janus Capital voluntarily waives one-half of its advisory fee and other expenses in order to maintain a positive yield.

Multi-Asset Funds

- For Janus Henderson Adaptive Global Allocation Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group average for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Henderson All Asset Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group average for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's total expenses effective June 5, 2017.
- For Janus Henderson Dividend & Income Builder Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group average for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses effective June 5, 2017.
- For Janus Henderson Value Plus Income Fund, the Trustees noted that the Fund's total expenses were below the peer group average for all share classes.

Multi-Asset U.S. Equity Funds

- For Janus Henderson Balanced Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group average for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Henderson Contrarian Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group average for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Henderson Enterprise Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group average for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Henderson Forty Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group average for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Henderson Growth and Income Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group average for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Henderson Research Fund, the Trustees noted that, although the Fund's total expenses were equal to or exceeded the peer group average for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses effective February 1, 2017.
- For Janus Henderson Triton Fund, the Trustees noted that the Fund's total expenses were below the peer group average for all share classes.
- For Janus Henderson U.S. Growth Opportunities Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group average for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses effective June 5, 2017.
- For Janus Henderson Venture Fund, the Trustees noted that the Fund's total expenses were below the peer group average for all share classes.

Quantitative Equity Funds

- For Janus Henderson Emerging Markets Managed Volatility Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group average for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Henderson Global Income Managed Volatility Fund, the Trustees noted that the Fund's total expenses were below the peer group average for all share classes.
- For Janus Henderson International Managed Volatility Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group average for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Henderson U.S. Managed Volatility Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group average for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.

U.S. Equity Funds

- For Janus Henderson Large Cap Value Fund, the Trustees noted that the Fund's total expenses were below the peer group average for all share classes.
- For Janus Henderson Mid Cap Value Fund, the Trustees noted that the Fund's total expenses were below the peer group average for all share classes.
- For Janus Henderson Select Value Fund, the Trustees noted that the Fund's total expenses were below the peer group averages for all share classes.
- For Janus Henderson Small Cap Value Fund, the Trustees noted that, although the Fund's total expenses exceeded the peer group average for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.

Janus Aspen Series

- For Janus Henderson Balanced Portfolio, the Trustees noted that, although the Fund's total expenses exceeded the peer group average for one share class, overall the Fund's total expenses were reasonable.
- For Janus Henderson Enterprise Portfolio, the Trustees noted that, although the Fund's total expenses exceeded the peer group average for one share class, overall the Fund's total expenses were reasonable.
- For Janus Henderson Flexible Bond Portfolio, the Trustees noted that, although the Fund's total expenses exceeded the peer group average for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Henderson Forty Portfolio, the Trustees noted that, although the Fund's total expenses exceeded the peer group average for one share class, overall the Fund's total expenses were reasonable.
- For Janus Henderson Global Allocation Portfolio - Moderate, the Trustees noted that, although the Fund's total expenses exceeded the peer group average for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Henderson Global Research Portfolio, the Trustees noted that the Fund's total expenses were below the peer group average for both share classes.
- For Janus Henderson Global Technology Portfolio, the Trustees noted that the Fund's total expenses were below the peer group average for both share classes.
- For Janus Henderson Global Unconstrained Bond Portfolio, the Trustees noted that, although the Fund's total expenses exceeded the peer group average for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.

- For Janus Henderson Mid Cap Value Portfolio, the Trustees noted that the Fund's total expenses were below the peer group average for both share classes.
- For Janus Henderson Overseas Portfolio, the Trustees noted that the Fund's total expenses were below the peer group average for both share classes.
- For Janus Henderson Research Portfolio, the Trustees noted that the Fund's total expenses were below the peer group average for both share classes.
- For Janus Henderson U.S. Low Volatility Portfolio, the Trustees noted that the Fund's total expenses were below the peer group average for its sole share class.

The Trustees reviewed information on the overall profitability to Janus Capital and its affiliates of their relationship with the Funds, and considered profitability data of other fund managers. The Trustees also considered the financial information, estimated profitability and corporate structure of Janus Capital's parent company before and after the Transaction. The Trustees recognized that profitability comparisons among fund managers are difficult because of the variation in the type of comparative information that is publicly available, and the profitability of any fund manager is affected by numerous factors, including the organizational structure of the particular fund manager, the types of funds and other accounts it manages, possible other lines of business, the methodology for allocating expenses, and the fund manager's capital structure and cost of capital. The Trustees also noted that the Trustees' independent fee consultant reviewed the overall profitability of Janus Capital's parent company prior to the Transaction, and the independent fee consultant found that, while assessing the reasonableness of Fund expenses in light of such profits was dependent on comparisons with other publicly-traded mutual fund advisers, and that these comparisons were limited in accuracy by differences in complex size, business mix, institutional account orientation and other factors, after accepting these limitations, the level of profit earned by Janus Capital's parent company was reasonable. In this regard, the independent consultant concluded that the profitability of Janus Capital's parent company did not show excess nor did it show any insufficiency that could limit the ability to invest the resources needed to drive strong future investment performance on behalf of the Funds.

Additionally, the Trustees considered the estimated profitability to Janus Capital from the investment management services it provided to each Fund. The Trustees also considered such estimated profitability taking into account the impact of the Transaction on Janus Capital's expense structure on a pro forma basis. In their review, the Trustees considered whether Janus Capital and each subadviser receive adequate incentives and resources to manage the Funds effectively. In reviewing profitability, the Trustees noted that the estimated profitability for an individual Fund is necessarily a product of the allocation methodology utilized by Janus Capital to allocate its expenses as part of the estimated profitability calculation. In this regard, the Trustees noted that the independent fee consultant concluded that (1) the expense allocation methodology utilized by Janus Capital was reasonable and (2) the estimated profitability to Janus Capital from the investment management services it provided to each Fund was reasonable, including after taking into account the impact of the Transaction on Janus Capital's expense structure on a pro forma basis. The Trustees also considered that the estimated profitability for an individual Fund was influenced by a number of factors, including not only the allocation methodology selected, but also the presence of fee waivers and expense caps, and whether the Fund's investment management agreement contained breakpoints or a performance fee component. The Trustees determined, after taking into account these factors, among others, that Janus Capital's estimated profitability with respect to each Fund was not unreasonable in relation to the services provided, and that the variation in the range of such estimated profitability among the Funds was not a material factor in the Board's approval of the reasonableness of any Fund's investment management fees.

The Trustees concluded that the management fees payable by each Fund to Janus Capital and its affiliates, as well as the fees paid by Janus Capital to the subadvisers of subadvised Funds, were reasonable in relation to the nature, extent, and quality of the services provided, taking into account the fees charged by other advisers for managing comparable mutual funds with similar strategies, the fees Janus Capital and the subadvisers charge to other clients, and, as applicable, the impact of fund performance on management fees payable by the Funds. The Trustees also concluded that each Fund's total expenses were reasonable, taking into account the size of the Fund, the quality of services provided by Janus Capital and any subadviser, the investment performance of the Fund, and any expense limitations agreed to or provided by Janus Capital.

Economies of Scale

The Trustees considered information about the potential for Janus Capital to realize economies of scale as the assets of the Funds increase. They noted their independent fee consultant's analysis of economies of scale in prior years. They also noted that, although many Funds pay advisory fees at a base fixed rate as a percentage of net assets, without any breakpoints or performance fees, their independent fee consultant concluded that 86% of these Funds' share classes have contractual management fees (gross of waivers) below their Broadridge expense group averages. They also noted that for those Funds whose expenses are being reduced by the contractual expense limitations of Janus Capital, Janus Capital is subsidizing certain of these Funds because they have not reached adequate scale. Moreover, as the assets of some of the Funds have declined in the past few years, certain Funds have benefited from having advisory fee rates that have remained constant rather than increasing as assets declined. In addition, performance fee structures have been implemented for various Funds that have caused the effective rate of advisory fees payable by such a Fund to vary depending on the investment performance of the Fund relative to its benchmark index over the measurement period; and a few Funds have fee schedules with breakpoints and reduced fee rates above certain asset levels. The Trustees also noted that the Funds share directly in economies of scale through the lower charges of third-party service providers that are based in part on the combined scale of all of the Funds. Based on all of the information they reviewed, including past research and analysis conducted by the Trustees' independent fee consultant, the Trustees concluded that the current fee structure of each Fund was reasonable and that the current rates of fees do reflect a sharing between Janus Capital and the Fund of any economies of scale that may be present at the current asset level of the Fund.

The independent fee consultant concluded that, given the limitations of various analytical approaches to economies of scale it had considered in prior years, and their conflicting results, it is difficult to analytically confirm or deny the existence of economies of scale in the Janus complex. The independent consultant concluded that (1) to the extent there were economies of scale at Janus Capital, Janus Capital's general strategy of setting fixed management fees below peers appeared to share any such economies with investors even on smaller Funds which have not yet achieved those economies and (2) by setting lower fixed fees from the start on these Funds, Janus Capital appeared to be investing to increase the likelihood that these Funds will grow to a level to achieve any scale economies that may exist. Further, the independent fee consultant provided its belief that Fund investors are well-served by the fee levels and performance fee structures in place on the Funds in light of any economies of scale that may be present at Janus Capital.

Other Benefits to Janus Capital

The Trustees also considered benefits that accrue to Janus Capital and its affiliates and subadvisers to the Funds from their relationships with the Funds. They recognized that two affiliates of Janus Capital separately serve the Funds as transfer agent and distributor, respectively, and the transfer agent receives compensation directly from the non-money market funds for services provided. The Trustees also considered Janus Capital's past and proposed use of commissions paid by the Funds on portfolio brokerage transactions to obtain proprietary and third-party research products and services benefiting the Fund and/or other clients of Janus Capital and/or Janus Capital, and/or a subadviser to a Fund. The Trustees concluded that Janus Capital's and the subadvisers' use of these types of client commission arrangements to obtain proprietary and third-party research products and services was consistent with regulatory requirements and guidelines and was likely to benefit each Fund. The Trustees also concluded that, other than the services provided by Janus Capital and its affiliates and subadvisers pursuant to the agreements and the fees to be paid by each Fund therefor, the Funds and Janus Capital and the subadvisers may potentially benefit from their relationship with each other in other ways. They concluded that Janus Capital and/or the subadvisers benefits from the receipt of research products and services acquired through commissions paid on portfolio transactions of the Funds and that the Funds benefit from Janus Capital's and/or the subadvisers' receipt of those products and services as well as research products and services acquired through commissions paid by other clients of Janus Capital and/or other clients of the subadvisers. They further concluded that the success of any Fund could attract other business to Janus Capital, the subadvisers or other Janus funds, and that the success of Janus Capital and the subadvisers could enhance Janus Capital's and the subadvisers' ability to serve the Funds.

January 2017

The Trustees of Janus Investment Fund and Janus Aspen Series, each of whom serves as an "independent" Trustee (the "Trustees"), oversee the management of each Fund of Janus Investment Fund and each Portfolio of Janus Aspen Series (each, a "Fund" and collectively, the "Funds"), and as required by law, determine annually whether to continue the investment advisory agreement for each Fund and the subadvisory agreements for the 16 Funds that utilize subadvisers.

In connection with their most recent consideration of those agreements for each Fund, the Trustees received and reviewed information provided by Janus Capital and the respective subadvisers in response to requests of the Trustees and their independent legal counsel. They also received and reviewed information and analysis provided by, and in response to requests of, their independent fee consultant. Throughout their consideration of the agreements, the Trustees were advised by their independent legal counsel. The Trustees met with management to consider the agreements, and also met separately in executive session with their independent legal counsel and their independent fee consultant.

Additionally, in connection with their consideration of whether to continue the investment advisory agreement and subadvisory agreement for each Fund, as applicable, the Trustees also received and reviewed information in connection with the proposed transaction to combine the respective businesses of Henderson Group plc and Janus Capital Group, Inc., the parent company of Janus Capital (the "Transaction"), announced in October 2016, which Janus Capital advised the Trustees was expected to close in the second quarter of 2017. In this regard, the Trustees reviewed information regarding the impact of the Transaction on the services to be provided by Janus Capital and each subadviser, as applicable, to the Funds under such agreements both prior to the close of the Transaction, and afterwards, if the Transaction were not to close. If the Transaction closes, all such agreements would be replaced by new investment advisory agreements and subadvisory agreements, as applicable, for each Fund, assuming requisite Fund shareholder approvals have been obtained.

At a meeting held on January 26, 2017, based on the Trustees' evaluation of the information provided by Janus Capital, the subadvisers, and the independent fee consultant, as well as other information, the Trustees determined that the overall arrangements between each Fund and Janus Capital and each subadviser, as applicable, were fair and reasonable in light of the nature, extent and quality of the services provided by Janus Capital, its affiliates and the subadvisers, the fees charged for those services, and other matters that the Trustees considered relevant in the exercise of their business judgment. At that meeting, the Trustees unanimously approved the continuation of the investment advisory agreement for each Fund, and the subadvisory agreement for each subadvised Fund, for the period from February 1, 2017 through February 1, 2018, subject to earlier termination as provided for in each agreement.

In considering the continuation of those agreements, the Trustees reviewed and analyzed various factors that they determined were relevant, including the factors described below, none of which by itself was considered dispositive. However, the material factors and conclusions that formed the basis for the Trustees' determination to approve the continuation of the agreements are discussed separately below. Also included is a summary of the independent fee consultant's conclusions and opinions that arose during, and were included as part of, the Trustees' consideration of the agreements. "Management fees," as used herein, reflect actual annual advisory fees and any administration fees (excluding out of pocket costs), net of any waivers.

Nature, Extent and Quality of Services

The Trustees reviewed the nature, extent and quality of the services provided by Janus Capital and the subadvisers to the Funds, taking into account the investment objective, strategies and policies of each Fund, and the knowledge the Trustees gained from their regular meetings with management on at least a quarterly basis and their ongoing review of information related to the Funds. In addition, the Trustees reviewed the resources and key personnel of Janus Capital and each subadviser, particularly noting those employees who provide investment and risk management services to the Funds. The Trustees also considered other services provided to the Funds by Janus Capital or the subadvisers, such as managing the execution of portfolio transactions and the selection of broker-dealers for those transactions. The Trustees considered Janus Capital's role as administrator to the Funds, noting that Janus Capital does not receive a fee for its services but is reimbursed for its out-of-pocket costs. The Trustees considered the role of Janus Capital in monitoring adherence to the Funds' investment restrictions, providing support services for the Trustees and Trustee committees, and overseeing communications with shareholders and the activities of other service providers, including monitoring compliance with various policies and procedures of the Funds and with applicable securities laws and regulations.

In this regard, the independent fee consultant noted that Janus Capital provides a number of different services for the Funds and Fund shareholders, ranging from investment management services to various other servicing functions, and that, in its opinion, Janus Capital is a capable provider of those services. The independent fee consultant also provided its belief that Janus Capital has developed a number of institutional competitive advantages that should enable it to provide superior investment and service performance over the long term.

The Trustees concluded that the nature, extent and quality of the services provided by Janus Capital or the subadviser to each Fund were appropriate and consistent with the terms of the respective advisory and subadvisory agreements, and that, taking into account steps taken to address those Funds whose performance lagged that of their peers for certain periods, the Funds were likely to benefit from the continued provision of those services. They also concluded that Janus Capital and each subadviser had sufficient personnel, with the appropriate education and experience, to serve the Funds effectively and had demonstrated its ability to attract well-qualified personnel.

Performance of the Funds

The Trustees considered the performance results of each Fund over various time periods. They noted that they considered Fund performance data throughout the year, including periodic meetings with each Fund's portfolio manager(s), and also reviewed information comparing each Fund's performance with the performance of comparable funds and peer groups identified by Broadridge Financial Solutions, Inc. ("Broadridge"), an independent data provider, and with the Fund's benchmark index. In this regard, the independent fee consultant found that the overall Funds' performance has been strong: for the 36 months ended September 30, 2016, approximately 76% of the Funds were in the top two Broadridge quartiles of performance, and for the 12 months ended September 30, 2016, approximately 47% of the Funds were in the top two Broadridge quartiles of performance.

The Trustees considered the performance of each Fund, noting that performance may vary by share class, and noted the following:

Fixed-Income Funds and Money Market Funds

- For Janus Henderson Flexible Bond Fund (formerly, Janus Flexible Bond Fund), the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2016 and the third Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Global Bond Fund (formerly, Janus Global Bond Fund), the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2016 and the third Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Global Unconstrained Bond Fund (formerly, Janus Global Unconstrained Bond Fund), the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson High-Yield Fund (formerly, Janus High-Yield Fund), the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2016 and the second Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Multi-Sector Income Fund (formerly, Janus Multi-Sector Income Fund), the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Real Return Fund (formerly, Janus Real Return Fund), the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2016 and the first Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Short-Term Bond Fund (formerly, Janus Short-Term Bond Fund), the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2016 and the third Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Government Money Market Fund (formerly, Janus Government Money Market Fund), the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2016 and the third Broadridge quartile for the 12 months ended May 31, 2016. The Trustees noted the reasons for the Fund's underperformance.
- For Janus Henderson Money Market Fund (formerly, Janus Money Market Fund), the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2016 and the

bottom Broadridge quartile for the 12 months ended May 31, 2016. The Trustees noted the reasons for the Fund's underperformance.

Asset Allocation Funds

- For Janus Henderson Global Allocation Fund – Conservative (formerly, Janus Global Allocation Fund – Conservative), the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2016 and the bottom Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Global Allocation Fund – Growth (formerly, Janus Global Allocation Fund – Growth), the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2016 and the bottom Broadridge quartile for the 12 months ended May 31, 2016. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Henderson Global Allocation Fund – Moderate (formerly, Janus Global Allocation Fund – Moderate), the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2016 and the bottom Broadridge quartile for the 12 months ended May 31, 2016. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital had taken or was taking to improve performance.

Alternative Fund

- For Janus Henderson Diversified Alternatives Fund (formerly, Janus Diversified Alternatives Fund), the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2016 and the third Broadridge quartile for the 12 months ended May 31, 2016. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital had taken or was taking to improve performance.

Value Funds

- For Janus Henderson International Value Fund (formerly, Perkins International Value Fund), the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2016 and the first Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Global Value Fund (formerly, Perkins Global Value Fund), the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2016 and the first Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Large Cap Value Fund (formerly, Perkins Large Cap Value Fund), the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2016 and the first Broadridge quartile for the 12 months ended May 31, 2016. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, the steps Janus Capital and Perkins had taken or were taking to improve performance, and that the performance trend was improving.
- For Janus Henderson Mid Cap Value Fund (formerly, Perkins Mid Cap Value Fund), the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2016 and the first Broadridge quartile for the 12 months ended May 31, 2016. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, the steps Janus Capital and Perkins had taken or were taking to improve performance, and that the performance trend was improving.
- For Janus Henderson Select Value Fund (formerly, Perkins Select Value Fund), the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2016 and the first Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Small Cap Value Fund (formerly, Perkins Small Cap Value Fund), the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2016 and the first Broadridge quartile for the 12 months ended May 31, 2016.

- For Janus Henderson Value Plus Income Fund (formerly, Perkins Value Plus Income Fund), the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2016 and the second Broadridge quartile for the 12 months ended May 31, 2016.

Mathematical Funds

- For Janus Henderson Emerging Markets Managed Volatility Fund (formerly, Intech Emerging Markets Managed Volatility Fund), the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Global Income Managed Volatility Fund (formerly, Intech Global Income Managed Volatility Fund), the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2016 and the first Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson International Managed Volatility Fund (formerly, Intech International Managed Volatility Fund), the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2016 and the first Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson U.S. Managed Volatility Fund (formerly, Intech U.S. Managed Volatility Fund), the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2016 and the first Broadridge quartile for the 12 months ended May 31, 2016.

Growth and Core Funds

- For Janus Henderson Balanced Fund (formerly, Janus Balanced Fund), the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2016 and the third Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Contrarian Fund (formerly, Janus Contrarian Fund), the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2016 and the bottom Broadridge quartile for the 12 months ended May 31, 2016. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Henderson Enterprise Fund (formerly, Janus Enterprise Fund), the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2016 and the first Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Forty Fund (formerly, Janus Forty Fund), the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2016 and the first Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Growth and Income Fund (formerly, Janus Growth and Income Fund), the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2016 and in the second Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Research Fund (formerly, Janus Research Fund), the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2016 and the second Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Triton Fund (formerly, Janus Triton Fund), the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2016 and the first Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Venture Fund (formerly, Janus Venture Fund), the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2016 and the second Broadridge quartile for the 12 months ended May 31, 2016.

Global and International Funds

- For Janus Henderson Adaptive Global Allocation Fund (formerly, Janus Adaptive Global Allocation Fund), the Trustees noted that, due to limited performance for the Fund, performance history was not a material factor.

- For Janus Henderson Asia Equity Fund (formerly, Janus Asia Equity Fund), the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2016 and the bottom Broadridge quartile for the 12 months ended May 31, 2016. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Henderson Global Life Sciences Fund (formerly, Janus Global Life Sciences Fund), the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2016 and the bottom Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Global Real Estate Fund (formerly, Janus Global Real Estate Fund), the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2016 and the bottom Broadridge quartile for the 12 months ended May 31, 2016. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Henderson Global Research Fund (formerly, Janus Global Research Fund), the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2016 and the bottom Broadridge quartile for the 12 months ended May 31, 2016. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Henderson Global Select Fund (formerly, Janus Global Select Fund), the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2016 and the bottom Broadridge quartile for the 12 months ended May 31, 2016. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Henderson Global Technology Fund (formerly, Janus Global Technology Fund), the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2016 and the first Broadridge quartile for the 12 months ended May 31, 2016. The Trustees noted the reasons for the Fund's underperformance, the steps Janus Capital had taken or was taking to improve performance, and that the performance trend was improving.
- For Janus Henderson Overseas Fund (formerly, Janus Overseas Fund), the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2016 and the bottom Broadridge quartile for the 12 months ended May 31, 2016. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital had taken or was taking to improve performance.

Janus Aspen Series

- For Janus Henderson Balanced Portfolio (formerly, Janus Aspen Balanced Portfolio), the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2016 and the third Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Enterprise Portfolio (formerly, Janus Aspen Enterprise Portfolio), the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2016 and the first Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Flexible Bond Portfolio (formerly, Janus Aspen Flexible Bond Portfolio), the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 36 months ended May 31, 2016 and the bottom Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Forty Portfolio (formerly, Janus Aspen Forty Portfolio), the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2016 and the first Broadridge quartile for the 12 months ended May 31, 2016.

- For Janus Henderson Global Allocation Portfolio – Moderate (formerly, Janus Aspen Global Allocation Portfolio – Moderate), the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2016 and the bottom Broadridge quartile for the 12 months ended May 31, 2016. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Henderson Global Research Portfolio (formerly, Janus Aspen Global Research Portfolio), the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2016 and the bottom Broadridge quartile for the 12 months ended May 31, 2016. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital had taken or was taking to improve performance
- For Janus Henderson Global Technology Portfolio (formerly, Janus Aspen Global Technology Portfolio), the Trustees noted that the Fund's performance was in the third Broadridge quartile for the 36 months ended May 31, 2016 and the second Broadridge quartile for the 12 months ended May 31, 2016. The Trustees noted the reasons for the Fund's underperformance and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Henderson Global Unconstrained Bond Portfolio (formerly, Janus Aspen Global Unconstrained Bond Portfolio), the Trustees noted that the Fund's performance was in the second Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson U.S. Low Volatility Portfolio (formerly, Janus Aspen Intech U.S. Low Volatility Portfolio), the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2016 and the first Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Research Portfolio (formerly, Janus Aspen Janus Portfolio), the Trustees noted that the Fund's performance was in the first Broadridge quartile for the 36 months ended May 31, 2016 and the second Broadridge quartile for the 12 months ended May 31, 2016.
- For Janus Henderson Overseas Portfolio (formerly, Janus Aspen Overseas Portfolio), the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2016 and the bottom Broadridge quartile for the 12 months ended May 31, 2016. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, and the steps Janus Capital had taken or was taking to improve performance.
- For Janus Henderson Mid Cap Value Portfolio (formerly, Janus Aspen Perkins Mid Cap Value Portfolio), the Trustees noted that the Fund's performance was in the bottom Broadridge quartile for the 36 months ended May 31, 2016 and the first Broadridge quartile for the 12 months ended May 31, 2016. The Trustees noted the reasons for the Fund's underperformance, noting that the Fund has a performance fee structure that results in lower management fees during periods of underperformance, the steps Janus Capital and Perkins had taken or were taking to improve performance, and that the performance trend was improving.

In consideration of each Fund's performance, the Trustees concluded that, taking into account the factors relevant to performance, as well as other considerations, including steps taken to improve performance, the Fund's performance warranted continuation of the Fund's investment advisory and subadvisory agreement(s).

Costs of Services Provided

The Trustees examined information regarding the fees and expenses of each Fund in comparison to similar information for other comparable funds as provided by Broadridge, an independent data provider. They also reviewed an analysis of that information provided by their independent fee consultant and noted that the rate of management (investment advisory and any administration, but excluding out-of-pocket costs) fees for many of the Funds, after applicable waivers, was below the average management fee rate of the respective peer group of funds selected by an independent data provider. The Trustees also examined information regarding the subadvisory fees charged for subadvisory services, as applicable, noting that all such fees were paid by Janus Capital out of its management fees collected from such Fund.

The independent fee consultant provided its belief that the management fees charged by Janus Capital to each of the Funds under the current investment advisory and administration agreements are reasonable in relation to the services provided by Janus Capital. The independent fee consultant found: (1) the total expenses and management fees of the Funds to be reasonable relative to other mutual funds; (2) total expenses, on average, were 12% below the average total expenses of their respective Broadridge Expense Group peers and 20% below the average total expenses for their Broadridge Expense Universes; (3) management fees for the Funds, on average, were 11% below the average management fees for their Expense Groups and 13% below the average for their Expense Universes; and (4) Fund expenses at the functional level for each asset and share class category were reasonable. The Trustees also considered the total expenses for each share class of each Fund compared to the average total expenses for its Broadridge Expense Group peers and to average total expenses for its Broadridge Expense Universe.

The independent fee consultant concluded that, based on its strategic review of expenses at the complex, category and individual fund level, Fund expenses were found to be reasonable relative to both Expense Group and Expense Universe benchmarks. Further, for certain Funds, the independent fee consultant also performed a systematic "focus list" analysis of expenses in the context of the performance or service delivered to each set of investors in each share class in each selected Fund. Based on this analysis, the independent fee consultant found that the combination of service quality/performance and expenses on these individual Funds and share classes were reasonable in light of performance trends, performance histories, and existence of performance fees, breakpoints, and expense waivers on such Funds.

The Trustees considered the methodology used by Janus Capital and each subadviser in determining compensation payable to portfolio managers, the competitive environment for investment management talent, and the competitive market for mutual funds in different distribution channels.

The Trustees also reviewed management fees charged by Janus Capital and each subadviser to comparable separate account clients and to comparable non-affiliated funds subadvised by Janus Capital or by a subadviser (for which Janus Capital or the subadviser provides only or primarily portfolio management services). Although in most instances subadvisory and separate account fee rates for various investment strategies were lower than management fee rates for Funds having a similar strategy, the Trustees considered that Janus Capital noted that, under the terms of the management agreements with the Funds, Janus Capital performs significant additional services for the Funds that it does not provide to those other clients, including administration services, oversight of the Funds' other service providers, trustee support, regulatory compliance and numerous other services, and that, in serving the Funds, Janus Capital assumes many legal risks and other costs that it does not assume in servicing its other clients. Moreover, they noted that the independent fee consultant found that: (1) the management fees Janus Capital charges to the Funds are reasonable in relation to the management fees Janus Capital charges to its institutional and subadvised accounts; (2) these institutional and subadvised accounts have different service and infrastructure needs; (3) Janus mutual fund investors enjoy reasonable fees relative to the fees charged to Janus institutional and subadvised fund investors; and (4) in the majority of cases, the Funds receive proportionally better pricing than the industry in relation to Janus institutional and subadvised accounts.

The Trustees considered the fees for each Fund for its fiscal year ended in 2015, and noted the following with regard to each Fund's total expenses, net of applicable fee waivers (the Fund's "total expenses"):

Fixed-Income Funds and Money Market Funds

- For Janus Henderson Flexible Bond Fund (formerly, Janus Flexible Bond Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Henderson Global Bond Fund (formerly, Janus Global Bond Fund), the Trustees noted that although the Fund's total expenses exceeded the peer group average for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Henderson Global Unconstrained Bond Fund (formerly, Janus Global Unconstrained Bond Fund), the Trustees noted that although the Fund's total expenses exceeded the peer group average for certain share

classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.

- For Janus Henderson High-Yield Fund (formerly, Janus High-Yield Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Henderson Multi-Sector Income Fund (formerly, Janus Multi-Sector Income Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus has contractually agreed to limit the Fund's expenses.
- For Janus Henderson Real Return Fund (formerly, Janus Real Return Fund), the Trustees noted that, although the Fund's total expenses were equal to or exceeded the peer group average for all share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Henderson Short-Term Bond Fund (formerly, Janus Short-Term Bond Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Henderson Government Money Market Fund (formerly, Janus Government Money Market Fund), the Trustees noted that the Fund's total expenses exceeded the peer group average for both share classes. The Trustees considered that management fees for this Fund are higher than the peer group average due to the Fund's management fee including other costs, such as custody and transfer agent services, while many funds in the peer group pay these expenses separately from their management fee. In addition, the Trustees considered that Janus Capital voluntarily waives one-half of its advisory fee and other expenses in order to maintain a positive yield.
- For Janus Henderson Money Market Fund (formerly, Janus Money Market Fund), the Trustees noted that the Fund's total expenses were below the peer group average for both share classes. In addition, the Trustees considered that Janus Capital voluntarily waives one- half of its advisory fee and other expenses in order to maintain a positive yield.

Asset Allocation Funds

- For Janus Henderson Global Allocation Fund – Conservative (formerly, Janus Global Allocation Fund – Conservative), the Trustees noted that, although the Fund's total expenses exceeded the peer group median for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Henderson Global Allocation Fund – Growth (formerly, Janus Global Allocation Fund – Growth), the Trustees noted that the Fund's total expenses were below the peer group average for all share classes.
- For Janus Henderson Global Allocation Fund – Moderate (formerly, Janus Global Allocation Fund – Moderate), the Trustees noted that, although the Fund's total expenses exceeded the peer group average for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.

Alternative Fund

- For Janus Henderson Diversified Alternatives Fund (formerly, Janus Diversified Alternatives Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.

Value Funds

- For Janus Henderson International Value Fund (formerly, Perkins International Value Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Henderson Global Value Fund (formerly, Perkins Global Value Fund), the Trustees noted that the Fund's total expenses were below the peer group average for all share classes.
- For Janus Henderson Large Cap Value Fund (formerly, Perkins Large Cap Value Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Henderson Mid Cap Value Fund (formerly, Perkins Mid Cap Value Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Henderson Select Value Fund (formerly, Perkins Select Value Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Henderson Small Cap Value Fund (formerly, Perkins Small Cap Value Fund), the Trustees noted that the Fund's total expenses were below the peer group average for all share classes.
- For Janus Henderson Value Plus Income Fund (formerly, Perkins Value Plus Income Fund), the Trustees noted that although the Fund's total expenses exceeded the peer group average for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.

Mathematical Funds

- For Janus Henderson Emerging Markets Managed Volatility Fund (formerly, Intech Emerging Markets Managed Volatility Fund), the Trustees noted that although the Fund's total expenses exceeded the peer group average for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Henderson Global Income Managed Volatility Fund (formerly, Intech Global Income Managed Volatility Fund), the Trustees noted that the Fund's total expenses were below the peer group average for all share classes.
- For Janus Henderson International Managed Volatility Fund (formerly, Intech International Managed Volatility Fund), the Trustees noted that although the Fund's total expenses exceeded the peer group average for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Henderson U.S. Managed Volatility Fund (formerly, Intech U.S. Managed Volatility Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.

Growth and Core Funds

- For Janus Henderson Balanced Fund (formerly, Janus Balanced Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.

- For Janus Henderson Contrarian Fund (formerly, Janus Contrarian Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Henderson Enterprise Fund (formerly, Janus Enterprise Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Henderson Forty Fund (formerly, Janus Forty Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Henderson Growth and Income Fund (formerly, Janus Growth and Income Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Henderson Research Fund (formerly, Janus Research Fund), the Trustees noted that although the Fund's total expenses exceeded the peer group average for certain share classes, overall the Fund's total expenses were reasonable.
- For Janus Henderson Triton Fund (formerly, Janus Triton Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.
- For Janus Henderson Venture Fund (formerly, Janus Venture Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.

Global and International Funds

- For Janus Henderson Adaptive Global Allocation Fund (formerly, Janus Adaptive Global Allocation Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group median for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Henderson Asia Equity Fund (formerly, Janus Asia Equity Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average for one share class, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Henderson Global Life Sciences Fund (formerly, Janus Global Life Sciences Fund), the Trustees noted that the Fund's total expenses were below the peer group average for all share classes.
- For Janus Henderson Global Real Estate Fund (formerly, Janus Global Real Estate Fund), the Trustees noted that, although the Fund's total expenses exceeded the peer group average for certain share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to

limit the Fund's expenses, although this limit did not apply because the Fund's total expenses were already below the applicable fee limit.

- For Janus Henderson Global Research Fund (formerly, Janus Global Research Fund), the Trustees noted that the Fund's total expenses were below the peer group average for all share classes.
- For Janus Henderson Global Select Fund (formerly, Janus Global Select Fund), the Trustees noted that the Fund's total expenses were below the peer group average for all share classes.
- For Janus Henderson Global Technology Fund (formerly, Janus Global Technology Fund), the Trustees noted that the Fund's total expenses were below the peer group average for all share classes.
- For Janus Henderson Overseas Fund (formerly, Janus Overseas Fund), the Trustees noted that the Fund's total expenses were below the peer group average for all share classes.

Janus Aspen Series

- For Janus Henderson Balanced Portfolio (formerly, Janus Aspen Balanced Portfolio), the Trustees noted that the Fund's total expenses were below the peer group average for both share classes.
- For Janus Henderson Enterprise Portfolio (formerly, Janus Aspen Enterprise Portfolio), the Trustees noted that the Fund's total expenses were below the peer group average for both share classes.
- For Janus Henderson Flexible Bond Portfolio (formerly, Janus Aspen Flexible Bond Portfolio), the Trustees noted that, although the Fund's total expenses exceeded the peer group average for both share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Henderson Forty Portfolio (formerly, Janus Aspen Forty Portfolio), the Trustees noted that the Fund's total expenses were below the peer group average for both share classes.
- For Janus Henderson Global Allocation Portfolio – Moderate (formerly, Janus Aspen Global Allocation Portfolio – Moderate), the Trustees noted that, although the Fund's total expenses exceeded the peer group average for both share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Henderson Global Research Portfolio (formerly, Janus Aspen Global Research Portfolio), the Trustees noted that the Fund's total expenses were below the peer group average for both share classes.
- For Janus Henderson Global Technology Portfolio (formerly, Janus Aspen Global Technology Portfolio), the Trustees noted that the Fund's total expenses were below the peer group average for both share classes.
- For Janus Henderson Global Unconstrained Bond Portfolio (formerly, Janus Aspen Global Unconstrained Bond Portfolio), the Trustees noted that, although the Fund's total expenses exceeded the peer group average for both share classes, overall the Fund's total expenses were reasonable. The Trustees also noted that Janus Capital has contractually agreed to limit the Fund's expenses.
- For Janus Henderson U.S. Low Volatility Portfolio (formerly, Janus Aspen Intech U.S. Low Volatility Portfolio), the Trustees noted that the Fund's total expenses were below the peer group average for its sole share class.
- For Janus Henderson Research Portfolio (formerly, Janus Aspen Janus Portfolio), the Trustees noted that the Fund's total expenses were below the peer group mean for both share classes.
- For Janus Henderson Overseas Portfolio (formerly, Janus Aspen Overseas Portfolio), the Trustees noted that the Fund's total expenses were below the peer group average for both share classes.
- For Janus Henderson Mid Cap Value Portfolio (formerly, Janus Aspen Perkins Mid Cap Value Portfolio), the Trustees noted that the Fund's total expenses were below the peer group average for both share classes.

The Trustees reviewed information on the profitability to Janus Capital and its affiliates of their relationships with each Fund, as well as an explanation of the methodology utilized by Janus Capital when allocating various expenses of Janus Capital and its affiliates with respect to contractual relationships with the Funds and other clients. The Trustees also reviewed the financial statements and corporate structure of Janus Capital's parent company. In their review, the

Trustees considered whether Janus Capital and each subadviser receive adequate incentives and resources to manage the Funds effectively. The Trustees recognized that profitability comparisons among fund managers are difficult because very little comparative information is publicly available, and the profitability of any fund manager is affected by numerous factors, including the organizational structure of the particular fund manager, the types of funds and other accounts it manages, possible other lines of business, the methodology for allocating expenses, and the fund manager's capital structure and cost of capital. However, taking into account those factors and the analysis provided by the Trustees' independent fee consultant, and based on the information available, the Trustees concluded that Janus Capital's profitability with respect to each Fund in relation to the services rendered was reasonable.

The independent fee consultant found that, while assessing the reasonableness of expenses in light of Janus Capital's profits is dependent on comparisons with other publicly-traded mutual fund advisers, and that these comparisons are limited in accuracy by differences in complex size, business mix, institutional account orientation, and other factors, after accepting these limitations, the level of profit earned by Janus Capital from managing the Funds is reasonable.

The Trustees concluded that the management fees payable by each Fund to Janus Capital and its affiliates, as well as the fees paid by Janus Capital to the subadvisers of subadvised Funds, were reasonable in relation to the nature, extent, and quality of the services provided, taking into account the fees charged by other advisers for managing comparable mutual funds with similar strategies, the fees Janus Capital and the subadvisers charge to other clients, and, as applicable, the impact of fund performance on management fees payable by the Funds. The Trustees also concluded that each Fund's total expenses were reasonable, taking into account the size of the Fund, the quality of services provided by Janus Capital and any subadviser, the investment performance of the Fund, and any expense limitations agreed to or provided by Janus Capital.

Economies of Scale

The Trustees considered information about the potential for Janus Capital to realize economies of scale as the assets of the Funds increase. They noted their independent fee consultant's analysis of economies of scale in prior years. They also noted that, although many Funds pay advisory fees at a base fixed rate as a percentage of net assets, without any breakpoints, their independent fee consultant concluded that 91% of these Funds have contractual management fees (gross of waivers) below their Broadridge expense group averages and, overall, 83% of the Funds are below their respective expense group averages for contractual management fees. They also noted that for those Funds whose expenses are being reduced by the contractual expense limitations of Janus Capital, Janus Capital is subsidizing the Funds because they have not reached adequate scale. Moreover, as the assets of some of the Funds have declined in the past few years, certain Funds have benefited from having advisory fee rates that have remained constant rather than increasing as assets declined. In addition, performance fee structures have been implemented for various Funds that have caused the effective rate of advisory fees payable by such a Fund to vary depending on the investment performance of the Fund relative to its benchmark index over the measurement period; and a few Funds have fee schedules with breakpoints and reduced fee rates above certain asset levels. The Trustees also noted that the Funds share directly in economies of scale through the lower charges of third-party service providers that are based in part on the combined scale of all of the Funds. Based on all of the information they reviewed, including past research and analysis conducted by the Trustees' independent fee consultant, the Trustees concluded that the current fee structure of each Fund was reasonable and that the current rates of fees do reflect a sharing between Janus Capital and the Fund of any economies of scale that may be present at the current asset level of the Fund.

The independent fee consultant concluded that, given the limitations of various analytical approaches to economies of scale considered in prior years, and their conflicting results, its analyses could not confirm or deny the existence of economies of scale in the Janus complex. Further, the independent fee consultant provided its belief that Fund investors are well-served by the fee levels and performance fee structures in place on the Funds in light of any economies of scale that may be present at Janus Capital.

Other Benefits to Janus Capital

The Trustees also considered benefits that accrue to Janus Capital and its affiliates and subadvisers to the Funds from their relationships with the Funds. They recognized that two affiliates of Janus Capital separately serve the Funds as transfer agent and distributor, respectively, and the transfer agent receives compensation directly from the non-money market funds for services provided. The Trustees also considered Janus Capital's past and proposed use of commissions paid by the Funds on portfolio brokerage transactions to obtain proprietary and third-party research products and services benefiting the Fund and/or other clients of Janus Capital and/or Janus Capital, and/or a subadviser to a Fund. The Trustees concluded that Janus Capital's and the subadvisers' use of these types of client commission arrangements to obtain proprietary and third-party research products and services was consistent with regulatory requirements and guidelines and was likely to benefit each Fund. The Trustees also concluded that, other than the services provided by Janus Capital and its affiliates and subadvisers pursuant to the agreements and the fees to be paid by each Fund therefor, the Funds and Janus Capital and the subadvisers may potentially benefit from their relationship with each other in other ways. They concluded that Janus Capital and/or the subadvisers benefits from the receipt of research products and services acquired through commissions paid on portfolio transactions of the Funds and that the Funds benefit from Janus Capital's and/or the subadvisers' receipt of those products and services as well as research products and services acquired through commissions paid by other clients of Janus Capital and/or other clients of the subadvisers. They further concluded that the success of any Fund could attract other business to Janus Capital, the subadvisers or other Janus funds, and that the success of Janus Capital and the subadvisers could enhance Janus Capital's and the subadvisers' ability to serve the Funds.

Janus Henderson VIT 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, 2017. As the investing environment changes, so could opinions. These views are unique and are not necessarily shared by fellow employees or by Janus Henderson 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 Henderson VIT 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 Henderson VIT Forty Portfolio
Shareholder Meeting (unaudited)

Special meetings of shareholders were held on April 6, 2017 and adjourned and reconvened on April 18, 2017 (together, the "meeting"). At the meeting, the following matters were voted on and approved by shareholders. Each vote reported represents one dollar of net asset value held on the record date for the meeting. The results of the meeting are noted below.

Proposals

1. For all Portfolios, to approve a new investment advisory agreement between the Trust, on behalf of the Portfolio, and Janus Capital Management LLC.

	Number of Votes ($)				
Record Date Votes ($)	Affirmative	Against	Abstain	BNV	Total
707,943,698.351	556,600,169.135	27,158,670.792	45,622,739.881	(0.017)	629,381,579.790

Percentage of Total Outstanding Votes (%)					Percentage Voted (%)				
Affirmative	Against	Abstain	BNV	Total	Affirmative	Against	Abstain	BNV	Total
78.622	3.836	6.444	0.000	88.903	88.436	4.315	7.249	0.000	100.000

4. To elect an additional Trustee to the Board of Trustees of the Trust. - Diane L. Wallace.

	Number of Votes ($)				
Record Date Votes ($)	Affirmative	Against	Abstain	BNV	Total
7,198,647,378.476	6,547,141,899.530	651,505,478.946	0.000	0.000	7,198,647,378.476

Percentage of Total Outstanding Votes (%)					Percentage Voted (%)				
Affirmative	Against	Abstain	BNV	Total	Affirmative	Against	Abstain	BNV	Total
80.347	7.995	0.000	0.000	88.342	90.950	9.050	0.000	0.000	100.000

Alan A. Brown, William D. Cvengros, Raudline Etienne, William F. McCalpin, Gary A. Poliner, James T. Rothe, William D. Stewart and Linda S. Wolf continue to serve as Trustees following the meeting.

5. For all Portfolios, except Global Unconstrained Bond Portfolio, to approve a proposal that would authorize the Adviser to enter into and materially amend sub-advisory agreements in the future with wholly-owned subadvisers and unaffiliated sub-advisers, with the approval of the Board of Trustees of the Trust, but without obtaining additional shareholder approval.

	Number of Votes ($)				
Record Date Votes ($)	Affirmative	Against	Abstain	BNV	Total
707,943,698.351	481,385,104.460	82,767,258.705	65,229,216.623	0.003	629,381,579.790

Percentage of Total Outstanding Votes (%)					Percentage Voted (%)				
Affirmative	Against	Abstain	BNV	Total	Affirmative	Against	Abstain	BNV	Total
67.998	11.691	9.214	0.000	88.903	76.485	13.151	10.364	0.000	100.000

Janus Henderson VIT Forty Portfolio
Designation Requirements (unaudited)

For federal income tax purposes, the Portfolio designated the following for the year ended December 31, 2017:

Capital Gain Distributions	$40,664,422

Janus Henderson VIT 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.

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).	63	Director of Mutual Fund Directors Forum (a non-profit organization serving independent directors of U.S. mutual funds), Chairman of the Board and Trustee 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 Henderson VIT 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 Black Creek 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).	63	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).

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).	63	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 Henderson VIT 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	Founder, Daraja Capital (advisory and investment firm) (since 2016), and 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).	63	Director of Brightwood Capital Advisors, LLC (since 2014).

Janus Henderson VIT 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					
Gary A. Poliner 151 Detroit Street Denver, CO 80206 DOB: 1953	Trustee	6/16-Present	Retired. Formerly, President (2010-2013) of Northwestern Mutual Life Insurance Company.	63	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 Henderson VIT 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.	63	Formerly, Director of Red Robin Gourmet Burgers, Inc. (RRGB) (2004-2014).
William D. Stewart 151 Detroit Street Denver, CO 80206 DOB: 1944	Trustee	9/93-Present	Retired. Formerly, 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).	63	None

Janus Henderson VIT 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					
Diane L. Wallace 151 Detroit Street Denver, CO 80206 DOB: 1947	Trustee	6/17-Present	Retired.		Formerly, Independent Trustee, Henderson Global Funds (13 portfolios) (2015-2017); Independent Trustee, State Farm Associates' Funds Trust, State Farm Mutual Fund Trust, and State Farm Variable Product Trust (28 portfolios) 2013-2017; Chief Operating Officer, Senior Vice President-Operations, and Chief Financial Officer for Driehaus Capital Management, LLC; and Treasurer for Driehau Mutual Funds.

Janus Henderson VIT 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					
Linda S. Wolf 151 Detroit Street Denver, CO 80206 DOB: 1947	Trustee	12/05-Present	Retired. Formerly, Chairman and Chief Executive Officer of Leo Burnett (Worldwide) (advertising agency) (2001-2005).	63	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), Shirley Ryan Ability Lab and Wrapports, LLC (digital communications company). Formerly, Director of Walmart (until 2017), Director of Chicago Convention & Tourism Bureau (until 2014) and The Field Museum of Natural History (Chicago, IL) (until 2014).

Janus Henderson VIT 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 Henderson Forty Portfolio	6/13-Present	Portfolio Manager for other Janus Henderson 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 Henderson Forty Portfolio	1/16-Present	Portfolio Manager for other Janus Henderson 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	Head of North America at Janus Henderson Investors and Janus Capital Management LLC (since 2017); Executive Vice President and Director of Janus International Holding LLC (since 2011); Executive Vice President of Janus Distributors LLC (since 2011); Vice President and 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, President of Janus Capital Group Inc. and Janus Capital Management LLC (2013-2017); 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).

Janus Henderson VIT 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
Susan K. Wold 151 Detroit Street Denver, CO 80206 DOB: 1960	Vice President, Chief Compliance Officer, and Anti-Money Laundering Officer	9/17-Present	Senior Vice President and Head of Compliance, North America for Janus Henderson (since September 2017); Formerly, Vice President, Head of Global Corporate Compliance, and Chief Compliance Officer for Janus Capital Management LLC (May 2017-September 2017); Vice President, Compliance at Janus Capital Group Inc. and Janus Capital Management LLC (2005-2017).
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.

Knowledge. Shared

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Janus Henderson
INVESTORS

This report is submitted for the general information of shareholders of the Portfolio. It is not an offer or solicitation for the Portfolio and is not authorized for distribution to prospective investors unless preceded or accompanied by an effective prospectus.

Portfolios distributed by Janus Henderson Distributors

109-02-81115 02-18

PIMCO

PIMCO Variable Insurance Trust

Annual Report

December 31, 2017

PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

2017

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Table of Contents

Dear PIMCO Variable Insurance Trust Shareholder,

Please find enclosed the Annual Report for the PIMCO Variable Insurance Trust (the "Trust") covering the twelve-month reporting period ended December 31, 2017. The following pages contain specific details about the investment performance of the Trust's portfolios and a discussion of the factors that most affected performance over the reporting period.

Highlights of the financial markets during the twelve-month fiscal reporting period include:

- During the first half of the reporting period, geopolitics dominated headlines and contributed to brief periods of market volatility, but most risk assets generally gained as risk sentiment remained strong. In the U.S., the Federal Reserve ("Fed") raised the Federal Funds Rate in March by 0.25% to a range of 0.75% to 1.00% and again in June by 0.25% to a range of 1.00% to 1.25%. Elsewhere, a perceived hawkish shift in tone from other major central banks, including the European Central Bank ("ECB"), the Bank of England ("BOE"), and the Bank of Canada ("BOC"), helped move most developed market yields higher even as longer-term U.S. interest rates actually fell during this part of the reporting period.
- During the second half of the reporting period, geopolitical concerns continued, but the global economy provided a solid fundamental backdrop with robust consumer confidence in both the eurozone and the U.S. This environment gave room for developed market central banks to adopt a more "dovish taper". The ECB, for example, announced a tapering in its monthly asset purchases, but President Mario Draghi emphasized the ECB's overall accommodative stance. In September, the Fed provided details on its plan to unwind its balance sheet and kept rates on hold through its November meeting, but raised the Federal Funds Rate in December by 0.25% to a range of 1.25% to 1.50%. The BOE raised its policy rate and suggested reduced stimulus on the horizon and the BOC raised interest rates twice after a seven-year gap. Furthermore, President Xi Jinping was extended a second five-year term following the 19th National Party Congress in China, while Japan's Prime Minister Shinzo Abe won a decisive victory in snap elections.
- Over the full reporting period, many developed market yield curves flattened, as front-end rates moved higher alongside less accommodative monetary policy and longer-term rates generally remained steady and/or moved slightly lower. In the U.S., solid growth momentum and the Fed's three rate hikes throughout the year pushed U.S. two-year yields higher, while the 10-year Treasury yield remained little changed. In turn, this drove the spread between two-year and 10-year rates to its narrowest level since November 2007. Front-end yields also moved higher in the U.K. and Canada as the BOE and the BOC both raised policy rates for the first time in years. In a similar vein, the ECB announced plans to taper its monthly purchases, which contributed to rates generally rising in the region.
- U.S. Treasuries, as represented by the Bloomberg Barclays U.S. Treasury Index, returned 2.31% for the reporting period. Yields rose across the short and intermediate portion of the U.S. Treasury yield curve through seven-year maturities, but declined across the longer-term portion of the U.S. Treasury yield curve. The benchmark 10-year U.S. Treasury note yielded 2.40% at the end of the reporting period, down from 2.45% on December 30, 2016. The Bloomberg Barclays U.S. Aggregate Index, a widely used index of U.S. investment-grade bonds, returned 3.54% for the reporting period.
- U.S. Treasury Inflation-Protected Securities ("TIPS"), as represented by the Bloomberg Barclays U.S. TIPS Index, returned 3.01% over the reporting period. Front-end U.S. real yields climbed higher and the yield curve flattened over the year, as the Fed continued on its tightening cycle by raising rates three times in 2017 and announcing detailed plans to reduce its balance sheet by tapering reinvestments. Inflation expectations slid lower over the first half of the year but rebounded strongly in the latter half due to higher crude oil prices, which resulted from reports of lower global inventories and Organization of the Petroleum Exporting Countries ("OPEC")-led output cuts taking effect.
- Diversified commodities, as represented by the Bloomberg Commodity Index Total Return, returned 1.70% over the reporting period. Within energy, oil prices rebounded over the latter half of the year due to healthier demand, continued oil output management by OPEC, and elevated geopolitical risk. Natural gas prices experienced early-year pressure from a warm U.S winter and continued to underperform based on high

production and inventory data. Returns in the agriculture sector were mixed, with soybeans and wheat ending the year in negative territory on competitively high inventories, while sugar posted gains, supported by positive fundamentals and market technicals. Base metals pushed higher over the year from continued production investment restraint and overall positive global growth demand. Gold rallied over the span of the year due to safe-haven demand, geopolitical tensions, lower real yields, and a weakening U.S. dollar.

- Agency mortgage-backed securities ("MBS"), as represented by the Bloomberg Barclays U.S. MBS Fixed Rate Index, returned 2.48% over the reporting period and slightly outperformed U.S. Treasuries with similar duration. Sustained investor demand for high quality spread assets helped support the MBS asset class, despite a period marked by three Fed rate hikes, the commencement of Fed balance sheet tapering, a generally range-bound interest rate environment, and muted volatility. Non-Agency MBS also generated positive returns as market technicals and solid real estate fundamentals continued to drive performance.
- U.S. investment grade credit, as represented by the Bloomberg Barclays U.S. Credit Index, returned 6.18% over the reporting period, amid a flattening yield curve, improving fundamentals, low market volatility, and a strong technical backdrop. Developed market global high yield bonds, as measured by the BofA Merrill Lynch Developed Markets High Yield Constrained Index (USD Hedged), returned 7.84% over the reporting period. Performance was strong and reflected less dispersion across sectors, given the improving stability of commodities and generally supportive fundamentals.
- Emerging markets ("EM") external debt, as represented by the JPMorgan Emerging Markets Bond Index (EMBI) Global, returned 9.32% over the reporting period. EM local bonds, as represented by the JPMorgan Government Bond Index-Emerging Markets Global Diversified Index (Unhedged), returned 15.21% over the reporting period. Growth dynamics broadly improved across the EM universe, with developing economies benefiting from the synchronized global recovery, while inflationary pressures remained muted, allowing key EM central banks to conduct monetary easing. EM currencies broadly appreciated against the U.S. dollar, as commodity prices continued to strengthen and developed market central banks looked to remove accommodation on a more gradual trajectory.
- Global stock markets reached new highs as increasingly solid economic data, rising corporate earnings and non-restrictive central bank policy underpinned robust risk sentiment. U.S. equities, as represented by the S&P 500 Index, returned 21.83% over the reporting period. Developed market equities outside the U.S. and Canada, as represented by the MSCI EAFE Net Dividend Index (USD Hedged) and the MSCI EAFE Net Dividend Index (USD Unhedged), returned 16.84% and 25.03%, respectively, over the reporting period. Japanese equities, as represented by the Nikkei 225 Index (in JPY), returned 21.30% over the reporting period and European equities, as represented by the MSCI Europe Index (in EUR), returned 10.24% over the reporting period. EM equities, as represented by the MSCI Emerging Markets Index (Net Dividends in USD), returned 37.28% over the same period.

Thank you for the assets you have placed with us. We deeply value your trust, and we work diligently to meet your broad investment needs.

Sincerely,

Brent R. Harris
Chairman of the Board
PIMCO Variable Insurance Trust

February 16, 2018

Past performance is no guarantee of future results. Unless otherwise noted, index returns reflect the reinvestment of income distributions 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 that includes 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 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 at or near historically low levels. As such, bond funds may currently face an increased exposure to the risks associated with a rising interest rate environment. This is especially true as the Fed ended its quantitative easing program in October 2014 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 and in the Principal Risks in the Notes to Financial Statements.

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 may vary by share class based on each class's expense ratios. The Portfolio measures its performance against at least one 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. There is no assurance that the Portfolio, even if the Portfolio has experienced high or unusual performance for one or more periods, will experience similar levels of performance in the future. High performance is defined as a significant increase in either 1) the Portfolio's total return in excess of that of the Portfolio's benchmark between reporting periods or 2) the Portfolio's total return in excess of the Portfolio's historical returns between reporting periods. Unusual performance is defined as a significant change in the Portfolio's performance as compared to one or more previous reporting periods.

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	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.

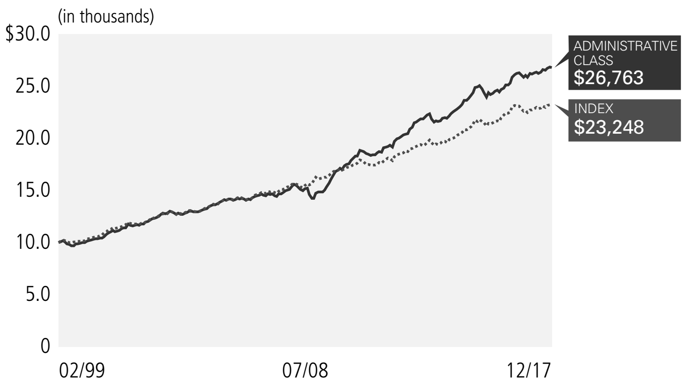
The Trustees are responsible generally for overseeing the management of the Trust. The Trustees authorize the Trust to enter into service agreements with the Adviser, the Distributor, the Administrator and other service providers in order to provide, and in some cases authorize service providers to procure 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 www.pimco.com/pvit, and on the Securities and Exchange Commission's ("SEC") website at www.sec.gov.

The Trust files a complete schedule of the Portfolio's holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. A copy of the Portfolio'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. A copy of the Portfolio's Form N-Q is also available without charge, upon request, by calling the Trust at (888) 87-PIMCO and on the Portfolio's website at www.pimco.com/pvit. 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, 2017



$10,000 invested at the end of the month when the Portfolio's Administrative Class commenced operations.

Geographic Breakdown as of 12/31/2017†§

United States	29.3%
United Kingdom	7.8%
Denmark	7.2%
Sweden	5.0%
Italy	3.9%
Canada	3.6%
Japan	3.6%
Spain	3.5%
Cayman Islands	3.3%
France	3.1%
Netherlands	2.3%
Ireland	1.6%
Switzerland	1.2%
Slovenia	1.1%
Saudi Arabia	1.0%
Other	5.0%

† % of Investments, at value.

§ Geographic Breakdown and % of Investments exclude securities sold short, financial derivative instruments and short-term instruments, if any.

Average Annual Total Return for the period ended December 31, 2017

	1 Year	5 Years	10 Years	Inception≈
PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) Institutional Class	2.92%	4.31%	6.07%	5.77%
— PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) Administrative Class	2.76%	4.16%	5.91%	5.34%
PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) Advisor Class	2.66%	—	—	4.47%
..... Bloomberg Barclays Global Aggregate ex-USD (USD Hedged) Index±	2.48%	3.70%	4.23%	4.58%♦

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. The index launched on 1/1/1998. The index performance shown prior to that date is calculated using the JPMorgan GBI Global ex-US Index Hedged in USD, which was the Portfolio's primary benchmark index from the Portfolio's inception until 12/1/2015.

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 prices of individual positions (which may be sourced from different pricing vendors or other sources) used by the Portfolio and the index. For performance current to the most recent month-end, visit www.pimco.com/pvit or via (888) 87-PIMCO.

The Portfolio's total annual operating expense ratio in effect as of period end were 0.78% for Institutional Class shares, 0.93% for Administrative Class shares, and 1.03% for Advisor Class shares. Details regarding any changes to the Portfolio's operating expenses, subsequent to period end, can be found in the Portfolio's current prospectus, as supplemented.

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 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 affected performance during the reporting period:

» Holdings of non-agency mortgage-backed securities contributed to performance, as total returns were positive during the reporting period.

» Exposure to non-investment-grade corporate spread duration contributed to relative performance, as spreads narrowed.

» Covered bonds contributed to performance, as total returns were positive during the reporting period.

» Underweight exposure to investment grade corporate spread duration detracted from relative performance, as spreads narrowed.

» Short exposure to the Singapore dollar detracted from performance, as the currency appreciated against the U.S. dollar.

» Long positioning to duration in Brazil earlier in the reporting period, particularly at the 5 to 8.5-year portion of the yield curve, detracted from relative performance as yields increased.

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, 2017 to December 31, 2017 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 this information, 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 (07/01/17)	Ending Account Value (12/31/17)	Expenses Paid During Period*	Beginning Account Value (07/01/17)	Ending Account Value (12/31/17)	Expenses Paid During Period*	Net Annualized Expense Ratio**
Institutional Class	$ 1,000.00	$ 1,020.60	$ 3.95	$ 1,000.00	$ 1,021.16	$ 3.95	0.78%
Administrative Class	1,000.00	1,019.80	4.71	1,000.00	1,020.41	4.71	0.93
Advisor Class	1,000.00	1,019.30	5.21	1,000.00	1,019.90	5.22	1.03

* 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 183/365 (to reflect the one-half year period). Overall fees and expenses of investing in the Portfolio will be higher because the example does not reflect variable contract fees and expenses.

** Net Annualized Expense Ratio is reflective of any applicable contractual fee waivers and/or expense reimbursements or voluntary fee waivers. Details regarding fee waivers, if any, can be found in Note 9, Fees and Expenses, in the Notes to Financial Statements.

Financial Highlights PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

		Investment Operations			Less Distributions(b)		
Selected Per Share Data for the Year or Period Ended^:	Net Asset Value Beginning of Year or Period	Net Investment Income (Loss)(a)	Net Realized/ Unrealized Gain (Loss)	Total	From Net Investment Income	From Net Realized Capital Gain (Loss)	Total
Institutional Class							
12/31/2017	$ 11.02	$ 0.15	$ 0.17	$ 0.32	$ (0.55)	$ 0.00	$ (0.55)
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)
Administrative Class							
12/31/2017	11.02	0.13	0.17	0.30	(0.53)	0.00	(0.53)
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)
Advisor Class							
12/31/2017	11.02	0.12	0.17	0.29	(0.52)	0.00	(0.52)
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)
04/30/2014 - 12/31/2014	10.34	0.13	0.62	0.75	(0.12)	(0.07)	(0.19)

^ A zero balance may reflect actual amounts rounding to less than $0.01 or 0.01%.

* 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, Distributions to Shareholders, in the Notes to Financial Statements for more information.

			Ratios/Supplemental Data					
			Ratios to Average Net Assets					
Net Asset Value End of Year or Period	Total Return	Net Assets End of Year or Period (000s)	Expenses	Expenses Excluding Waivers	Expenses Excluding Interest Expense	Expenses Excluding Interest Expense and Waivers	Net Investment Income (Loss)	Portfolio Turnover Rate
$ 10.79	2.92%	$ 6,705	0.78%	0.78%	0.75%	0.75%	1.37%	158%
11.02	6.63	5,045	0.78	0.78	0.75	0.75	1.46	330
10.54	0.44	3,001	0.75	0.75	0.75	0.75	1.15	302
10.90	11.32	879	0.76	0.76	0.75	0.75	1.99	176
10.05	0.65	22	0.77	0.77	0.75	0.75	2.18	127
10.79	2.76	76,989	0.93	0.93	0.90	0.90	1.21	158
11.02	6.48	64,537	0.93	0.93	0.90	0.90	1.31	330
10.54	0.29	73,278	0.90	0.90	0.90	0.90	0.90	302
10.90	11.16	89,343	0.91	0.91	0.90	0.90	1.73	176
10.05	0.50	66,176	0.92	0.92	0.90	0.90	2.03	127
10.79	2.66	431,545	1.03	1.03	1.00	1.00	1.11	158
11.02	6.37	341,567	1.03	1.03	1.00	1.00	1.21	330
10.54	0.19	221,379	1.00	1.00	1.00	1.00	0.90	302
10.90	7.31	69,716	1.01*	1.01*	1.00*	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, 2017
Assets:	
Investments, at value	
Investments in securities*	$ 557,175
Investments in Affiliates	18,448
Financial Derivative Instruments	
Exchange-traded or centrally cleared	499
Over the counter	4,988
Cash	24
Deposits with counterparty	6,608
Foreign currency, at value	2,318
Receivable for investments sold	53,784
Receivable for TBA investments sold	124,566
Receivable for Portfolio shares sold	186
Interest and/or dividends receivable	3,231
Dividends receivable from Affiliates	31
Total Assets	771,858
Liabilities:	
Borrowings & Other Financing Transactions	
Payable for reverse repurchase agreements	$ 27,940
Financial Derivative Instruments	
Exchange-traded or centrally cleared	612
Over the counter	6,042
Payable for investments purchased	57,367
Payable for investments in Affiliates purchased	31
Payable for TBA investments purchased	162,727
Deposits from counterparty	871
Payable for Portfolio shares redeemed	586
Accrued investment advisory fees	112
Accrued supervisory and administrative fees	224
Accrued distribution fees	94
Accrued servicing fees	10
Other liabilities	3
Total Liabilities	256,619
Net Assets	$ 515,239
Net Assets Consist of:	
Paid in capital	$ 514,403
Undistributed (overdistributed) net investment income	(13,063)
Accumulated undistributed net realized gain (loss)	1,545
Net unrealized appreciation (depreciation)	12,354
Net Assets	$ 515,239
Net Assets:	
Institutional Class	$ 6,705
Administrative Class	76,989
Advisor Class	431,545
Shares Issued and Outstanding:	
Institutional Class	622
Administrative Class	7,137
Advisor Class	40,005
Net Asset Value Per Share Outstanding:	
Institutional Class	$ 10.79
Administrative Class	10.79
Advisor Class	10.79
Cost of investments in securities	$ 542,653
Cost of investments in Affiliates	$ 18,457
Cost of foreign currency held	$ 2,350
Cost or premiums of financial derivative instruments, net	$ (1,947)
* Includes repurchase agreements of:	$ 2,118

Statement of Operations PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

(Amounts in thousands)	Year Ended December 31, 2017
Investment Income:	
Interest, net of foreign taxes*	$ 9,766
Dividends	8
Dividends from Investments in Affiliates	121
Total Income	9,895
Expenses:	
Investment advisory fees	1,151
Supervisory and administrative fees	2,301
Servicing fees - Administrative Class	103
Distribution and/or servicing fees - Advisor Class	964
Trustee fees	11
Interest expense	157
Miscellaneous expense	1
Total Expenses	4,688
Net Investment Income (Loss)	5,207
Net Realized Gain (Loss):	
Investments in securities	(6,964)
Investments in Affiliates	(5)
Net capital gain distributions received from Affiliate investments	3
Exchange-traded or centrally cleared financial derivative instruments	5,029
Over the counter financial derivative instruments	3,437
Foreign currency	392
Net Realized Gain (Loss)	1,892
Net Change in Unrealized Appreciation (Depreciation):	
Investments in securities	36,594
Investments in Affiliates	(9)
Exchange-traded or centrally cleared financial derivative instruments	(6,890)
Over the counter financial derivative instruments	(15,735)
Foreign currency assets and liabilities	(8,750)
Net Change in Unrealized Appreciation (Depreciation)	5,210
Net Increase (Decrease) in Net Assets Resulting from Operations	$ 12,309
* 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, 2017	Year Ended December 31, 2016
Increase (Decrease) in Net Assets from:		
Operations:		
Net investment income (loss)	$ 5,207	$ 4,413
Net realized gain (loss)	1,892	1,517
Net change in unrealized appreciation (depreciation)	5,210	14,710
Net Increase (Decrease) in Net Assets Resulting from Operations	12,309	20,640
Distributions to Shareholders:		
From net investment income		
Institutional Class	(321)	(69)
Administrative Class	(3,626)	(958)
Advisor Class	(19,788)	(4,181)
From net realized capital gains		
Institutional Class	0	(18)
Administrative Class	0	(242)
Advisor Class	0	(1,256)
Total Distributions[(a)]	(23,735)	(6,724)
Portfolio Share Transactions:		
Net increase (decrease) resulting from Portfolio share transactions**	115,516	99,575
Total Increase (Decrease) in Net Assets	104,090	113,491
Net Assets:		
Beginning of year	411,149	297,658
End of year*	$ 515,239	$ 411,149
* Including undistributed (overdistributed) net investment income of:	$ (13,063)	$ 9,975

† A zero balance may reflect actual amounts rounding to less than one thousand.

** See Note 13, Shares of Beneficial Interest, in the Notes to Financial Statements.

(a) The tax characterization of distributions is determined in accordance with Federal income tax regulations. See Note 2, Distributions to Shareholders, in the Notes to Financial Statements for more information.

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
INVESTMENTS IN SECURITIES 108.1%			
ARGENTINA 0.3%			
SOVEREIGN ISSUES 0.3%			
Argentina Government International Bond			
3.375% due 01/15/2023	EUR	600	$ 736
25.413% (BADLARPP + 2.000%) due 04/03/2022 ~	ARS	7,810	418
28.750% (ARPP7DRR) due 06/21/2020 ~		9,070	518
Total Argentina (Cost $1,684)			**1,672**
AUSTRALIA 0.1%			
CORPORATE BONDS & NOTES 0.1%			
Sydney Airport Finance Co. Pty. Ltd.			
3.900% due 03/22/2023	$	300	309
SOVEREIGN ISSUES 0.0%			
New South Wales Treasury Corp.			
2.750% due 11/20/2025 (e)	AUD	128	113
Total Australia (Cost $445)			**422**
BELGIUM 0.4%			
CORPORATE BONDS & NOTES 0.4%			
KBC Bank NV			
8.000% due 01/25/2023 (g)•	$	1,800	1,811
Total Belgium (Cost $1,806)			**1,811**
BRAZIL 0.6%			
CORPORATE BONDS & NOTES 0.6%			
Petrobras Global Finance BV			
5.999% due 01/27/2028	$	1,517	1,523
6.125% due 01/17/2022		300	319
7.375% due 01/17/2027		1,200	1,323
Total Brazil (Cost $3,090)			**3,165**
CANADA 4.1%			
CORPORATE BONDS & NOTES 1.6%			
Air Canada Pass-Through Trust			
3.300% due 07/15/2031	$	100	101
Bank of Nova Scotia			
1.875% due 04/26/2021		1,200	1,177
Enbridge, Inc.			
1.750% (US0003M + 0.400%) due 01/10/2020 ~		1,200	1,202
2.288% (US0003M + 0.700%) due 06/15/2020 ~		400	404
Royal Bank of Canada			
2.200% due 09/23/2019		400	400
2.300% due 03/22/2021		800	796
Toronto-Dominion Bank			
2.135% (US0003M + 0.440%) due 07/02/2019 ~		500	502
2.250% due 03/15/2021		800	796
2.500% due 01/18/2023		2,000	1,996
TransCanada PipeLines Ltd.			
3.800% due 10/01/2020		1,000	1,037
			8,411
NON-AGENCY MORTGAGE-BACKED SECURITIES 0.2%			
Canadian Mortgage Pools			
1.420% due 06/01/2020	CAD	203	162
1.620% due 07/01/2020		544	436
1.620% due 08/01/2020		212	169
			767

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
SOVEREIGN ISSUES 2.3%			
Canadian Government Real Return Bond			
1.500% due 12/01/2044 (e)	CAD	453	$ 443
Province of Alberta			
1.250% due 06/01/2020 ~		1,100	862
2.350% due 06/01/2025		1,100	864
Province of British Columbia			
2.300% due 06/18/2026		200	157
Province of Ontario			
2.600% due 06/02/2025		9,900	7,927
3.500% due 06/02/2024		600	508
6.200% due 06/02/2031		100	110
Province of Quebec			
3.000% due 09/01/2023		1,100	907
			11,778
Total Canada (Cost $20,468)			**20,956**
CAYMAN ISLANDS 3.7%			
ASSET-BACKED SECURITIES 3.6%			
Avery Point CLO Ltd.			
2.474% (US0003M + 1.120%) due 01/18/2025 ~	$	1,600	1,606
Carlyle Global Market Strategies CLO Ltd.			
2.499% (US0003M + 1.140%) due 10/16/2025 ~		2,200	2,201
Dryden Senior Loan Fund			
2.259% (US0003M + 0.900%) due 10/15/2027 ~		1,200	1,202
Flagship Ltd.			
2.483% (US0003M + 1.120%) due 01/20/2026 ~		2,200	2,210
Marathon CLO Ltd.			
2.311% (US0003M + 0.870%) due 11/21/2027 ~		1,300	1,299
NewMark Capital Funding CLO Ltd.			
2.555% (US0003M + 1.220%) due 06/30/2026 ~		1,100	1,100
Oak Hill Credit Partners Ltd.			
2.493% (US0003M + 1.130%) due 07/20/2026 ~		2,200	2,207
Oaktree CLO Ltd.			
2.583% (US0003M + 1.220%) due 10/20/2026 ~		2,100	2,108
Octagon Investment Partners Ltd.			
2.459% (US0003M + 1.100%) due 04/15/2026 ~		1,100	1,103
Staniford Street CLO Ltd.			
2.768% (US0003M + 1.180%) due 06/15/2025 ~		1,100	1,103
Symphony CLO LP			
2.450% (US0003M + 1.100%) due 01/09/2023 ~		172	172
TICP CLO Ltd.			
2.551% (US0003M + 1.180%) due 04/26/2026 ~		2,100	2,105
			18,416
CORPORATE BONDS & NOTES 0.1%			
KSA Sukuk Ltd.			
2.894% due 04/20/2022		500	497
Total Cayman Islands (Cost $18,871)			**18,913**
DENMARK 8.0%			
CORPORATE BONDS & NOTES 8.0%			
BRFkredit A/S			
2.000% due 10/01/2047	DKK	10,276	1,669
2.500% due 10/01/2047		97	16
4.000% due 01/01/2018		7,100	1,145
Nordea Kredit Realkreditaktieselskab			
2.000% due 10/01/2047		30,533	4,960

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
2.000% due 10/01/2050	DKK	3,000	$ 482
2.500% due 10/01/2037		1,376	235
Nykredit Realkredit A/S			
2.000% due 10/01/2037		4,163	699
2.000% due 10/01/2047		35,692	5,797
2.000% due 10/01/2050		3,100	498
2.500% due 10/01/2037		6,762	1,153
2.500% due 10/01/2047		39	7
Realkredit Danmark A/S			
1.000% due 01/01/2018		19,100	3,079
1.000% due 04/01/2018		75,000	12,135
2.000% due 04/01/2018		16,200	2,627
2.000% due 10/01/2037		4,362	733
2.000% due 10/01/2047		28,043	4,554
2.500% due 10/01/2037		8,089	1,378
2.500% due 07/01/2047		101	17
Total Denmark (Cost $37,296)			**41,184**
FRANCE 3.5%			
CORPORATE BONDS & NOTES 1.4%			
Credit Agricole S.A.			
8.125% due 09/19/2033 (g)•	$	1,200	1,248
Dexia Credit Local S.A.			
1.875% due 09/15/2021		2,000	1,955
2.250% due 02/18/2020		2,600	2,595
2.375% due 09/20/2022		600	593
Societe Generale S.A.			
8.250% due 11/29/2018 (f)(g)•		700	734
			7,125
SOVEREIGN ISSUES 2.1%			
France Government International Bond			
2.000% due 05/25/2048 (i)	EUR	7,400	9,383
3.250% due 05/25/2045 (i)		800	1,295
			10,678
Total France (Cost $16,651)			**17,803**
GERMANY 0.7%			
CORPORATE BONDS & NOTES 0.7%			
Deutsche Bank AG			
4.250% due 10/14/2021	$	1,800	1,879
Deutsche Pfandbriefbank AG			
1.625% due 08/30/2019		600	593
Landwirtschaftliche Rentenbank			
4.750% due 03/12/2019	NZD	1,200	876
Total Germany (Cost $3,410)			**3,348**
GUERNSEY, CHANNEL ISLANDS 0.2%			
CORPORATE BONDS & NOTES 0.2%			
Credit Suisse Group Funding Guernsey Ltd.			
3.800% due 06/09/2023	$	800	826
Total Guernsey, Channel Islands (Cost $798)			**826**
IRELAND 1.7%			
ASSET-BACKED SECURITIES 0.6%			
Carlyle Global Market Strategies Euro CLO Ltd.			
0.659% (EUR006M + 0.930%) due 08/15/2027 ~	EUR	1,900	2,285
CVC Cordatus Loan Fund Ltd.			
0.780% (EUR006M + 0.780%) due 01/24/2028 ~		800	961
			3,246
CORPORATE BONDS & NOTES 0.6%			
AerCap Ireland Capital DAC			
3.750% due 05/15/2019	$	1,500	1,524
4.625% due 10/30/2020		800	839

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Iberdrola Finance Ireland DAC		
5.000% due 09/11/2019	$ 400	$ 417
Shire Acquisitions Investments Ireland DAC		
1.900% due 09/23/2019	200	198
		2,978
SOVEREIGN ISSUES 0.5%		
Ireland Government International Bond		
1.000% due 05/15/2026	EUR 1,300	1,602
5.400% due 03/13/2025	700	1,135
		2,737
Total Ireland (Cost $8,459)		**8,961**
ITALY 4.3%		
ASSET-BACKED SECURITIES 0.0%		
Claris Finance SRL		
0.076% (EUR006M + 0.350%) due 10/31/2060 ~	EUR 187	225
CORPORATE BONDS & NOTES 0.5%		
Banca Carige SpA		
3.875% due 10/24/2018	1,000	1,236
Banca Monte dei Paschi di Siena SpA		
5.000% due 02/09/2056	100	120
Wind Tre SpA		
3.125% due 01/20/2025	1,200	1,405
		2,761
NON-AGENCY MORTGAGE-BACKED SECURITIES 0.0%		
Casa d'Este Finance SRL		
0.021% (EUR003M + 0.350%) due 09/15/2040 ~	42	50
SOVEREIGN ISSUES 3.8%		
Italy Buoni Poliennali Del Tesoro		
0.350% due 11/01/2021	2,600	3,113
1.450% due 11/15/2024	6,000	7,224
2.450% due 09/01/2033	3,400	4,002
2.700% due 03/01/2047	100	109
2.800% due 03/01/2067	1,000	1,039
3.450% due 03/01/2048	2,550	3,180
Italy Government International Bond		
6.000% due 08/04/2028	GBP 600	1,016
		19,683
Total Italy (Cost $21,677)		**22,719**
JAPAN 4.0%		
CORPORATE BONDS & NOTES 1.0%		
Central Nippon Expressway Co. Ltd.		
1.931% (US0003M + 0.540%) due 08/04/2020 ~	$ 2,600	2,604
2.091% due 09/14/2021	700	683
Mitsubishi UFJ Financial Group, Inc.		
2.950% due 03/01/2021	400	404
Mizuho Financial Group, Inc.		
2.416% (US0003M + 0.880%) due 09/11/2022 ~	700	705
ORIX Corp.		
3.250% due 12/04/2024	200	199
Sumitomo Mitsui Financial Group, Inc.		
3.216% (US0003M + 1.680%) due 03/09/2021 ~	600	621
		5,216
SOVEREIGN ISSUES 3.0%		
Development Bank of Japan, Inc.		
1.625% due 09/01/2021	1,200	1,153

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Japan Bank for International Cooperation		
2.000% due 11/04/2021	$ 1,300	$ 1,275
2.375% due 07/21/2022	300	296
2.375% due 11/16/2022	500	495
2.500% due 06/01/2022	300	299
Japan Finance Organization for Municipalities		
2.125% due 04/13/2021	2,100	2,064
2.625% due 04/20/2022	1,100	1,094
Japan Government International Bond		
0.300% due 06/20/2046	JPY 620,000	4,837
0.500% due 09/20/2046	350,000	2,882
Tokyo Metropolitan Government		
2.000% due 05/17/2021	$ 700	684
2.500% due 06/08/2022	600	595
		15,674
Total Japan (Cost $22,315)		**20,890**
JERSEY, CHANNEL ISLANDS 0.2%		
CORPORATE BONDS & NOTES 0.2%		
Aptiv PLC		
3.150% due 11/19/2020	$ 1,100	1,118
Total Jersey, Channel Islands (Cost $1,124)		**1,118**
KUWAIT 0.7%		
SOVEREIGN ISSUES 0.7%		
Kuwait International Government Bond		
2.750% due 03/20/2022	$ 900	898
3.500% due 03/20/2027	2,800	2,849
Total Kuwait (Cost $3,670)		**3,747**
LUXEMBOURG 0.6%		
CORPORATE BONDS & NOTES 0.6%		
Commerzbank Finance & Covered Bond S.A.		
4.250% due 06/04/2018	EUR 1,650	2,016
Emerald Bay S.A.		
0.000% due 10/08/2020 ~	289	322
Sberbank of Russia Via SB Capital S.A.		
3.080% due 03/07/2019	400	493
Total Luxembourg (Cost $2,550)		**2,831**
MULTINATIONAL 0.2%		
CORPORATE BONDS & NOTES 0.2%		
Preferred Term Securities Ltd.		
2.000% (US0003M + 0.400%) due 06/23/2035 ~	$ 1,020	923
Total Multinational (Cost $746)		**923**
NETHERLANDS 2.6%		
ASSET-BACKED SECURITIES 0.3%		
Babson Euro CLO BV		
1.300% due 04/15/2027	EUR 700	848
Chapel BV		
0.031% (EUR003M + 0.360%) due 07/17/2066 ~	115	137
Penta CLO BV		
0.790% (EUR003M + 0.790%) due 08/04/2028 ~	600	723
		1,708
CORPORATE BONDS & NOTES 2.3%		
Bank Nederlandse Gemeenten NV		
4.550% due 02/15/2019	CAD 1,800	1,475
Cooperatieve Rabobank UA		
6.875% due 03/19/2020 (g)	EUR 700	967
ING Bank NV		
2.625% due 12/05/2022	$ 3,600	3,608

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
4.125% due 11/21/2023 •	$ 3,100	$ 3,137
Mondelez International Holdings Netherlands BV		
2.000% due 10/28/2021	500	487
Mylan NV		
2.500% due 06/07/2019	200	200
NXP BV		
4.125% due 06/01/2021	800	818
Petrobras Global Finance BV		
8.375% due 12/10/2018	200	210
Schaeffler Finance BV		
4.750% due 05/15/2023	500	511
Stichting AK Rabobank Certificaten		
6.500% (f)	EUR 150	223
Vonovia Finance BV		
5.000% due 10/02/2023	$ 100	106
		11,742
Total Netherlands (Cost $13,175)		**13,450**
NORWAY 0.2%		
CORPORATE BONDS & NOTES 0.2%		
DNB Boligkreditt A/S		
2.500% due 03/28/2022	$ 1,100	1,097
SOVEREIGN ISSUES 0.0%		
Norway Government International Bond		
3.750% due 05/25/2021	NOK 1,800	240
Total Norway (Cost $1,356)		**1,337**
PERU 0.2%		
SOVEREIGN ISSUES 0.2%		
Peru Government International Bond		
8.200% due 08/12/2026	PEN 3,100	1,180
Total Peru (Cost $1,167)		**1,180**
POLAND 0.4%		
SOVEREIGN ISSUES 0.4%		
Poland Government International Bond		
2.250% due 04/25/2022	PLN 6,600	1,881
Total Poland (Cost $1,643)		**1,881**
PORTUGAL 0.0%		
CORPORATE BONDS & NOTES 0.0%		
Banco Espirito Santo S.A.		
4.000% due 01/21/2019 ^(b)	EUR 300	110
4.750% due 01/15/2018 ^(b)	200	71
Total Portugal (Cost $565)		**181**
QATAR 0.1%		
CORPORATE BONDS & NOTES 0.1%		
Ras Laffan Liquefied Natural Gas Co. Ltd.		
6.750% due 09/30/2019	$ 400	429
Total Qatar (Cost $428)		**429**
SAUDI ARABIA 1.1%		
SOVEREIGN ISSUES 1.1%		
Saudi Government International Bond		
2.375% due 10/26/2021	$ 3,700	3,614
2.875% due 03/04/2023	1,000	985
3.250% due 10/26/2026	400	393
3.625% due 03/04/2028	900	893
Total Saudi Arabia (Cost $5,950)		**5,885**

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
SINGAPORE 0.2%		
CORPORATE BONDS & NOTES 0.2%		
BOC Aviation Ltd.		
2.375% due 09/15/2021	$ 1,000	$ 974
3.500% due 09/18/2027	300	292
Total Singapore (Cost $1,285)		**1,266**
SLOVENIA 1.2%		
SOVEREIGN ISSUES 1.2%		
Slovenia Government International Bond		
4.125% due 02/18/2019	$ 3,000	3,071
4.750% due 05/10/2018	400	405
5.250% due 02/18/2024	2,150	2,466
5.500% due 10/26/2022	300	340
Total Slovenia (Cost $6,099)		**6,282**
SOUTH KOREA 0.1%		
CORPORATE BONDS & NOTES 0.1%		
Kookmin Bank		
2.125% due 10/21/2020	$ 400	391
Total South Korea (Cost $393)		**391**
SPAIN 3.9%		
CORPORATE BONDS & NOTES 0.7%		
Banco Bilbao Vizcaya Argentaria S.A.		
6.750% due 02/18/2020 (f)(g)•	EUR 200	260
7.000% due 02/19/2019 (f)(g)•	200	253
Telefonica Emisiones S.A.U.		
5.134% due 04/27/2020	$ 800	848
5.462% due 02/16/2021	100	108
5.877% due 07/15/2019	2,000	2,103
		3,572
SOVEREIGN ISSUES 3.2%		
Autonomous Community of Catalonia		
4.750% due 06/04/2018	EUR 500	609
4.900% due 09/15/2021	900	1,145
4.950% due 02/11/2020	870	1,115
Autonomous Community of Valencia		
4.900% due 03/17/2020	600	792
Spain Government International Bond		
1.450% due 10/31/2027 (i)	4,600	5,472
1.500% due 04/30/2027	2,900	3,499
2.150% due 10/31/2025	800	1,034
2.900% due 10/31/2046	2,300	2,804
		16,470
Total Spain (Cost $18,954)		**20,042**
SUPRANATIONAL 0.1%		
CORPORATE BONDS & NOTES 0.1%		
European Investment Bank		
0.500% due 06/21/2023	AUD 500	341
0.500% due 08/10/2023	400	272
Total Supranational (Cost $642)		**613**
SWEDEN 5.6%		
CORPORATE BONDS & NOTES 5.6%		
Lansforsakringar Hypotek AB		
1.250% due 09/20/2023	SEK 24,600	3,030
2.250% due 09/21/2022	17,600	2,292
Nordea Hypotek AB		
1.000% due 04/08/2022	38,900	4,817
Skandinaviska Enskilda Banken AB		
1.500% due 12/15/2021	14,000	1,771
3.000% due 06/20/2018	1,500	186

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Stadshypotek AB		
1.500% due 12/15/2021	SEK 31,000	$ 3,921
1.875% due 10/02/2019	$ 2,700	2,682
2.500% due 09/18/2019	SEK 1,000	127
2.500% due 04/05/2022	$ 300	299
4.500% due 09/21/2022	SEK 22,000	3,148
Sveriges Sakerstallda Obligationer AB		
1.250% due 06/15/2022	25,000	3,124
2.000% due 06/17/2026	6,000	759
Swedbank AB		
2.200% due 03/04/2020	$ 300	299
Swedbank Hypotek AB		
1.000% due 09/15/2021	SEK 3,900	485
1.000% due 06/15/2022	16,800	2,078
Total Sweden (Cost $27,216)		**29,018**
SWITZERLAND 1.4%		
CORPORATE BONDS & NOTES 1.3%		
Credit Suisse AG		
6.500% due 08/08/2023 (g)	$ 200	224
Credit Suisse Group AG		
2.774% (US0003M + 1.200%) due 12/14/2023 ~	800	808
UBS AG		
1.959% (US0003M + 0.480%) due 12/01/2020 ~	1,200	1,202
2.103% (US0003M + 0.580%) due 06/08/2020 ~	1,400	1,407
2.200% due 06/08/2020	900	895
4.750% due 05/22/2023 (g)•	2,000	2,018
		6,554
SOVEREIGN ISSUES 0.1%		
Switzerland Government International Bond		
3.500% due 04/08/2033	CHF 300	464
Total Switzerland (Cost $6,963)		**7,018**
UNITED ARAB EMIRATES 0.4%		
CORPORATE BONDS & NOTES 0.1%		
First Abu Dhabi Bank PJSC		
2.250% due 02/11/2020	$ 500	496
SOVEREIGN ISSUES 0.3%		
Emirate of Abu Dhabi Government International Bond		
2.500% due 10/11/2022	500	491
3.125% due 10/11/2027	900	882
		1,373
Total United Arab Emirates (Cost $1,890)		**1,869**
UNITED KINGDOM 8.7%		
CORPORATE BONDS & NOTES 4.4%		
Barclays Bank PLC		
7.625% due 11/21/2022 (g)	$ 3,300	3,743
7.750% due 04/10/2023 (g)•	500	509
Barclays PLC		
3.520% (US0003M + 2.110%) due 08/10/2021 ~	600	628
3.650% due 03/16/2025	600	601
6.500% due 09/15/2019 (f)(g)•	EUR 200	257
7.000% due 09/15/2019 (f)(g)•	GBP 200	284
BAT International Finance PLC		
1.625% due 09/09/2019	$ 400	394
British Telecommunications PLC		
2.350% due 02/14/2019	500	501
Co-operative Group Holdings Ltd.		
6.875% due 07/08/2020	GBP 400	596
Frontier Finance PLC		
8.000% due 03/23/2022	1,500	2,130

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
HBOS PLC		
6.750% due 05/21/2018	$ 1,100	$ 1,119
Imperial Brands Finance PLC		
2.950% due 07/21/2020	500	505
Lloyds Bank PLC		
5.125% due 03/07/2025	GBP 700	1,177
Lloyds Banking Group PLC		
7.000% due 06/27/2019 (f)(g)•	1,200	1,712
7.875% due 06/27/2029 (f)(g)•	200	329
Nationwide Building Society		
4.125% due 03/20/2023 •	EUR 900	1,089
10.250% ~(f)	GBP 1	204
RAC Bond Co. PLC		
4.870% due 05/06/2046	300	447
Reckitt Benckiser Treasury Services PLC		
2.375% due 06/24/2022	$ 600	589
Santander UK Group Holdings PLC		
2.875% due 10/16/2020	1,700	1,707
2.875% due 08/05/2021	400	399
Smiths Group PLC		
7.200% due 05/15/2019	600	635
Tesco PLC		
5.125% due 04/10/2047	EUR 400	594
6.125% due 02/24/2022	GBP 300	468
Tesco Property Finance PLC		
5.411% due 07/13/2044	195	307
7.623% due 07/13/2039	90	168
Virgin Media Secured Finance PLC		
5.000% due 04/15/2027	500	689
Virgin Money PLC		
2.250% due 04/21/2020	700	963
		22,744
NON-AGENCY MORTGAGE-BACKED SECURITIES 1.7%		
Business Mortgage Finance PLC		
0.906% (BP0003M + 0.380%) due 02/15/2039 ~	271	364
2.526% (BP0003M + 2.000%) due 02/15/2041 ~	291	385
Eurohome UK Mortgages PLC		
0.666% (BP0003M + 0.150%) due 06/15/2044 ~	459	605
Eurosail PLC		
0.683% (BP0003M + 0.160%) due 06/10/2044 ~	23	31
1.470% (BP0003M + 0.950%) due 06/13/2045 ~	675	905
Mansard Mortgages PLC		
1.166% (BP0003M + 0.650%) due 12/15/2049 ~	178	240
Newgate Funding PLC		
0.680% (BP0003M + 0.160%) due 12/01/2050 ~	300	379
1.516% (BP0003M + 1.000%) due 12/15/2050 ~	293	386
Ripon Mortgages PLC		
1.326% (BP0003M + 0.800%) due 08/20/2056 ~	1,693	2,299
RMAC Securities PLC		
0.673% (BP0003M + 0.150%) due 06/12/2044 ~	512	671
Thrones PLC		
1.376% (BP0003M + 0.850%) due 11/15/2049 ~	296	400
Towd Point Mortgage Funding PLC		
1.726% (BP0003M + 1.200%) due 02/20/2054 ~	1,347	1,836
		8,501
SOVEREIGN ISSUES 2.6%		
United Kingdom Gilt		
3.250% due 01/22/2044 (i)	3,800	6,685
3.500% due 01/22/2045 (i)	600	1,107

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
4.250% due 12/07/2040 (i)	GBP 1,200	$ 2,385
4.250% due 12/07/2046	1,600	3,366
		13,543
Total United Kingdom (Cost $43,287)		**44,788**

UNITED STATES 32.8%

ASSET-BACKED SECURITIES 5.3%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
ACE Securities Corp. Home Equity Loan Trust		
1.692% (US0001M + 0.140%) due 07/25/2036 ~	$ 1,542	1,152
Amortizing Residential Collateral Trust		
2.132% (US0001M + 0.580%) due 07/25/2032 ~	1	1
2.252% (US0001M + 0.700%) due 10/25/2031 ~	1	1
Amresco Residential Securities Corp. Mortgage Loan Trust		
2.492% (US0001M + 0.940%) due 06/25/2029 ~	1	1
Argent Mortgage Loan Trust		
1.792% (LIBOR01M + 0.240%) due 05/25/2035 ~	2,113	1,915
Argent Securities, Inc. Asset-Backed Pass-Through Certificates		
1.932% (US0001M + 0.380%) due 02/25/2036 ~	664	524
Citigroup Mortgage Loan Trust		
1.712% (US0001M + 0.160%) due 12/25/2036 ~	629	418
Citigroup Mortgage Loan Trust, Inc.		
1.812% (US0001M + 0.260%) due 03/25/2036 ~	707	607
1.812% (US0001M + 0.260%) due 06/25/2037 ~	2,700	2,546
Countrywide Asset-Backed Certificates		
1.682% (US0001M + 0.130%) due 12/25/2036 ^~	461	423
1.692% (US0001M + 0.140%) due 06/25/2035 ~	447	401
1.692% (US0001M + 0.140%) due 03/25/2037 ~	2,190	1,851
1.692% (US0001M + 0.140%) due 06/25/2037 ~	587	536
1.692% (US0001M + 0.140%) due 06/25/2047 ^~	465	372
1.692% (US0001M + 0.140%) due 06/25/2047 ~	1,429	1,290
1.702% (US0001M + 0.150%) due 04/25/2047 ~	484	472
1.842% (US0001M + 0.290%) due 07/25/2036 ~	530	520
4.891% due 08/25/2035 ^~	686	628
Countrywide Asset-Backed Certificates Trust		
2.678% (US0001M + 1.350%) due 04/25/2035 ~	1,000	1,015
Credit Suisse First Boston Mortgage Securities Corp.		
2.172% (US0001M + 0.620%) due 01/25/2032 ~	1	1
GSAMP Trust		
2.197% (US0001M + 0.645%) due 11/25/2035 ^~	1,372	927
Home Equity Mortgage Loan Asset-Backed Trust		
1.792% (US0001M + 0.240%) due 04/25/2037 ~	652	460
HSI Asset Securitization Corp. Trust		
1.812% (US0001M + 0.260%) due 04/25/2037 ~	873	532
Long Beach Mortgage Loan Trust		
2.112% (US0001M + 0.560%) due 10/25/2034 ~	12	12
Morgan Stanley ABS Capital, Inc. Trust		
1.682% (US0001M + 0.130%) due 10/25/2036 ~	176	163
Morgan Stanley Home Equity Loan Trust		
1.652% (US0001M + 0.100%) due 12/25/2036 ~	$ 1,117	$ 689
1.782% (US0001M + 0.230%) due 04/25/2037 ~	931	581
Morgan Stanley Mortgage Loan Trust		
5.919% due 09/25/2046 ^	179	88
Nomura Home Equity Loan, Inc. Home Equity Loan Trust		
1.842% (US0001M + 0.290%) due 03/25/2036 ~	700	677
NovaStar Mortgage Funding Trust		
1.682% (US0001M + 0.130%) due 03/25/2037 ~	835	649
Renaissance Home Equity Loan Trust		
4.102% (US0001M + 2.550%) due 12/25/2032 ~	439	431
5.294% due 01/25/2037	647	370
5.675% due 06/25/2037 ^	1,055	515
5.731% due 11/25/2036	1,033	591
Residential Asset Mortgage Products Trust		
1.772% (LIBOR01M + 0.220%) due 12/25/2035 ~	485	432
1.782% (LIBOR01M + 0.230%) due 12/25/2035 ~	1,111	877
Residential Asset Securities Corp. Trust		
1.802% (US0001M + 0.250%) due 11/25/2036 ~	2,051	1,425
Saxon Asset Securities Trust		
3.302% (US0001M + 1.750%) due 12/25/2037 ~	439	409
3.352% (US0001M + 1.800%) due 05/25/2031 ~	647	584
Soundview Home Loan Trust		
1.702% (US0001M + 0.150%) due 06/25/2037 ~	97	73
Structured Asset Investment Loan Trust		
1.682% (US0001M + 0.130%) due 07/25/2036 ~	555	412
1.862% (US0001M + 0.310%) due 01/25/2036 ~	1,600	1,486
Terwin Mortgage Trust		
2.492% (US0001M + 0.940%) due 11/25/2033 ~	26	26
		27,083

CORPORATE BONDS & NOTES 13.7%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
AIG Global Funding		
2.175% (US0003M + 0.480%) due 07/02/2020 ~	1,000	1,004
Ally Financial, Inc.		
3.600% due 05/21/2018	1,600	1,607
8.000% due 11/01/2031	200	261
American Honda Finance Corp.		
1.741% (US0003M + 0.350%) due 11/05/2021 ~	300	300
Anheuser-Busch InBev Finance, Inc.		
3.300% due 02/01/2023	500	512
AT&T, Inc.		
1.800% due 09/04/2026	EUR 1,000	1,216
2.309% (US0003M + 0.950%) due 07/15/2021 ~	$ 1,400	1,420
3.400% due 08/14/2024	2,200	2,214
Bank of America Corp.		
6.875% due 04/25/2018	800	812
BAT Capital Corp.		
2.003% (US0003M + 0.590%) due 08/14/2020 ~	400	402
3.222% due 08/15/2024	200	200
3.557% due 08/15/2027	700	702
Boston Scientific Corp.		
2.850% due 05/15/2020	1,100	1,109
Brandywine Operating Partnership LP		
3.950% due 11/15/2027	500	497
Cardinal Health, Inc.		
1.948% due 06/14/2019	$ 1,300	$ 1,292
CBOE Global Markets, Inc.		
1.950% due 06/28/2019	500	497
Charter Communications Operating LLC		
3.750% due 02/15/2028	900	863
4.464% due 07/23/2022	600	627
6.384% due 10/23/2035	600	705
CIT Group, Inc.		
3.875% due 02/19/2019	600	608
Citigroup, Inc.		
2.050% due 06/07/2019	200	199
2.445% (US0003M + 0.930%) due 06/07/2019 ~	600	605
Citizens Bank N.A.		
2.032% (US0003M + 0.570%) due 05/26/2020 ~	1,100	1,103
Cleveland Electric Illuminating Co.		
8.875% due 11/15/2018	1,100	1,162
Conagra Brands, Inc.		
1.857% (US0003M + 0.500%) due 10/09/2020 ~	900	902
Continental Resources, Inc.		
4.375% due 01/15/2028	200	198
Crown Castle Towers LLC		
4.883% due 08/15/2040	1,100	1,151
D.R. Horton, Inc.		
3.750% due 03/01/2019	1,000	1,014
4.000% due 02/15/2020	1,200	1,235
Dell International LLC		
3.480% due 06/01/2019	1,400	1,418
Delta Air Lines, Inc.		
2.875% due 03/13/2020	1,400	1,410
DISH DBS Corp.		
5.125% due 05/01/2020	600	614
eBay, Inc.		
2.150% due 06/05/2020	900	894
EQT Corp.		
2.500% due 10/01/2020	500	497
3.000% due 10/01/2022	400	396
ERAC USA Finance LLC		
2.600% due 12/01/2021	1,000	988
Fidelity National Information Services, Inc.		
0.400% due 01/15/2021	EUR 200	240
1.700% due 06/30/2022	GBP 200	271
Ford Motor Credit Co. LLC		
1.897% due 08/12/2019	$ 1,800	1,787
2.350% (US0003M + 1.000%) due 01/09/2020 ~	700	707
2.943% due 01/08/2019	500	503
Forest Laboratories LLC		
5.000% due 12/15/2021	600	642
GATX Corp.		
2.111% (US0003M + 0.720%) due 11/05/2021 ~	300	302
2.500% due 03/15/2019	700	700
General Motors Financial Co., Inc.		
3.100% due 01/15/2019	1,100	1,106
Georgia-Pacific LLC		
3.163% due 11/15/2021	400	407
Goldman Sachs Group, Inc.		
2.523% (US0003M + 1.160%) due 04/23/2020 ~	400	406
Goodman U.S. Finance Three LLC		
3.700% due 03/15/2028	600	596
Harris Corp.		
1.871% (US0003M + 0.480%) due 04/30/2020 ~	600	600
International Lease Finance Corp.		
8.250% due 12/15/2020	500	576
Kilroy Realty LP		
3.450% due 12/15/2024	100	100
Kinder Morgan, Inc.		
5.000% due 02/15/2021	400	425

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
KLA-Tencor Corp.		
4.125% due 11/01/2021	$ 400	$ 418
Kraft Heinz Foods Co.		
1.980% (US0003M + 0.570%) due 02/10/2021 ~	900	903
Lehman Brothers Holdings, Inc.		
6.875% due 05/02/2018 ^(b)	200	10
MetLife, Inc.		
6.817% due 08/15/2018	1,100	1,132
MUFG Americas Holdings Corp.		
3.000% due 02/10/2025	700	692
Nasdaq, Inc.		
2.048% (US0003M + 0.390%) due 03/22/2019 ~	2,200	2,201
Navient Corp.		
4.875% due 06/17/2019	600	612
5.500% due 01/15/2019	1,700	1,734
8.000% due 03/25/2020	300	325
8.450% due 06/15/2018	160	165
Nissan Motor Acceptance Corp.		
2.376% (US0003M + 0.690%) due 09/28/2022 ~	1,000	1,005
Northwell Healthcare, Inc.		
4.260% due 11/01/2047	400	410
Protective Life Global Funding		
2.262% due 04/08/2020	2,200	2,191
Public Service Enterprise Group, Inc.		
2.000% due 11/15/2021	400	391
QVC, Inc.		
3.125% due 04/01/2019	800	803
RELX Capital, Inc.		
8.625% due 01/15/2019	300	318
Rockwell Collins, Inc.		
2.800% due 03/15/2022	900	902
Sempra Energy		
2.038% (US0003M + 0.450%) due 03/15/2021 ~	800	802
SES Global Americas Holdings GP		
2.500% due 03/25/2019	600	598
SL Green Operating Partnership LP		
3.250% due 10/15/2022	500	499
SLM Student Loan Trust		
1.070% (BP0003M + 0.550%) due 03/15/2038 ~	GBP 700	926
Southern Power Co.		
2.175% (US0003M + 0.550%) due 12/20/2020 ~	$ 600	601
Spectra Energy Partners LP		
2.195% (US0003M + 0.700%) due 06/05/2020 ~	100	101
Springleaf Finance Corp.		
5.250% due 12/15/2019	300	309
6.000% due 06/01/2020	400	416
Tesla, Inc.		
5.300% due 08/15/2025	200	192
Textron, Inc.		
1.960% (US0003M + 0.550%) due 11/10/2020 ~	700	700
Time Warner Cable LLC		
5.000% due 02/01/2020	300	313
8.250% due 04/01/2019	400	428
UDR, Inc.		
4.625% due 01/10/2022	200	212
Verizon Communications, Inc.		
1.996% (US0003M + 0.550%) due 05/22/2020 ~	1,000	1,006
4.125% due 03/16/2027	900	940
Volkswagen Group of America Finance LLC		
2.125% due 05/23/2019	2,100	2,092
2.450% due 11/20/2019	1,100	1,100
Wells Fargo & Co.		
2.475% (US0003M + 1.110%) due 01/24/2023 ~	1,000	1,020
2.610% (US0003M + 1.230%) due 10/31/2023 ~	1,500	1,541

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Zimmer Biomet Holdings, Inc.		
2.700% due 04/01/2020	$ 300	$ 300
3.150% due 04/01/2022	2,100	2,107
		70,417

LOAN PARTICIPATIONS AND ASSIGNMENTS 0.3%

CenturyLink, Inc.		
4.319% - 6.000% (LIBOR03M + 2.750%) due 01/31/2025 ~	500	483
Charter Communications Operating LLC		
3.600% (LIBOR03M + 2.250%) due 01/15/2024 ~	591	592
Petroleo Global Trading		
3.597% (LIBOR03M + 2.140%) due 02/19/2020 «~	300	298
		1,373

MUNICIPAL BONDS & NOTES 0.0%

Pasadena Public Financing Authority, California Revenue Bonds, (BABs), Series 2010		
7.148% due 03/01/2043	100	146

NON-AGENCY MORTGAGE-BACKED SECURITIES 1.5%

American Home Mortgage Investment Trust		
3.152% (US0006M + 1.500%) due 09/25/2045 ~	30	30
Banc of America Alternative Loan Trust		
6.500% due 04/25/2036 ^	546	511
Banc of America Mortgage Trust		
3.429% due 02/25/2036 ^~	65	61
Bear Stearns Adjustable Rate Mortgage Trust		
3.260% (H15T1Y + 2.450%) due 03/25/2035 ~	28	29
3.325% due 08/25/2033 ~	2	2
3.636% (US0012M + 1.950%) due 03/25/2035 ~	3	3
Bear Stearns ALT-A Trust		
1.712% (US0001M + 0.160%) due 02/25/2034 ~	48	45
3.467% due 08/25/2036 ^~	44	35
3.482% due 11/25/2035 ^~	32	28
3.548% due 09/25/2035 ~	32	29
3.610% due 03/25/2036 ^~	145	127
Bear Stearns Structured Products, Inc. Trust		
3.202% due 12/26/2046 «~	31	28
Chase Mortgage Finance Trust		
3.144% due 07/25/2037 ~	61	56
Citigroup Mortgage Loan Trust, Inc.		
3.410% (H15T1Y + 2.100%) due 09/25/2035 ~	5	6
Citigroup Mortgage Loan Trust, Inc. Mortgage Pass-Through Certificates		
3.325% due 09/25/2035 ^~	369	341
Countrywide Alternative Loan Trust		
1.711% (US0001M + 0.210%) due 03/20/2046 ~	71	61
1.832% (US0001M + 0.280%) due 02/25/2037 ~	57	53
2.063% (12MTA + 1.000%) due 12/25/2035 ~	61	57
2.365% (12MTA + 1.500%) due 11/25/2035 ~	14	13
5.250% due 06/25/2035 ^	10	9
Countrywide Home Loan Mortgage Pass-Through Trust		
2.012% (US0001M + 0.460%) due 05/25/2035 ~	28	25
2.192% (US0001M + 0.640%) due 03/25/2035 ~	53	48
2.212% (US0001M + 0.660%) due 02/25/2035 ~	7	7
3.456% due 08/25/2034 ^~	18	17
3.488% due 11/25/2034 ~	8	8
5.500% due 01/25/2035	380	385

	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		
5.500% due 08/25/2036	1,816	1,758
5.863% due 02/25/2037 ^~	197	90
DBUBS Mortgage Trust		
0.306% due 11/10/2046 ~(a)	400	3
0.726% due 11/10/2046 ~(a)	279	4
Deutsche ALT-A Securities, Inc.		
2.302% (US0001M + 0.750%) due 10/25/2047 ~	1,022	900
GSR Mortgage Loan Trust		
1.882% (US0001M + 0.330%) due 12/25/2034 ~	56	54
3.639% due 04/25/2035 ~	295	298
3.639% due 01/25/2036 ^~	59	60
IndyMac Mortgage Loan Trust		
1.762% (US0001M + 0.210%) due 05/25/2046 ~	554	533
1.792% (US0001M + 0.240%) due 07/25/2035 ~	25	25
JPMorgan Mortgage Trust		
3.009% due 07/27/2037 ~	102	104
3.461% due 02/25/2036 ^~	34	31
Mellon Residential Funding Corp. Mortgage Pass-Through Trust		
1.917% (US0001M + 0.440%) due 12/15/2030 ~	6	6
Merrill Lynch Mortgage Investors Trust		
2.911% (US0006M + 1.250%) due 10/25/2035 ~	9	9
Morgan Stanley Bank of America Merrill Lynch Trust		
1.007% due 12/15/2048 ~(a)	981	40
Morgan Stanley Mortgage Loan Trust		
3.230% due 06/25/2036 ~	42	43
Residential Accredit Loans, Inc. Trust		
1.702% (US0001M + 0.150%) due 02/25/2047 ~	35	22
1.732% (US0001M + 0.180%) due 06/25/2046 ~	307	144
1.762% (US0001M + 0.210%) due 04/25/2046 ~	517	267
Structured Adjustable Rate Mortgage Loan Trust		
3.542% due 04/25/2034 ~	5	5
Structured Asset Mortgage Investments Trust		
1.762% (US0001M + 0.210%) due 05/25/2036 ~	13	10
1.772% (US0001M + 0.220%) due 05/25/2036 ~	98	89
1.772% (US0001M + 0.220%) due 09/25/2047 ~	141	133
2.012% (US0001M + 0.460%) due 05/25/2045 ~	23	22
2.075% (US0001M + 0.580%) due 07/19/2034 ~	2	2
2.155% (US0001M + 0.660%) due 09/19/2032 ~	2	2
2.195% (US0001M + 0.700%) due 03/19/2034 ~	5	5
2.563% (12MTA + 1.500%) due 08/25/2047 ^~	42	40
TBW Mortgage-Backed Trust		
5.970% due 09/25/2036	189	17
Thornburg Mortgage Securities Trust		
3.341% (LIBOR12M + 1.250%) due 06/25/2047 ^~	15	14
3.341% (LIBOR01M + 1.250%) due 06/25/2047 ^~	26	23
3.341% (LIBOR01M + 1.250%) due 06/25/2047 ~	9	8
Wachovia Mortgage Loan Trust LLC		
3.708% due 10/20/2035 ^~	128	124
WaMu Mortgage Pass-Through Certificates Trust		
1.862% (US0001M + 0.310%) due 01/25/2045 ~	115	114
1.987% (COF 11 + 1.250%) due 02/27/2034 ~	5	4

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
2.043% (12MTA + 0.980%) due 06/25/2046 ~	$ 45	$ 45
2.063% (12MTA + 1.000%) due 02/25/2046 ~	102	100
2.773% due 03/25/2033 ~	12	12
3.062% due 12/25/2036 ^~	233	212
3.063% due 04/25/2035 ~	47	47
3.078% due 03/25/2035 ~	58	59
Washington Mutual Mortgage Pass-Through Certificates Trust		
2.003% (12MTA + 0.940%) due 07/25/2046 ^~	27	20
Wells Fargo Mortgage-Backed Securities Trust		
3.285% due 03/25/2035 ~	73	74
3.387% due 07/25/2036 ^~	42	43
3.493% due 04/25/2036 ~	4	4
3.628% due 03/25/2036 ^~	165	159
		7,793

	SHARES	
PREFERRED SECURITIES 0.0%		
Navient Corp.		
4.283% (CPI YOY + 2.050%) due 01/16/2018 ~	1	23

	PRINCIPAL AMOUNT (000S)	
U.S. GOVERNMENT AGENCIES 8.9%		
Fannie Mae		
1.672% (LIBOR01M + 0.120%) due 03/25/2034 ~	$ 5	5
1.678% (US0001M + 0.350%) due 09/25/2042 ~	17	17
1.702% (LIBOR01M + 0.150%) due 08/25/2034 ~	3	3
1.952% (LIBOR01M + 0.400%) due 06/25/2036 ~	30	30
1.982% (LIBOR01M + 0.430%) due 11/25/2040 ~	46	46
2.002% (LIBOR01M + 0.450%) due 11/25/2040 - 01/25/2044 ~	286	288
2.132% (LIBOR01M + 0.580%) due 06/25/2041 ~	219	221
2.202% (12MTA + 1.200%) due 10/01/2044 ~	16	17
2.352% (LIBOR01M + 0.800%) due 12/25/2039 ~	252	256
3.133% (US0012M + 1.382%) due 12/01/2034 ~	5	5
3.347% due 05/25/2035 ~	11	12
3.401% (H15T1Y + 2.360%) due 11/01/2034 ~	30	31
3.500% due 11/01/2021	89	92
6.000% due 07/25/2044	10	12

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Fannie Mae, TBA		
3.500% due 02/01/2048 - 03/01/2048	$ 19,100	$ 19,569
4.000% due 02/01/2048 - 03/01/2048	17,800	18,586
Freddie Mac		
1.592% (LIBOR01M + 0.350%) due 01/15/2038 ~	529	529
1.665% due 01/15/2038 ~(a)	529	33
1.977% (LIBOR01M + 0.500%) due 12/15/2032 ~	6	6
2.077% (LIBOR01M + 0.600%) due 12/15/2037 ~	13	13
2.202% (12MTA + 1.200%) due 10/25/2044 ~	45	45
3.230% (H15T1Y + 2.270%) due 02/01/2029 ~	2	2
3.250% (US0012M + 1.625%) due 03/01/2035 ~	5	5
3.475% (US0012M + 1.725%) due 04/01/2035 ~	65	68
Ginnie Mae		
2.043% (US0001M + 0.800%) due 05/20/2066 - 06/20/2066 ~	4,207	4,250
2.083% (US0001M + 0.850%) due 11/20/2066 ~	690	700
2.625% (H15T1Y + 1.500%) due 04/20/2028 - 06/20/2030 ~	3	3
NCUA Guaranteed Notes		
1.873% (LIBOR01M + 0.470%) due 11/05/2020 ~	826	829
1.963% (LIBOR01M + 0.560%) due 12/08/2020 ~	229	230
		45,903
U.S. TREASURY OBLIGATIONS 3.1%		
U.S. Treasury Inflation Protected Securities (e)		
0.125% due 01/15/2022 (m)	109	109
0.125% due 04/15/2022 (i)(m)	2,231	2,217
0.125% due 07/15/2022 (j)(k)(m)	1,931	1,929
0.125% due 01/15/2023 (j)(k)(m)	2,458	2,440
0.125% due 07/15/2024 (j)(k)(m)	156	154
0.375% due 07/15/2025 (i)(j)(k)(m)	8,633	8,655
0.625% due 01/15/2026 (m)	52	53
2.000% due 01/15/2026 (m)	124	140
U.S. Treasury Notes		
2.250% due 11/15/2025 (m)	100	99
		15,796
Total United States (Cost $165,697)		**168,534**
SHORT-TERM INSTRUMENTS 15.8%		
CERTIFICATES OF DEPOSIT 0.4%		
Barclays Bank PLC		
2.060% due 03/16/2018	$ 2,300	2,302

		PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
REPURCHASE AGREEMENTS (h) 0.4%			
			$ 2,118
ARGENTINA TREASURY BILLS 0.5%			
22.328% due 03/16/2018 - 12/14/2018 (c)(d)	ARS	15,400	2,755
ITALY TREASURY BILLS 5.8%			
(0.496)% due 01/12/2018 - 04/30/2018 (c)(d)	EUR	24,900	29,911
JAPAN TREASURY BILLS 8.5%			
(0.205)% due 01/15/2018 - 03/12/2018 (c)(d)	JPY	4,920,000	43,671
U.S. TREASURY BILLS 0.2%			
1.088% due 01/04/2018 - 01/18/2018 (c)(d)(m)	$	965	965
Total Short-Term Instruments (Cost $80,883)			**81,722**
Total Investments in Securities (Cost $542,653)			**557,175**

	SHARES	
INVESTMENTS IN AFFILIATES 3.6%		
SHORT-TERM INSTRUMENTS 3.6%		
CENTRAL FUNDS USED FOR CASH MANAGEMENT PURPOSES 3.6%		
PIMCO Short Asset Portfolio	1,076,499	10,777
PIMCO Short-Term Floating NAV Portfolio III	776,016	7,671
Total Short-Term Instruments (Cost $18,457)		**18,448**
Total Investments in Affiliates (Cost $18,457)		**18,448**
Total Investments 111.7% (Cost $561,110)		**$ 575,623**
Financial Derivative Instruments (j)(l) (0.2)% (Cost or Premiums, net $(1,947))		**(1,167)**
Other Assets and Liabilities, net (11.5)%		**(59,217)**
Net Assets 100.0%		**$ 515,239**

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.

« Security valued using significant unobservable inputs (Level 3).

~ Variable or Floating rate security. Rate shown is the rate in effect as of period end. Certain variable rate securities are not based on a published reference rate and spread, rather are determined by the issuer or agent and are based on current market conditions. Reference rate is as of reset date, which may vary by security. These securities may not indicate a reference rate and/or spread in their description.

• Rate shown is the rate in effect as of period end. The rate may be based on a fixed rate, a capped rate or a floor rate and may convert to a variable or floating rate in the future. These securities do not indicate a reference rate and spread in their description.

(a) Interest only security.

(b) Security is not accruing income as of the date of this report.

(c) Coupon represents a weighted average yield to maturity.

(d) Zero coupon security.

(e) Principal amount of security is adjusted for inflation.

(f) Perpetual maturity; date shown, if applicable, represents next contractual call date.

(g) Contingent Convertible Corporate Bond

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]
FICC	0.700%	12/29/2017	01/02/2018	$ 2,118	U.S. Treasury Notes 1.375% due 06/30/2023	$ (2,162)	$ 2,118	$ 2,118
Total Repurchase Agreements						**$ (2,162)**	**$ 2,118**	**$ 2,118**

REVERSE REPURCHASE AGREEMENTS:

Counterparty	Borrowing Rate[2]	Settlement Date	Maturity Date	Amount Borrowed[2]	Payable for Reverse Repurchase Agreements
BOS	1.430%	11/09/2017	02/09/2018	$ (7,074)	$ (7,089)
BPS	(0.380)	11/02/2017	02/08/2018	EUR (3,483)	(4,176)
IND	0.520	10/11/2017	01/18/2018	GBP (795)	(1,075)
MYI	(0.550)	10/19/2017	01/18/2018	EUR (8,989)	(10,773)
UBS	0.520	10/11/2017	01/18/2018	GBP (3,571)	(4,827)
Total Reverse Repurchase Agreements					**$ (27,940)**

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, 2017:

Counterparty	Repurchase Agreement Proceeds to be Received[1]	Payable for Reverse Repurchase Agreements	Payable for Sale-Buyback Transactions	Total Borrowings and Other Financing Transactions	Collateral Pledged/(Received)	Net Exposure[3]
Global/Master Repurchase Agreement						
BOS	$ 0	$ (7,089)	$ 0	$ (7,089)	$ 7,083	$ (6)
BPS	0	(4,176)	0	(4,176)	4,163	(13)
FICC	2,118	0	0	2,118	(2,162)	(44)
IND	0	(1,075)	0	(1,075)	1,107	32
MYI	0	(10,773)	0	(10,773)	10,398	(375)
UBS	0	(4,827)	0	(4,827)	4,955	128
Total Borrowings and Other Financing Transactions	**$ 2,118**	**$ (27,940)**	**$ 0**			

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					
Sovereign Issues	$ 0	$ (16,675)	$ (4,176)	$ 0	$ (20,851)
U.S. Treasury Obligations	0	0	(7,089)	0	(7,089)
Total Borrowings	**$ 0**	**$ (16,675)**	**$ (11,265)**	**$ 0**	**$ (27,940)**
Payable for reverse repurchase agreements					**$ (27,940)**

(i) Securities with an aggregate market value of $27,987 have been pledged as collateral under the terms of the above master agreements as of December 31, 2017.

(1) Includes accrued interest.

(2) The average amount of borrowings outstanding during the period ended December 31, 2017 was $(27,044) at a weighted average interest rate of 0.233%. Average borrowings may include sale-buyback transactions and reverse repurchase agreements, if held during the period.

(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 8, Master Netting Arrangements, in the Notes to Financial Statements for more information regarding master netting arrangements.

(j) FINANCIAL DERIVATIVE INSTRUMENTS: EXCHANGE-TRADED OR CENTRALLY CLEARED

PURCHASED OPTIONS:

OPTIONS ON EXCHANGE-TRADED FUTURES CONTRACTS

Description	Strike Price	Expiration Date	# of Contracts	Notional Amount	Cost	Market Value
Put - CME 90-Day Eurodollar March Futures	$ 98.250	03/19/2018	254	$ 635	$ 22	$ 33
Total Purchased Options					**$ 22**	**$ 33**

WRITTEN OPTIONS:

OPTIONS ON EXCHANGE-TRADED FUTURES CONTRACTS

Description	Strike Price	Expiration Date	# of Contracts	Notional Amount	Premiums (Received)	Market Value
Call - CME 90-Day Eurodollar March Futures	$ 98.750	03/19/2018	254	$ 635	$ (27)	$ (2)
Total Written Options					**$ (27)**	**$ (2)**

FUTURES CONTRACTS:

LONG FUTURES CONTRACTS

Description	Expiration Month	# of Contracts	Notional Amount	Unrealized Appreciation/ (Depreciation)	Variation Margin	
					Asset	Liability
90-Day Eurodollar September Futures	09/2018	369	$ 90,368	$ 6	$ 9	$ 0
Australia Government 3-Year Note March Futures	03/2018	30	AUD 2,600	(13)	3	0
Australia Government 10-Year Bond March Futures	03/2018	59	5,946	(38)	28	0
Canada Government 10-Year Bond March Futures	03/2018	43	CAD 4,611	(60)	0	(23)
Euro-Bobl March Futures	03/2018	93	EUR 14,686	(51)	0	(9)
Euro-BTP Italy Government Bond March Futures	03/2018	36	5,881	(106)	0	(50)
Euro-Bund 10-Year Bond March Futures	03/2018	31	6,014	(29)	0	(23)
Euro-Buxl 30-Year Bond March Futures	03/2018	17	3,342	(45)	0	(39)
Euro-Schatz March Futures	03/2018	349	46,889	(39)	8	(2)
Japan Government 10-Year Bond March Futures	03/2018	31	JPY 41,484	(15)	25	0
U.S. Treasury 5-Year Note March Futures	03/2018	220	$ 25,556	(141)	21	0
U.S. Treasury 10-Year Note March Futures	03/2018	443	54,953	(299)	90	0
U.S. Treasury Ultra Long-Term Bond March Futures	03/2018	162	27,160	183	71	0
United Kingdom 90-Day LIBOR Sterling Interest Rate December Futures	12/2018	563	GBP 94,276	109	19	0
United Kingdom Long Gilt March Futures	03/2018	39	6,590	50	5	(14)
				$ (488)	$ 279	$ (160)

SHORT FUTURES CONTRACTS

Description	Expiration Month	# of Contracts	Notional Amount	Unrealized Appreciation/ (Depreciation)	Variation Margin	
					Asset	Liability
90-Day Eurodollar September Futures	09/2019	369	$ (90,133)	$ 7	$ 0	$ (14)
Euro-OAT France Government 10-Year Bond March Futures	03/2018	22	EUR (4,096)	52	25	0
U.S. Treasury 2-Year Note March Futures	03/2018	25	$ (5,353)	12	0	(2)
U.S. Treasury 30-Year Bond March Futures	03/2018	55	(8,415)	14	0	(15)
United Kingdom 90-Day LIBOR Sterling Interest Rate December Futures	12/2019	563	GBP (94,076)	(117)	9	(19)
				$ (32)	$ 34	$ (50)
Total Futures Contracts				**$ (520)**	**$ 313**	**$ (210)**

SWAP AGREEMENTS:

CREDIT DEFAULT SWAPS ON CORPORATE ISSUES - BUY PROTECTION(1)

Reference Entity	Fixed (Pay) Rate	Payment Frequency	Maturity Date	Implied Credit Spread at December 31, 2017(3)	Notional Amount(4)	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Market Value(5)	Variation Margin	
									Asset	Liability
Altria Group, Inc.	(1.000)%	Quarterly	12/20/2020	0.136%	$ 700	$ (20)	$ 2	$ (18)	$ 0	$ 0
BASF SE	(1.000)	Quarterly	12/20/2020	0.133	EUR 200	(6)	0	(6)	0	0
Bayer AG	(1.000)	Quarterly	12/20/2020	0.191	300	(7)	(2)	(9)	0	0
Koninklijke DSM NV	(1.000)	Quarterly	12/20/2020	0.125	600	(19)	0	(19)	0	0

Reference Entity	Fixed (Pay) Rate	Payment Frequency	Maturity Date	Implied Credit Spread at December 31, 2017(3)	Notional Amount(4)	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Market Value(5)	Variation Margin Asset	Variation Margin Liability
Navient Corp.	(5.000)%	Quarterly	03/20/2019	0.524%	$ 1,100	$ (67)	$ 5	$ (62)	$ 0	$ 0
Pfizer, Inc.	(1.000)	Quarterly	12/20/2020	0.090	700	(21)	2	(19)	0	0
Reynolds American, Inc.	(1.000)	Quarterly	12/20/2020	0.090	700	(20)	1	(19)	0	(1)
Telia Co. AB	(1.000)	Quarterly	12/20/2020	0.157	EUR 200	(5)	(1)	(6)	0	0
United Utilities PLC	(1.000)	Quarterly	12/20/2020	0.303	200	(3)	(2)	(5)	0	0
UnitedHealth Group, Inc.	(1.000)	Quarterly	12/20/2020	0.108	$ 300	(8)	0	(8)	0	0
						$ (176)	$ 5	$ (171)	$ 0	$ (1)

CREDIT DEFAULT SWAPS ON CORPORATE ISSUES - SELL PROTECTION(2)

Reference Entity	Fixed Receive Rate	Payment Frequency	Maturity Date	Implied Credit Spread at December 31, 2017(3)	Notional Amount(4)	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Market Value(5)	Variation Margin Asset	Variation Margin Liability
Berkshire Hathaway, Inc.	1.000%	Quarterly	12/20/2022	0.524%	$ 700	$ 16	$ 0	$ 16	$ 0	$ 0
Shell International Finance BV	1.000	Quarterly	12/20/2026	0.691	EUR 500	(15)	31	16	0	(1)
Telecom Italia SpA	1.000	Quarterly	06/20/2024	1.598	300	(22)	9	(13)	0	0
Tesco PLC	1.000	Quarterly	06/20/2022	0.841	800	(41)	48	7	0	0
						$ (62)	$ 88	$ 26	$ 0	$ (1)

CREDIT DEFAULT SWAPS ON CREDIT INDICES - BUY PROTECTION(1)

Index/Tranches	Fixed (Pay) Rate	Payment Frequency	Maturity Date	Notional Amount(4)	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Market Value(5)	Variation Margin Asset	Variation Margin Liability
CDX.HY-29 5-Year Index	(5.000)%	Quarterly	12/20/2022	$ 3,900	$ (295)	$ (35)	$ (330)	$ 0	$ (6)
CDX.IG-28 5-Year Index	(1.000)	Quarterly	06/20/2022	43,544	(789)	(197)	(986)	0	(10)
iTraxx Europe Main 26 5-Year Index	(1.000)	Quarterly	12/20/2021	EUR 53,300	(837)	(939)	(1,776)	6	0
iTraxx Europe Main 28 5-Year Index	(1.000)	Quarterly	12/20/2022	20,700	(548)	(134)	(682)	5	0
					$ (2,469)	$ (1,305)	$ (3,774)	$ 11	$ (16)

INTEREST RATE SWAPS

Pay/Receive Floating Rate	Floating Rate Index	Fixed Rate	Payment Frequency	Maturity Date	Notional Amount	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Market Value	Variation Margin Asset	Variation Margin Liability
Receive(6)	1-Day USD-Federal Funds Rate Compounded-OIS	1.724%	Annual	09/19/2018	$ 62,300	$ 0	$ 1	$ 1	$ 1	$ 0
Pay	1-Year BRL-CDI	8.350	Maturity	01/02/2020	BRL 100,100	28	151	179	0	(4)
Pay	3-Month CAD-Bank Bill	1.400	Semi-Annual	09/13/2019	CAD 58,800	(104)	(371)	(475)	0	(2)
Receive	3-Month CAD-Bank Bill	1.850	Semi-Annual	09/15/2027	8,100	219	76	295	27	0
Pay	3-Month CAD-Bank Bill	1.750	Semi-Annual	12/16/2046	600	(60)	(22)	(82)	0	(7)
Pay	3-Month CHF-LIBOR	0.050	Annual	03/16/2026	CHF 1,400	5	(11)	(6)	1	0
Pay(6)	3-Month NZD-BBR	2.500	Semi-Annual	07/11/2019	NZD 64,800	35	94	129	5	0
Pay	3-Month USD-LIBOR	1.945	Semi-Annual	09/19/2018	$ 62,300	0	3	3	1	0
Pay(6)	3-Month USD-LIBOR	1.750	Semi-Annual	04/01/2019	236,400	(195)	(248)	(443)	13	0
Receive	3-Month USD-LIBOR	1.250	Semi-Annual	06/21/2019	79,400	497	366	863	0	(4)
Receive	3-Month USD-LIBOR	2.000	Semi-Annual	12/20/2019	28,000	(130)	163	33	0	(5)
Receive(6)	3-Month USD-LIBOR	2.000	Semi-Annual	04/01/2020	236,400	133	260	393	0	(10)
Pay	3-Month USD-LIBOR	1.549	Quarterly	06/12/2022	9,000	0	(2)	(2)	0	(1)
Pay	3-Month USD-LIBOR	1.613	Quarterly	06/19/2022	19,800	1	(10)	(9)	0	(1)
Receive	3-Month USD-LIBOR	1.750	Semi-Annual	12/21/2023	28,700	710	137	847	0	(34)
Receive	3-Month USD-LIBOR	1.750	Semi-Annual	12/21/2026	15,200	(367)	1,133	766	0	(26)
Receive	3-Month USD-LIBOR	2.500	Semi-Annual	12/20/2027	29,800	(376)	151	(225)	0	(55)
Receive(6)	3-Month USD-LIBOR	2.098	Semi-Annual	07/01/2041	17,200	240	66	306	0	(8)
Receive	3-Month USD-LIBOR	1.768	Semi-Annual	12/15/2046	300	55	(5)	50	0	(1)
Receive	3-Month USD-LIBOR	2.250	Semi-Annual	12/21/2046	3,500	251	(10)	241	0	(12)
Receive	3-Month USD-LIBOR	2.750	Semi-Annual	12/20/2047	22,000	(692)	(180)	(872)	0	(81)
Receive(6)	3-Month USD-LIBOR	2.953	Semi-Annual	11/12/2049	800	0	(57)	(57)	0	(3)
Receive(6)	3-Month USD-LIBOR	2.955	Semi-Annual	11/12/2049	2,900	0	(208)	(208)	0	(10)
Pay	3-Month ZAR-JIBAR	8.500	Quarterly	03/15/2027	ZAR 15,000	(1)	53	52	0	(1)
Pay(6)	6-Month EUR-EURIBOR	0.000	Annual	06/20/2020	EUR 12,700	9	0	9	1	0
Pay(6)	6-Month EUR-EURIBOR	0.500	Annual	03/21/2023	51,300	633	(224)	409	0	(36)
Pay(6)	6-Month EUR-EURIBOR	1.000	Annual	03/21/2028	24,550	103	109	212	0	(58)
Pay(6)	6-Month EUR-EURIBOR	1.000	Annual	06/20/2028	700	2	0	2	0	(2)
Receive(6)	6-Month EUR-EURIBOR	1.500	Annual	03/21/2048	4,000	98	(85)	13	28	0
Receive(6)	6-Month EUR-EURIBOR	1.500	Annual	03/21/2048	1,800	(24)	30	6	10	0

Pay/Receive Floating Rate	Floating Rate Index	Fixed Rate	Payment Frequency	Maturity Date		Notional Amount	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Market Value	Variation Margin Asset	Variation Margin Liability
Pay[6]	6-Month GBP-LIBOR	1.000%	Annual	09/19/2019	GBP	24,400	$ 39	$ 24	$ 63	$ 7	$ 0
Pay[6]	6-Month GBP-LIBOR	0.750	Semi-Annual	03/21/2020		17,400	32	(72)	(40)	5	0
Receive[6]	6-Month GBP-LIBOR	1.000	Annual	09/18/2020		24,400	18	(20)	(2)	1	0
Receive[6]	6-Month GBP-LIBOR	1.000	Semi-Annual	03/21/2023		1,900	(17)	26	9	0	0
Receive	6-Month GBP-LIBOR	1.700	Semi-Annual	03/10/2026		100	(1)	(5)	(6)	0	0
Receive[6]	6-Month GBP-LIBOR	1.500	Semi-Annual	03/21/2028		700	(3)	(15)	(18)	1	0
Receive[6]	6-Month GBP-LIBOR	1.500	Semi-Annual	03/21/2028		10,300	(122)	(143)	(265)	25	0
Pay[6]	6-Month GBP-LIBOR	1.750	Semi-Annual	03/21/2048		100	5	6	11	0	0
Pay	6-Month JPY-LIBOR	0.150	Semi-Annual	03/22/2018	JPY	3,280,000	12	10	22	0	0
Pay	6-Month JPY-LIBOR	0.300	Semi-Annual	09/20/2022		720,000	57	6	63	0	(1)
Pay	6-Month JPY-LIBOR	0.300	Semi-Annual	09/20/2027		540,000	5	(8)	(3)	0	(2)
Pay	6-Month JPY-LIBOR	1.500	Semi-Annual	06/19/2033		2,340,000	288	2,620	2,908	0	(15)
Pay	6-Month JPY-LIBOR	1.250	Semi-Annual	06/17/2035		150,000	25	108	133	0	0
Receive	6-Month JPY-LIBOR	1.500	Semi-Annual	12/21/2045		80,000	(127)	21	(106)	0	0
Receive	6-Month JPY-LIBOR	0.500	Semi-Annual	09/20/2046		160,000	167	1	168	0	(2)
Receive[6]	6-Month JPY-LIBOR	1.000	Semi-Annual	03/21/2048		140,000	(25)	16	(9)	0	(1)
Pay	28-Day MXN-TIIE	7.278	Lunar	03/22/2022	MXN	21,800	0	(24)	(24)	4	0
Pay	28-Day MXN-TIIE	7.317	Lunar	03/23/2022		18,100	0	(18)	(18)	4	0
Pay	28-Day MXN-TIIE	6.080	Lunar	03/10/2026		18,700	(106)	(3)	(109)	8	0
							$ 1,317	$ 3,890	$ 5,207	$ 142	$ (382)
Total Swap Agreements							**$ (1,390)**	**$ 2,678**	**$ 1,288**	**$ 153**	**$ (400)**

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, 2017:

	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	**$ 33**	**$ 313**	**$ 153**	**$ 499**	**$ (2)**	**$ (210)**	**$ (400)**	**$ (612)**

(k) Securities with an aggregate market value of $3,245 and cash of $6,608 have been pledged as collateral for exchange-traded and centrally cleared financial derivative instruments as of December 31, 2017. See Note 8, Master Netting Arrangements, in the Notes to Financial Statements for more information regarding master netting arrangements.

(1) If the Portfolio is a buyer of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Portfolio will either (i) receive from the seller of protection an amount equal to the notional amount of the swap and deliver the referenced obligation or underlying securities comprising the referenced index or (ii) receive a net settlement amount in the form of cash, 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) 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.

(3) Implied credit spreads, represented in absolute terms, utilized in determining the market value of credit default swap agreements on corporate or sovereign issues as of period end serve as indicators of the current status of the payment/performance risk and represent the likelihood or risk of default for the credit derivative. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to be made to enter into the agreement. Wider credit spreads represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

(4) The maximum potential amount the Portfolio could be required to pay as a seller of credit protection or receive as a buyer of credit protection if a credit event occurs as defined under the terms of that particular swap agreement.

(5) The prices and resulting values for credit default swap agreements on credit indices serve as indicators 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.

(6) This instrument has a forward starting effective date. See Note 2, Securities Transactions and Investment Income, in the Notes to Financial Statements for further information.

(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	Unrealized Appreciation/ (Depreciation) Liability
BOA	01/2018	BRL	10,371	$	3,139	$ 12	$ 0
	01/2018	DKK	228,414		36,335	0	(478)
	01/2018	EUR	945		1,121	0	(13)
	01/2018	$	3,185	BRL	10,371	0	(59)
	01/2018		78	CAD	100	2	0
	01/2018		17,954	DKK	112,686	207	0
	01/2018		3,455	MXN	65,535	0	(134)
	02/2018		605	BRL	1,996	0	(5)
	03/2018	PEN	1,232	$	373	0	(6)
	03/2018	SGD	6,575		4,834	0	(87)
	04/2018	DKK	112,686		18,063	0	(205)
BPS	01/2018	$	133	ARS	2,438	0	(4)
	02/2018		150		2,810	0	(3)
	03/2018	MXN	58,300	$	2,788	0	(147)
	03/2018	$	3,084	MXN	58,300	0	(149)
	03/2018		1,815	PEN	5,904	0	0
	04/2018	DKK	100,800	$	15,016	0	(1,325)
	04/2018	$	117	KRW	131,566	6	0
	06/2018		15	ARS	306	0	0
BRC	03/2018		5,095	CNH	33,894	87	0
CBK	01/2018	EUR	3,914	$	4,657	0	(41)
	01/2018	GBP	531		711	0	(6)
	01/2018	$	4,471	DKK	28,287	88	0
	01/2018		359	EUR	302	4	0
	01/2018		3,605	GBP	2,666	0	(5)
	01/2018		2,666	RUB	155,986	36	0
	02/2018	JPY	890,000	$	7,854	0	(59)
	03/2018		370,000		3,313	20	0
	04/2018	DKK	28,287		4,497	0	(88)
	08/2018	$	65	ARS	1,342	0	(1)
DUB	01/2018	BRL	1,522	$	460	1	0
	01/2018	EUR	2,100		2,474	0	(47)
	01/2018	$	456	BRL	1,522	3	0
	04/2018		1,297	DKK	8,220	36	0
	07/2018	BRL	2,600	$	738	0	(31)
FBF	02/2018	$	250	ARS	4,662	0	(5)
GLM	01/2018	BRL	10,371	$	3,113	0	(14)
	01/2018	EUR	59,952		71,356	0	(607)
	01/2018	JPY	1,006,300		8,945	16	(5)
	01/2018	$	3,134	BRL	10,371	1	(8)
	01/2018		4,606	DKK	28,910	53	0
	01/2018		538	GBP	400	2	0
	02/2018	ILS	6,796	$	1,922	0	(34)
	02/2018	$	581	ARS	10,770	0	(15)
	02/2018		3,101	BRL	10,371	16	0
	04/2018	DKK	1,170	$	179	0	(11)
	04/2018	EUR	4,300		5,034	0	(163)
	04/2018	$	675	KRW	766,732	44	0
HUS	01/2018	ARS	2,450	$	133	3	0
	02/2018	PLN	6,526		1,790	0	(85)
	08/2018	$	133	ARS	2,752	0	(2)
JPM	01/2018	AUD	4,415	$	3,367	0	(78)
	01/2018	CAD	508		395	0	(10)
	01/2018	CHF	604		617	0	(4)
	01/2018	DKK	3,485		556	0	(5)
	01/2018	EUR	2,000		2,359	0	(44)
	01/2018	JPY	2,652,300		23,710	152	0
	01/2018	NOK	1,955		236	0	(3)
	01/2018	NZD	1,331		911	0	(32)
	01/2018	SEK	2,070		247	0	(5)
	01/2018	$	4,894	DKK	30,815	72	0
	01/2018		3,568	EUR	2,994	26	0
	01/2018		2,549	SEK	21,460	68	0
	01/2018		1,112	TRY	4,441	52	0

Counterparty	Settlement Month	Currency to be Delivered		Currency to be Received		Unrealized Appreciation/ (Depreciation) Asset	Unrealized Appreciation/ (Depreciation) Liability
	02/2018	ILS	1,983	$	564	$ 0	$ (7)
	04/2018	KRW	940,788		837	0	(46)
	04/2018	$	588	DKK	3,635	1	0
	04/2018		720	KRW	811,296	41	0
MSB	01/2018		348	GBP	260	3	0
	02/2018	JPY	310,000	$	2,736	0	(20)
	03/2018		190,000		1,702	11	0
	08/2018	$	18	ARS	371	0	0
NAB	01/2018		96	CHF	95	1	0
NGF	03/2018		3,270	INR	214,921	76	0
RBC	04/2018	EUR	4,208	$	4,919	0	(167)
RYL	05/2018	SEK	170,010		20,750	0	(170)
SCX	01/2018	IDR	14,287,700		1,043	0	(12)
	01/2018	$	2,244	IDR	30,515,439	10	0
SOG	01/2018	CAD	17,737	$	13,873	0	(240)
	08/2018	$	20	ARS	418	0	0
SSB	04/2018		236	DKK	1,500	7	0
UAG	01/2018	GBP	19,710	$	26,235	0	(382)
	01/2018	JPY	290,000		2,567	0	(8)
	01/2018	$	1,025	DKK	6,450	14	0
	01/2018		1,342	JPY	150,900	0	(2)
	03/2018	JPY	580,000	$	5,203	39	0
	03/2018	KRW	1,316,141		1,174	0	(60)
	04/2018	EUR	4,208		4,934	0	(152)
	04/2018	KRW	765,990		675	0	(44)
Total Forward Foreign Currency Contracts						**$ 1,210**	**$ (5,333)**

PURCHASED OPTIONS:

FOREIGN CURRENCY OPTIONS

Counterparty	Description	Strike Price	Expiration Date	Notional Amount	Cost	Market Value
BOA	Call - OTC USD versus JPY	JPY 120.000	04/17/2020	$ 1,629	$ 30	$ 20
DUB	Call - OTC USD versus JPY	120.000	04/17/2020	1,264	23	16
GLM	Call - OTC USD versus JPY	120.000	04/20/2020	1,961	36	24
					$ 89	$ 60

INTEREST RATE SWAPTIONS

Counterparty	Description	Floating Rate Index	Pay/Receive Floating Rate	Exercise Rate	Expiration Date	Notional Amount	Cost	Market Value
GLM	Put - OTC 1-Year Interest Rate Swap	3-Month USD-LIBOR	Receive	2.400%	03/14/2018	$ 20,500	$ 18	$ 0
MYC	Put - OTC 1-Year Interest Rate Swap	3-Month USD-LIBOR	Receive	2.400	03/14/2018	104,500	87	0
							$ 105	$ 0
Total Purchased Options							**$ 194**	**$ 60**

WRITTEN OPTIONS:

FOREIGN CURRENCY OPTIONS

Counterparty	Description	Strike Price	Expiration Date	Notional Amount	Premiums (Received)	Market Value
BPS	Put - OTC USD versus KRW	KRW 1,075.000	04/25/2018	$ 345	$ (7)	$ (9)
CBK	Put - OTC GBP versus USD	$ 1.295	05/04/2018	GBP 3,829	(39)	(23)
FBF	Call - OTC USD versus BRL	BRL 6.300	01/11/2018	$ 600	(32)	0
GLM	Put - OTC CAD versus JPY	JPY 76.700	06/19/2018	CAD 2,200	(29)	(3)
	Call - OTC USD versus BRL	BRL 3.892	07/02/2018	$ 1,400	(135)	(11)
	Put - OTC USD versus BRL	3.892	07/02/2018	1,400	(135)	(222)
	Put - OTC USD versus KRW	KRW 1,075.000	04/20/2018	1,961	(36)	(49)
JPM	Put - OTC USD versus KRW	1,075.000	04/25/2018	2,144	(44)	(55)
					$ (457)	$ (372)

OPTIONS ON SECURITIES

Counterparty	Description	Strike Price	Expiration Date	Notional Amount	Premiums (Received)	Market Value
FBF	Put - OTC Fannie Mae, TBA 3.500% due 02/01/2048	$ 102.125	02/06/2018	$ 5,600	$ (13)	$ (10)
	Call - OTC Fannie Mae, TBA 3.500% due 02/01/2048	103.125	02/06/2018	5,600	(11)	(6)
JPM	Put - OTC Fannie Mae, TBA 3.500% due 02/01/2048	102.078	02/06/2018	5,700	(13)	(9)
	Call - OTC Fannie Mae, TBA 3.500% due 02/01/2048	103.078	02/06/2018	5,700	(11)	(7)
					$ (48)	$ (32)
Total Written Options					**$ (505)**	**$ (404)**

SWAP AGREEMENTS:

CREDIT DEFAULT SWAPS ON CORPORATE AND SOVEREIGN ISSUES - BUY PROTECTION(1)

Counterparty	Reference Entity	Fixed (Pay) Rate	Payment Frequency	Maturity Date	Implied Credit Spread at December 31, 2017(3)	Notional Amount(4)	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value Asset	Swap Agreements, at Value Liability
BOA	Japan Government International Bond	(1.000)%	Quarterly	06/20/2022	0.231%	$ 200	$ (7)	$ 0	$ 0	$ (7)
BPS	Japan Government International Bond	(1.000)	Quarterly	06/20/2022	0.231	1,700	(61)	4	0	(57)
BRC	Japan Government International Bond	(1.000)	Quarterly	06/20/2022	0.231	1,200	(41)	1	0	(40)
	Springleaf Finance Corp.	(5.000)	Quarterly	06/20/2020	1.285	400	(38)	2	0	(36)
CBK	Japan Government International Bond	(1.000)	Quarterly	06/20/2022	0.231	1,000	(35)	2	0	(33)
GST	Japan Government International Bond	(1.000)	Quarterly	06/20/2022	0.231	1,700	(60)	3	0	(57)
							$ (242)	$ 12	$ 0	$ (230)

CREDIT DEFAULT SWAPS ON CORPORATE AND SOVEREIGN ISSUES - SELL PROTECTION(2)

Counterparty	Reference Entity	Fixed Receive Rate	Payment Frequency	Maturity Date	Implied Credit Spread at December 31, 2017(3)	Notional Amount(4)	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value Asset	Swap Agreements, at Value Liability
CBK	Shire Acquisitions Investments Ireland DAC «	1.000%	Quarterly	12/20/2021	1.079%	EUR 200	$ (7)	$ 6	$ 0	$ (1)
GST	Brazil Government International Bond	1.000	Quarterly	06/20/2022	1.442	$ 100	(6)	4	0	(2)
	Brazil Government International Bond	1.000	Quarterly	12/20/2022	1.605	100	(5)	2	0	(3)
HUS	Brazil Government International Bond	1.000	Quarterly	03/20/2018	0.373	1,900	4	(1)	3	0
	Brazil Government International Bond	1.000	Quarterly	12/20/2021	1.238	200	(13)	12	0	(1)
							$ (27)	$ 23	$ 3	$ (7)

CREDIT DEFAULT SWAPS ON CREDIT INDICES - BUY PROTECTION(1)

Counterparty	Index/Tranches	Fixed (Pay) Rate	Payment Frequency	Maturity Date	Notional Amount(4)	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value(5) Asset	Swap Agreements, at Value(5) Liability
BPS	iTraxx Europe Subordinated 27 5-Year Index	(1.000)%	Quarterly	06/20/2022	EUR 1,400	$ 73	$ (88)	$ 0	$ (15)

CROSS-CURRENCY SWAPS

Counterparty	Receive	Pay	Payment Frequency	Maturity Date(6)	Notional Amount of Currency Received	Notional Amount of Currency Delivered	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value Asset	Swap Agreements, at Value Liability
BPS	Floating rate equal to 3-Month AUD-LIBOR plus 0.362% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	Maturity	09/26/2027	AUD 2,600	$ 2,061	$ 9	$ (41)	$ 0	$ (32)
	Floating rate equal to 3-Month AUD-LIBOR plus 0.368% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	Maturity	10/05/2027	1,500	1,182	(4)	(7)	0	(11)

Counterparty	Receive	Pay	Payment Frequency	Maturity Date(6)	Notional Amount of Currency Received	Notional Amount of Currency Delivered	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value Asset	Liability
CBK	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	Maturity	03/21/2020	GBP 11,100	$ 13,575	$ (39)	$ 1,440	$ 1,401	$ 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	Maturity	03/21/2020	2,000	2,640	(6)	64	58	0
DUB	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	Maturity	10/13/2026	800	976	(1)	102	101	0
GLM	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	Maturity	03/21/2020	10,900	13,331	(21)	1,397	1,376	0
MYC	Floating rate equal to 3-Month AUD-LIBOR plus 0.368% based on the notional amount of currency received	Floating rate equal to 3-Month USD-LIBOR based on the notional amount of currency delivered	Maturity	10/06/2027	AUD 504	394	2	(3)	0	(1)
RYL	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	Maturity	10/13/2026	GBP 1,000	1,220	29	97	126	0
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	Maturity	03/21/2020	2,600	3,180	(15)	343	328	0
TOR	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	Maturity	03/21/2020	8,000	10,560	1	233	234	0
							$ (45)	$ 3,625	$ 3,624	$ (44)

INTEREST RATE SWAPS

Counterparty	Pay/Receive Floating Rate	Floating Rate Index	Fixed Rate	Payment Frequency	Maturity Date	Notional Amount	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value Asset	Liability
JPM	Receive	3-Month KRW-KORIBOR	1.993%	Quarterly	07/10/2027	KRW 3,206,400	$ 0	$ 50	$ 50	$ 0
SOG	Receive	3-Month KRW-KORIBOR	2.030	Quarterly	07/10/2027	2,933,300	0	37	37	0
							$ 0	$ 87	$ 87	$ 0

VOLATILITY SWAPS

Counterparty	Pay/Receive Volatility	Reference Entity	Volatility Strike	Payment Frequency	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	6.800%	Maturity	06/24/2019	$ 3	$ 0	$ 2	$ 2	$ 0
	Pay	EUR versus CHF 1-Year ATM Realized Volatility	6.750	Maturity	06/26/2019	5	0	2	2	0
	Receive	USD versus CHF 1-Year ATM Realized Volatility	9.000	Maturity	06/24/2019	3	0	(3)	0	(3)
	Receive	USD versus CHF 1-Year ATM Realized Volatility	9.000	Maturity	06/26/2019	5	0	(6)	0	(6)
							$ 0	$ (5)	$ 4	$ (9)
Total Swap Agreements							**$ (241)**	**$ 3,654**	**$ 3,718**	**$ (305)**

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, 2017:

	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[7]**
BOA	$ 221	$ 20	$ 0	$ 241	$ (987)	$ 0	$ (7)	$ (994)	$ (753)	$ 639	$ (114)
BPS	6	0	0	6	(1,628)	(9)	(115)	(1,752)	(1,746)	1,582	(164)
BRC	87	0	0	87	0	0	(76)	(76)	11	0	11
CBK	148	0	1,459	1,607	(200)	(23)	(34)	(257)	1,350	253	1,603
DUB	40	16	105	161	(78)	0	(9)	(87)	74	0	74
FBF	0	0	0	0	(5)	(16)	0	(21)	(21)	0	(21)
GLM	132	24	1,376	1,532	(857)	(285)	0	(1,142)	390	752	1,142
GST	0	0	0	0	0	0	(62)	(62)	(62)	0	(62)
HUS	3	0	3	6	(87)	0	(1)	(88)	(82)	0	(82)
JPM	412	0	50	462	(234)	(71)	0	(305)	157	(270)	(113)
MSB	14	0	0	14	(20)	0	0	(20)	(6)	0	(6)
MYC	0	0	0	0	0	0	(1)	(1)	(1)	(20)	(21)
NAB	1	0	0	1	0	0	0	0	1	0	1
NGF	76	0	0	76	0	0	0	0	76	0	76
RBC	0	0	0	0	(167)	0	0	(167)	(167)	0	(167)
RYL	0	0	126	126	(170)	0	0	(170)	(44)	(300)	(344)
SCX	10	0	0	10	(12)	0	0	(12)	(2)	0	(2)
SOG	0	0	365	365	(240)	0	0	(240)	125	0	125
SSB	7	0	0	7	0	0	0	0	7	0	7
TOR	0	0	234	234	0	0	0	0	234	21	255
UAG	53	0	0	53	(648)	0	0	(648)	(595)	460	(135)
Total Over the Counter	**$ 1,210**	**$ 60**	**$ 3,718**	**$ 4,988**	**$ (5,333)**	**$ (404)**	**$ (305)**	**$ (6,042)**			

(m) Securities with an aggregate market value of $3,707 have been pledged as collateral for financial derivative instruments as governed by International Swaps and Derivatives Association, Inc. master agreements as of December 31, 2017.

(1) If the Portfolio is a buyer of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Portfolio will either (i) receive from the seller of protection an amount equal to the notional amount of the swap and deliver the referenced obligation or underlying securities comprising the referenced index or (ii) receive a net settlement amount in the form of cash, 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) 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.

(3) Implied credit spreads, represented in absolute terms, utilized in determining the market value of credit default swap agreements on corporate or sovereign issues as of period end serve as indicators of the current status of the payment/performance risk and represent the likelihood or risk of default for the credit derivative. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to be made to enter into the agreement. Wider credit spreads represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

(4) The maximum potential amount the Portfolio could be required to pay as a seller of credit protection or receive as a buyer of credit protection if a credit event occurs as defined under the terms of that particular swap agreement.

(5) The prices and resulting values for credit default swap agreements on credit indices serve as indicators 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.

(6) At the maturity date, the notional amount of the currency received will be exchanged back for the notional amount of the currency delivered.

(7) Net Exposure represents the net receivable/(payable) that would be due from/to the counterparty in the event of default. Exposure from OTC financial derivative instruments can only be netted across transactions governed under the same master agreement with the same legal entity. See Note 8, Master Netting Arrangements, 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, 2017:

	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	$ 33	$ 33
Futures	0	0	0	0	313	313
Swap Agreements	0	11	0	0	142	153
	$ 0	$ 11	$ 0	$ 0	$ 488	$ 499
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 1,210	$ 0	$ 1,210
Purchased Options	0	0	0	60	0	60
Swap Agreements	0	3	0	3,628	87	3,718
	$ 0	$ 3	$ 0	$ 4,898	$ 87	$ 4,988
	$ 0	$ 14	$ 0	$ 4,898	$ 575	$ 5,487
Financial Derivative Instruments - Liabilities						
Exchange-traded or centrally cleared						
Written Options	$ 0	$ 0	$ 0	$ 0	$ 2	$ 2
Futures	0	0	0	0	210	210
Swap Agreements	0	18	0	0	382	400
	$ 0	$ 18	$ 0	$ 0	$ 594	$ 612
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 5,333	$ 0	$ 5,333
Written Options	0	0	0	372	32	404
Swap Agreements	0	252	0	53	0	305
	$ 0	$ 252	$ 0	$ 5,758	$ 32	$ 6,042
	$ 0	$ 270	$ 0	$ 5,758	$ 626	$ 6,654

The effect of Financial Derivative Instruments on the Statement of Operations for the period ended December 31, 2017:

	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	$ (7)	$ (7)
Written Options	0	0	0	0	24	24
Futures	0	0	0	0	3,256	3,256
Swap Agreements	0	(1,846)	0	0	3,602	1,756
	$ 0	$ (1,846)	$ 0	$ 0	$ 6,875	$ 5,029
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 2,995	$ 0	$ 2,995
Purchased Options	0	0	0	(107)	65	(42)
Written Options	0	0	0	404	(377)	27
Swap Agreements	0	(283)	0	705	35	457
	$ 0	$ (283)	$ 0	$ 3,997	$ (277)	$ 3,437
	$ 0	$ (2,129)	$ 0	$ 3,997	$ 6,598	$ 8,466

	Commodity Contracts	Credit Contracts	Equity Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Total
	Derivatives not accounted for as hedging instruments					
Net Change in Unrealized Appreciation (Depreciation) on Financial Derivative Instruments						
Exchange-traded or centrally cleared						
Purchased Options	$ 0	$ 0	$ 0	$ 0	$ 12	$ 12
Written Options	0	0	0	0	25	25
Futures	0	0	0	0	(1,124)	(1,124)
Swap Agreements	0	(1,247)	0	0	(4,556)	(5,803)
	$ 0	$ (1,247)	$ 0	$ 0	$ (5,643)	$ (6,890)
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ (22,003)	$ 0	$ (22,003)
Purchased Options	0	0	0	(30)	(279)	(309)
Written Options	0	0	0	(167)	473	306
Swap Agreements	0	(79)	0	6,336	14	6,271
	$ 0	$ (79)	$ 0	$ (15,864)	$ 208	$ (15,735)
	$ 0	$ (1,326)	$ 0	$ (15,864)	$ (5,435)	$ (22,625)

FAIR VALUE MEASUREMENTS

The following is a summary of the fair valuations according to the inputs used as of December 31, 2017 in valuing the Portfolio's assets and liabilities:

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 12/31/2017
Investments in Securities, at Value				
Argentina				
Sovereign Issues	$ 0	$ 1,672	$ 0	$ 1,672
Australia				
Corporate Bonds & Notes	0	309	0	309
Sovereign Issues	0	113	0	113
Belgium				
Corporate Bonds & Notes	0	1,811	0	1,811
Brazil				
Corporate Bonds & Notes	0	3,165	0	3,165
Canada				
Corporate Bonds & Notes	0	8,411	0	8,411
Non-Agency Mortgage-Backed Securities	0	767	0	767
Sovereign Issues	0	11,778	0	11,778
Cayman Islands				
Asset-Backed Securities	0	18,416	0	18,416
Corporate Bonds & Notes	0	497	0	497
Denmark				
Corporate Bonds & Notes	0	41,184	0	41,184
France				
Corporate Bonds & Notes	0	7,125	0	7,125
Sovereign Issues	0	10,678	0	10,678
Germany				
Corporate Bonds & Notes	0	3,348	0	3,348
Guernsey, Channel Islands				
Corporate Bonds & Notes	0	826	0	826
Ireland				
Asset-Backed Securities	0	3,246	0	3,246
Corporate Bonds & Notes	0	2,978	0	2,978
Sovereign Issues	0	2,737	0	2,737
Italy				
Asset-Backed Securities	0	225	0	225
Corporate Bonds & Notes	0	2,761	0	2,761
Non-Agency Mortgage-Backed Securities	0	50	0	50
Sovereign Issues	0	19,683	0	19,683
Japan				
Corporate Bonds & Notes	0	5,216	0	5,216
Sovereign Issues	0	15,674	0	15,674
Jersey, Channel Islands				
Corporate Bonds & Notes	0	1,118	0	1,118
Kuwait				
Sovereign Issues	0	3,747	0	3,747
Luxembourg				
Corporate Bonds & Notes	0	2,831	0	2,831

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 12/31/2017
Multinational				
Corporate Bonds & Notes	$ 0	$ 923	$ 0	$ 923
Netherlands				
Asset-Backed Securities	0	1,708	0	1,708
Corporate Bonds & Notes	0	11,742	0	11,742
Norway				
Corporate Bonds & Notes	0	1,097	0	1,097
Sovereign Issues	0	240	0	240
Peru				
Sovereign Issues	0	1,180	0	1,180
Poland				
Sovereign Issues	0	1,881	0	1,881
Portugal				
Corporate Bonds & Notes	0	181	0	181
Qatar				
Corporate Bonds & Notes	0	429	0	429
Saudi Arabia				
Sovereign Issues	0	5,885	0	5,885
Singapore				
Corporate Bonds & Notes	0	1,266	0	1,266
Slovenia				
Sovereign Issues	0	6,282	0	6,282
South Korea				
Corporate Bonds & Notes	0	391	0	391
Spain				
Corporate Bonds & Notes	0	3,572	0	3,572
Sovereign Issues	0	16,470	0	16,470
Supranational				
Corporate Bonds & Notes	0	613	0	613
Sweden				
Corporate Bonds & Notes	0	29,018	0	29,018
Switzerland				
Corporate Bonds & Notes	0	6,554	0	6,554
Sovereign Issues	0	464	0	464
United Arab Emirates				
Corporate Bonds & Notes	0	496	0	496
Sovereign Issues	0	1,373	0	1,373
United Kingdom				
Corporate Bonds & Notes	0	22,744	0	22,744
Non-Agency Mortgage-Backed Securities	0	8,501	0	8,501
Sovereign Issues	0	13,543	0	13,543
United States				
Asset-Backed Securities	0	27,083	0	27,083
Corporate Bonds & Notes	0	70,417	0	70,417

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 12/31/2017
Loan Participations and Assignments	$ 0	$ 1,075	$ 298	$ 1,373
Municipal Bonds & Notes	0	146	0	146
Non-Agency Mortgage-Backed Securities	0	7,765	28	7,793
Preferred Securities	23	0	0	23
U.S. Government Agencies	0	45,903	0	45,903
U.S. Treasury Obligations	0	15,796	0	15,796
Short-Term Instruments				
Certificates of Deposit	0	2,302	0	2,302
Repurchase Agreements	0	2,118	0	2,118
Argentina Treasury Bills	0	2,755	0	2,755
Italy Treasury Bills	0	29,911	0	29,911
Japan Treasury Bills	0	43,671	0	43,671
U.S. Treasury Bills	0	965	0	965
	$ 23	$ 556,826	$ 326	$ 557,175
Investments in Affiliates, at Value				
Short-Term Instruments				
Central Funds Used for Cash Management Purposes	$ 18,448	$ 0	$ 0	$ 18,448
Total Investments	$ 18,471	$ 556,826	$ 326	$ 575,623

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 12/31/2017
Financial Derivative Instruments - Assets				
Exchange-traded or centrally cleared	$ 346	$ 153	$ 0	$ 499
Over the counter	0	4,988	0	4,988
	$ 346	$ 5,141	$ 0	$ 5,487
Financial Derivative Instruments - Liabilities				
Exchange-traded or centrally cleared	(212)	(400)	0	(612)
Over the counter	0	(6,041)	(1)	(6,042)
	$ (212)	$ (6,441)	$ (1)	$ (6,654)
Total Financial Derivative Instruments	$ 134	$ (1,300)	$ (1)	$ (1,167)
Totals	$ 18,605	$ 555,526	$ 325	$ 574,456

There were no significant transfers among Levels 1, 2, or 3 during the period ended December 31, 2017.

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, if any, are recorded as components of interest income on the Statement of Operations. Income or short-term capital gain distributions received from registered investment companies, if any, are recorded as dividend income. Long-term capital gain distributions received from registered investment companies, if any, 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 the Portfolio estimates that a portion of one of its dividend distributions may be comprised of amounts from sources other than net investment income in accordance with its policies and good accounting practices, the Portfolio will notify shareholders of record of the estimated composition of such distribution through a Section 19 Notice. For these purposes, the Portfolio estimates the source or sources from which a distribution is paid, to the close of the period as of which it is paid, in reference to its internal accounting records and related accounting practices. If, based on such accounting records and practices, it is estimated that 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 the Portfolio's daily internal accounting records and practices, the Portfolio's financial statements presented in accordance with U.S. GAAP, and recordkeeping practices under income tax regulations. For instance, the Portfolio's internal accounting records and practices may take into account, among other factors, tax-related characteristics of certain sources of distributions that differ from treatment under U.S. GAAP. 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. Accordingly, among other consequences, it is possible that the 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 and/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. 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 March 2016, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU"), ASU 2016-05, which provides guidance related to the impact of derivative contract novations on certain relationships under Accounting Standards Codification ("ASC") 815. The ASU is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Portfolio has adopted the ASU. The implementation of 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 require standardized, enhanced disclosure about derivatives in investment company financial statements, and also change the rules governing the form and content of such financial statements. The compliance date for these amendments was August 1, 2017. Compliance is based on reporting period-end date. Management has adopted these amendments and the changes are incorporated in the financial statements.

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.

In March 2017, the FASB issued ASU 2017-08 which provides guidance related to the amortization period for certain purchased callable debt securities held at a premium. The ASU is effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods. The Portfolio has adopted the ASU. The implementation of the ASU did not have an impact on the Portfolio's 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 as of which its NAV is calculated if the Portfolio closes earlier, or as permitted by the SEC.

For purposes of calculating a 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. If market value pricing is used, 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. The Portfolio's investments in open-end management investment companies, other than exchange-traded funds ("ETFs"), are valued at the NAVs of such investments. Open-end management investment companies may include affiliated funds.

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 foreign (non-U.S.) securities. For these purposes, any movement in the applicable reference index or instrument ("zero trigger") between the earlier close of the applicable foreign market and the NYSE Close may be deemed to be a significant event, prompting the application of the pricing model (effectively resulting in daily fair valuations). 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 the 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 the Portfolio could obtain for a security if it were to dispose of that security as of the time of pricing (for instance, in a forced or distressed sale). The prices used by the Portfolio may differ from the value that would be realized if the securities were sold. 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.

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 (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.

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 value of such short-term debt instruments is approximately the same as the fair value of the instrument as determined without the use of amortized cost valuation. These securities are categorized as Level 2 or Level 3 of the fair value hierarchy depending on the source of the base price.

4. SECURITIES AND OTHER INVESTMENTS

(a) Investments in Affiliates

The Portfolio may invest in the PIMCO Short Asset Portfolio and the PIMCO Short-Term Floating NAV Portfolio III ("Central Funds") to the extent permitted by the Act and rules thereunder. The Central Funds are registered investment companies created for use solely by the series of the Trust and other series of registered investment companies advised by the Adviser, in connection with their cash management activities. The main investments of the Central Funds are money market and short maturity fixed income instruments. The Central Funds may incur expenses related to their investment activities, but do not pay Investment Advisory Fees or Supervisory and Administrative Fees to the Adviser. The Central Funds are considered to be affiliated with the Portfolio. The tables below show the Portfolio's transactions in and earnings from investments in the affiliated Funds for the period ended December 31, 2017 (amounts in thousands†):

Investment in PIMCO Short Asset Portfolio

Market Value 12/31/2016	Purchases at Cost	Proceeds from Sales	Net Realized Gain (Loss)	Change in Unrealized Appreciation (Depreciation)	Market Value 12/31/2017	Dividend Income(1)	Realized Net Capital Gain Distributions(1)
$ 0	$ 10,786	$ 0	$ 0	$ (9)	$ 10,777	$ 34	$ 3

Investment in PIMCO Short-Term Floating NAV Portfolio III

Market Value 12/31/2016	Purchases at Cost	Proceeds from Sales	Net Realized Gain (Loss)	Change in Unrealized Appreciation (Depreciation)	Market Value 12/31/2017	Dividend Income(1)	Realized Net Capital Gain Distributions(1)
$ 3,588	$ 176,288	$ (172,200)	$ (5)	$ 0	$ 7,671	$ 87	$ 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 and may contain a return of capital. The actual tax characterization of distributions received is determined at the end of the fiscal year of the affiliated fund. See Note 2, Distributions to Shareholders, in the Notes to Financial Statements for more information.

(b) Investments in Securities

The Portfolio may utilize the investments and strategies described below to the extent permitted by the Portfolio's investment policies.

Delayed-Delivery 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 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 are 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, 2017, the Portfolio had no unfunded loan commitments outstanding.

Mortgage-Related and Other Asset-Backed Securities 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.

Securities Issued by U.S. Government Agencies or Government-Sponsored Enterprises 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.

Roll-timing strategies can be used where the Portfolio seeks to extend the expiration or maturity of a position, such as a TBA security on an underlying asset, by closing out the position before expiration and opening a new position with respect to substantially 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 are purchases or sales made 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 Portfolio may enter into the borrowings and other financing transactions described below to the extent permitted by the Portfolio's investment policies.

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.

(a) 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. In an open maturity repurchase agreement, there is no pre-determined repurchase date and the agreement can be terminated by the Portfolio or counterparty at any 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 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. In an open maturity reverse repurchase agreement, there is no pre-determined repurchase date and the agreement can be terminated by the Portfolio or counterparty at any time. 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 A sale-buyback financing 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 Portfolio may enter into the financial derivative instruments described below to the extent permitted by the Portfolio's investment policies.

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 may be engaged, 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 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 are agreements to buy or sell a security or other asset for a set price on a future date. 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 may be written or purchased 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.

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 may be written or purchased to be used as a short or long hedge against possible variations in foreign exchange rates or to gain exposure to foreign currencies. Purchasing foreign currency options gives the Portfolio the right, but not the obligation to buy or sell specified amounts of currency at a rate of exchange that may be exercised by a certain date.

Interest Rate-Capped Options may be written or purchased 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 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 ("Futures Option") may be written or purchased 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 may be written or purchased to enhance returns or to hedge an existing position or future investment. An option on a security uses a specified security as the underlying instrument for the option contract.

Straddle Options ("Straddle") are investment strategies that use 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 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. Centrally Cleared and 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 gain (loss) 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 in general better reflects the Portfolio's actual economic exposure during the term of the credit default swap agreement. As a result, the Portfolio may, at times, have notional exposure to an asset class (before netting) that is greater or lesser than the stated limit or restriction noted in the Portfolio's prospectus. 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 or the values of the asset upon which the swap is based.

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.

To the extent the Portfolio has a policy to limit the net amount owed to or to be received from a single counterparty under existing swap agreements, such limitation only applies to counterparties to OTC swaps and does not apply to centrally cleared swaps where the counterparty is a central counterparty or derivatives clearing organization.

Credit Default Swap Agreements on corporate, loan, sovereign, U.S. municipal or U.S. Treasury issues are entered into 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 are entered into 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 may be entered into to help hedge against interest rate risk exposure and to maintain the Portfolio's ability to generate income at prevailing market rates. 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 are also known as forward volatility agreements and volatility swaps and are agreements in which 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

The principal risks of investing in the Portfolio, which could adversely affect its net asset value, yield and total return, are listed below. Please see "Description of Principal Risks" in the Portfolio's prospectus for a more detailed description of the risks of investing in the Portfolio.

Interest Rate Risk is the risk that fixed income securities will decline in value because of an increase in interest rates; a portfolio with a longer average portfolio duration will be more sensitive to changes in interest rates than a portfolio with a shorter average portfolio duration.

Call Risk is the risk that an issuer may exercise its right to redeem a fixed income security earlier than expected (a call). Issuers may call outstanding securities prior to their maturity for a number of reasons (*e.g.*, declining interest rates, changes in credit spreads and improvements in the issuer's credit quality). If an issuer calls a security that the Portfolio has invested in, the Portfolio may not recoup the full amount of its initial investment and may be forced to reinvest in lower-yielding securities, securities with greater credit risks or securities with other, less favorable features.

Credit Risk is the risk that the Portfolio could lose money if the issuer or guarantor of a fixed income security, or the counterparty to a derivative contract, is unable or unwilling to meet its financial obligations.

High Yield Risk is the risk that high yield securities and unrated securities of similar credit quality (commonly known as "junk bonds") are subject to greater levels of credit, call and liquidity risks. High yield securities are considered primarily speculative with respect to the issuer's continuing ability to make principal and interest payments, and may be more volatile than higher-rated securities of similar maturity.

Market Risk is the risk that the value of securities owned by the Portfolio may go up or down, sometimes rapidly or unpredictably, due to factors affecting securities markets generally or particular industries.

Issuer Risk is the risk that the value of a security may decline for a reason directly related to the issuer, such as management performance, financial leverage and reduced demand for the issuer's goods or services.

Liquidity Risk is the risk that a particular investment may be difficult to purchase or sell and that the Portfolio may be unable to sell illiquid securities at an advantageous time or price or achieve its desired level of exposure to a certain sector. Liquidity risk may result from the lack of an active market, reduced number and capacity of traditional market participants to make a market in fixed income securities, and may be magnified in a rising interest rate environment or other circumstances where investor redemptions from fixed income mutual funds may be higher than normal, causing increased supply in the market due to selling activity.

Derivatives Risk is the risk of investing in derivative instruments (such as futures, swaps and structured securities), including leverage, liquidity, interest rate, market, credit and management risks, mispricing or valuation complexity. Changes in the value of the derivative may not correlate perfectly with, and may be more sensitive to market events than, the underlying asset, rate or index, and the Portfolio could lose more than the initial amount invested. The Portfolio's use of derivatives may result in losses to the Portfolio, a reduction in the Portfolio's returns and/or increased volatility. Over-the-counter ("OTC") derivatives are also 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 derivatives. 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. 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 of derivatives and the Portfolio's performance.

Equity Risk is the risk that the value of equity securities, such as common stocks and preferred stocks, may decline due to general market conditions which are not specifically related to a particular company or to factors affecting a particular industry or industries. Equity securities generally have greater price volatility than fixed income securities.

Mortgage-Related and Other Asset-Backed Securities Risk is the risk of investing in mortgage-related and other asset-backed securities, including interest rate risk, extension risk, prepayment risk and credit risk.

Foreign (Non-U.S.) Investment Risk is the risk that investing in foreign (non-U.S.) securities may result in the Portfolio experiencing more rapid and extreme changes in value than a portfolio that invests exclusively in securities of U.S. companies, due to smaller markets, differing reporting, accounting and auditing standards, increased risk of delayed settlement of portfolio transactions or loss of certificates of portfolio securities, and the risk of unfavorable foreign government actions, including nationalization, expropriation or confiscatory taxation, currency blockage, or political changes or diplomatic developments. Foreign securities may also be less liquid and more difficult to value than securities of U.S. issuers.

Emerging Markets Risk is the risk of investing in emerging market securities, primarily increased foreign (non-U.S.) investment risk.

Sovereign Debt Risk is the risk that investments in fixed income instruments issued by sovereign entities may decline in value as a result of default or other adverse credit event resulting from an issuer's inability or unwillingness to make principal or interest payments in a timely fashion.

Currency Risk is the risk that foreign (non-U.S.) currencies will decline in value relative to the U.S. dollar and affect the Portfolio's investments in foreign (non-U.S.) currencies or in securities that trade in, and receive revenues in, or in derivatives that provide exposure to, foreign (non-U.S.) currencies.

Issuer Non-Diversification Risk is the risk of focusing investments in a small number of issuers, including being more susceptible to risks associated with a single economic, political or regulatory occurrence than a more diversified portfolio might be. Portfolios that are "non-diversified" may invest a greater percentage of their assets in the securities of a single issuer (such as bonds issued by a particular state) than portfolios that are "diversified".

Leveraging Risk is the risk that certain transactions of the Portfolio, such as reverse repurchase agreements, loans of portfolio securities, and the use of when-issued, delayed delivery or forward commitment transactions, or derivative instruments, may give rise to leverage, magnifying gains and losses and causing the Portfolio to be more volatile than if it had not been leveraged. This means that leverage entails a heightened risk of loss.

Management Risk is the risk that the investment techniques and risk analyses applied by PIMCO will not produce the desired results and that legislative, regulatory, or tax restrictions, policies or developments may affect the investment techniques available to PIMCO and the individual portfolio manager in connection with managing the Portfolio. There is no guarantee that the investment objective of the Portfolio will be achieved.

Short Sale Risk is the risk of entering into short sales, including the potential loss of more money than the actual cost of the investment, and the risk that the third party to the short sale will not fulfill its contractual obligations, causing a loss to the Portfolio.

8. 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 are disclosed in the Notes to Schedule of Investments.

International Swaps and Derivatives Association, Inc. Master Agreements and Credit Support Annexes ("ISDA Master Agreements") govern 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.

9. 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 as noted in the table in note (b) below.

(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 Investment Advisory Fee and Supervisory and Administrative Fees for all classes, as applicable, are 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):

Investment Advisory Fee	Supervisory and Administrative Fee		
All Classes	Institutional Class	Administrative Class	Advisor Class
0.25%	0.50%	0.50%	0.50%

(c) Distribution and Servicing Fees PIMCO Investments LLC, 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 $36,850, plus $3,800 for each Board meeting attended in person, $775 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 $6,000, the valuation oversight committee lead receives an additional annual retainer of $4,250 (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 $2,125) and the governance committee chair receives an additional annual retainer of $2,750. 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.

(e) Expense Limitation Pursuant to the Expense Limitation Agreement, PIMCO has agreed to waive a portion of the Portfolio's Supervisory and Administrative Fee, or reimburse the Portfolio, to the extent that the Portfolio's organizational expenses and pro rata share of Trustee Fees exceed 0.0049%, the "Expense Limit" (calculated as a percentage of the Portfolio's average daily net assets attributable to each class). The Expense Limitation Agreement will automatically renew for one-year terms unless PIMCO provides written notice to the Trust at least 30 days prior to the end of the then current term.

Under certain conditions, PIMCO may be reimbursed for these waived amounts in future periods, not to exceed thirty-six months after the waiver. At December 31, 2017, there were no recoverable amounts.

10. RELATED PARTY TRANSACTIONS

The Adviser, Administrator, and Distributor are related parties. Fees paid to these parties are disclosed in Note 9, 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, 2017, the Portfolio engaged in purchases and sales of securities pursuant to Rule 17a-7 under the Act (amounts in thousands):

Purchases	Sales
$ 9,401	$ 2,815

11. 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.

12. 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, 2017, were as follows (amounts in thousands):

U.S. Government/Agency		All Other	
Purchases	Sales	Purchases	Sales
$ 534,212	$ 536,562	$ 266,873	$ 123,829

13. SHARES OF BENEFICIAL INTEREST

The Trust 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 12/31/2017		Year Ended 12/31/2016	
	Shares	Amount	Shares	Amount
Receipts for shares sold				
Institutional Class	165	$ 1,831	196	$ 2,150
Administrative Class	2,644	29,459	2,022	22,276
Advisor Class	7,258	80,646	9,885	108,149
Issued as reinvestment of distributions				
Institutional Class	30	321	8	87
Administrative Class	335	3,626	109	1,200
Advisor Class	1,827	19,788	495	5,436
Cost of shares redeemed				
Institutional Class	(31)	(341)	(31)	(336)
Administrative Class	(1,700)	(18,862)	(3,226)	(35,243)
Advisor Class	(86)	(952)	(379)	(4,144)
Net increase (decrease) resulting from Portfolio share transactions	10,442	$ 115,516	9,079	$ 99,575

As of December 31, 2017, one shareholder owned 10% or more of the Portfolio's total outstanding shares comprising 84% of the Portfolio.

14. 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.

The foregoing speaks only as of the date of this report.

15. 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, 2017, 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. federal, state, and local tax returns as required. The Portfolio's tax returns are subject to examination by relevant tax authorities until expiration of the applicable statute of limitations, which is generally three years after the filing of the tax return but which can be extended to six years in certain circumstances. Tax returns for open years have incorporated no uncertain tax positions that require a provision for income taxes.

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, 2017, 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)	$ 0	$ 1,726	$ 1,765	$ 0	$ 0	$ 0	$ (2,655)

† 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, sale/buyback transactions, convertible preferred securities, straddle loss deferrals, and Lehman securities.
(3) Represents differences in income tax regulations and financial accounting principles generally accepted in the United States of America.
(4) Capital losses available to offset future net capital gains expire in varying amounts as shown below.
(5) Capital losses realized during the period November 1, 2017 through December 31, 2017 which the Portfolio elected to defer to the following taxable year pursuant to income tax regulations.
(6) Specified losses realized during the period November 1, 2017 through December 31, 2017 which the Portfolio elected to defer to the following taxable year pursuant to income tax regulations.

Under the Regulated Investment Company Modernization Act of 2010, a fund 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, 2017, the Portfolio had the following post-effective capital losses with no expiration (amounts in thousands†):

	Short-Term	Long-Term
PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)	$ 0	$ 0

† A zero balance may reflect actual amounts rounding to less than one thousand.

As of December 31, 2017, 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)	$ 569,752	$ 20,051	$ (14,436)	$ 5,615

† 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, unrealized gain or loss on certain futures, options and forward contracts, sale/buyback transactions, realized and unrealized gain (loss) swap contracts, straddle loss deferrals, and Lehman securities.

For the fiscal year ended December 31, 2017 and December 31, 2016, respectively, the Portfolio made the following tax basis distributions (amounts in thousands†):

	December 31, 2017			December 31, 2016		
	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)	$ 23,627	$ 108	$ 0	$ 6,724	$ 0	$ 0

† A zero balance may reflect actual amounts rounding to less than one thousand.
(8) Includes short-term capital gains distributed, if any.
(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 financial accounting to tax accounting.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of PIMCO Variable Insurance Trust and Shareholders of PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)

Opinion on the Financial Statements

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged) (one of the portfolios constituting PIMCO Variable Insurance Trust, referred to hereafter as the "Portfolio") as of December 31, 2017, the related statement of operations for the year ended December 31, 2017, the statement of changes in net assets for each of the two years in the period ended December 31, 2017, including the related notes, and the financial highlights for each of the periods indicated therein (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Portfolio as of December 31, 2017, 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 ended December 31, 2017 and the financial highlights for each of the periods indicated therein in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Portfolio's management. Our responsibility is to express an opinion on the Portfolio's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Portfolio in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our procedures included confirmation of securities owned as of December 31, 2017 by correspondence with the custodian, transfer agent and brokers; when replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
Kansas City, Missouri

February 16, 2018

We have served as the auditor of one or more investment companies in PIMCO Variable Insurance Trust since 1998.

Counterparty Abbreviations:

BOA	Bank of America N.A.	**GST**	Goldman Sachs International	**RBC**	Royal Bank of Canada
BOS	Banc of America Securities LLC	**HUS**	HSBC Bank USA N.A.	**RYL**	Royal Bank of Scotland Group PLC
BPS	BNP Paribas S.A.	**IND**	Crédit Agricole Corporate and Investment Bank S.A.	**SCX**	Standard Chartered Bank
BRC	Barclays Bank PLC	**JPM**	JPMorgan Chase Bank N.A.	**SOG**	Societe Generale
CBK	Citibank N.A.	**MSB**	Morgan Stanley Bank, N.A	**SSB**	State Street Bank and Trust Co.
DUB	Deutsche Bank AG	**MYC**	Morgan Stanley Capital Services, Inc.	**TOR**	Toronto Dominion Bank
FBF	Credit Suisse International	**MYI**	Morgan Stanley & Co. International PLC	**UAG**	UBS AG Stamford
FICC	Fixed Income Clearing Corporation	**NAB**	National Australia Bank Ltd.	**UBS**	UBS Securities LLC
GLM	Goldman Sachs Bank USA	**NGF**	Nomura Global Financial Products, Inc.		

Currency Abbreviations:

ARS	Argentine Peso	**IDR**	Indonesian Rupiah	**PEN**	Peruvian New Sol
AUD	Australian Dollar	**ILS**	Israeli Shekel	**PLN**	Polish Zloty
BRL	Brazilian Real	**INR**	Indian Rupee	**RUB**	Russian Ruble
CAD	Canadian Dollar	**JPY**	Japanese Yen	**SEK**	Swedish Krona
CHF	Swiss Franc	**KRW**	South Korean Won	**SGD**	Singapore Dollar
CNH	Chinese Renminbi (Offshore)	**MXN**	Mexican Peso	**TRY**	Turkish New Lira
DKK	Danish Krone	**NOK**	Norwegian Krone	**USD (or $)**	United States Dollar
EUR	Euro	**NZD**	New Zealand Dollar	**ZAR**	South African Rand
GBP	British Pound				

Exchange Abbreviations:

CBOE	Chicago Board Options Exchange	**CME**	Chicago Mercantile Exchange	**OTC**	Over the Counter

Index/Spread Abbreviations:

12MTA	12 Month Treasury Average	**COF 11**	Cost of Funds - 11th District of San Francisco	**LIBOR03M**	3 Month USD-LIBOR
ARPP7DRR	Argentina Central Bank 7 Day Repo Reference Rate	**CPI**	Consumer Price Index	**LIBOR12M**	12 Month USD-LIBOR
BADLARPP	Argentina Badlar Floating Rate Notes	**EUR003M**	3 Month EUR Swap Rate	**US0001M**	1 Month USD Swap Rate
BP0003M	3 Month GBP-LIBOR	**EUR006M**	6 Month EUR Swap Rate	**US0003M**	3 Month USD Swap Rate
CDX.HY	Credit Derivatives Index - High Yield	**H15T1Y**	1 Year US Treasury Yield Curve Constant Maturity Rate	**US0006M**	6 Month USD Swap Rate
CDX.IG	Credit Derivatives Index - Investment Grade	**LIBOR01M**	1 Month USD-LIBOR	**US0012M**	12 Month USD Swap Rate

Other Abbreviations:

ABS	Asset-Backed Security	**CLO**	Collateralized Loan Obligation	**NCUA**	National Credit Union Administration
ALT	Alternate Loan Trust	**DAC**	Designated Activity Company	**OAT**	Obligations Assimilables du Trésor
ATM	At-the-money	**EURIBOR**	Euro Interbank Offered Rate	**OIS**	Overnight Index Swap
BABs	Build America Bonds	**JIBAR**	Johannesburg Interbank Agreed Rate	**TBA**	To-Be-Announced
BBR	Bank Bill Rate	**KORIBOR**	Korea Interbank Offered Rate	**TIIE**	Tasa de Interés Interbancaria de Equilibrio "Equilibrium Interbank Interest Rate"
BTP	Buoni del Tesoro Poliennali	**LIBOR**	London Interbank Offered Rate	**YOY**	Year-Over-Year
CDI	Brazil Interbank Deposit Rate	**Lunar**	Monthly payment based on 28-day periods. One year consists of 13 periods.		

Federal Income Tax Information

As required by the Internal Revenue Code (the "Code") and Treasury Regulations, if applicable, shareholders must be notified 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 Fund's dividend distribution that qualifies under tax law. The percentage of the following Portfolio's fiscal 2017 ordinary income dividend that qualifies for the corporate dividend received deduction is set forth in the table below.

Qualified Dividend Income. Under the Jobs and Growth Tax Relief Reconciliation Act of 2003 (the "Act"), the percentage of ordinary dividends paid during the calendar year designated as "qualified dividend income", as defined in the Act, subject to reduced tax rates in 2017 is set forth for the Portfolio in the table below.

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 amounts of ordinary dividends paid during the fiscal year ended December 31, 2017 considered to be derived from "qualified interest income," as defined in Section 871(k)(1)(E) of the Code, and therefore designated as interest-related dividends, as defined in Section 871(k)(1)(C) of the Code are set forth in the table below. Further, the amounts of ordinary dividends paid during the fiscal year ended December 31, 2017 considered to be derived from "qualified short-term capital gain," as defined in Section 871(k)(2)(D) of the Code, and therefore designated as qualified short-term gain dividends, as defined by Section 871(k)(2)(C) of the Code are also set forth in the table below.

	Dividend Received Deduction %	Qualified Dividend Income %	Qualified Interest Income (000s†)	Qualified Short-Term Capital Gain (000s†)
PIMCO Foreign Bond Portfolio (U.S. Dollar-Hedged)	0.00%	0.00%	$ 23,627	$ 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 2018, 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 2017.

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[1]				
Brent R. Harris (1959) *Chairman of the Board and Trustee*	08/1997 to present	Managing Director, PIMCO. Formerly, member of Executive Committee, PIMCO.	162	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.
Peter G. Strelow (1970) *Trustee*	05/2017 to present	Managing Director and Co-Chief Operating Officer, PIMCO. Formerly, Chief Administrative Officer, PIMCO.	141	Trustee, PIMCO Funds and PIMCO ETF Trust.
Independent Trustees				
George E. Borst (1948) *Trustee*	04/2015 to present	Executive Advisor, McKinsey & Company (since 10/14); Formerly, Executive Advisor, Toyota Financial Services (10/13-12/14); and CEO, Toyota Financial Services (1/01-9/13).	141	Trustee, PIMCO Funds and PIMCO ETF Trust; Director, MarineMax Inc.
Jennifer Holden Dunbar (1963) *Trustee*	04/2015 to present	Managing Director, Dunbar Partners, LLC (business consulting and investments). Formerly, Partner, Leonard Green & Partners, L.P.	162	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.	141	Trustee, PIMCO Funds and PIMCO ETF Trust; Director, State Auto Financial Corporation.
Gary F. Kennedy (1955) *Trustee*	04/2015 to present	Formerly, Senior Vice President, General Counsel and Chief Compliance Officer, American Airlines and AMR Corporation (now American Airlines Group) (1/03-1/14).	141	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.	162	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; and President, Chief Executive Officer, Hampton Affiliates (forestry products).	162	Lead Independent Trustee, PIMCO Funds and PIMCO ETF Trust; Trustee, PIMCO Equity Series and PIMCO Equity Series VIT.

* Unless otherwise noted, the information for the individuals listed is as of December 31, 2017.

[1] Mr. Harris and Mr. Strelow are "interested persons" of the Trust (as that term is defined in the 1940 Act) because of their affiliations with PIMCO.

† Trustees serve until their successors are duly elected and qualified.

Executive Officers

Name, Year of Birth and Position Held with Trust	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years*
Peter G. Strelow (1970) *President*	01/2015 to present Senior Vice President 11/2013 to 01/2015 Vice President 05/2008 to 11/2013	Managing Director and Co-Chief Operating Officer, 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. Formerly, Chief Administrative Officer, PIMCO.
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.
Joshua D. Ratner (1976)** *Vice President - Senior Counsel, Secretary*	11/2013 to present Assistant Secretary 10/2007 to 01/2011	Executive Vice President and Deputy General 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.
Wu-Kwan Kit (1981) *Assistant Secretary*	08/2017 to present	Vice President and 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, Assistant General Counsel, VanEck Associates Corp.
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, PIMCO Equity Series VIT, 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.
Bijal Y. Parikh (1978) *Vice President*	02/2017 to present	Senior 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.
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, PIMCO Equity Series VIT, 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.
Colleen D. Miller (1980)** *Assistant Treasurer*	02/2017 to present	Senior 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 Cohen & Steers Capital Management.
Christopher M. Morin (1980) *Assistant Treasurer*	08/2016 to present	Senior 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.

Name, Year of Birth and Position Held with Trust	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years*
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[2,3] 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. If you are a registered user of the Trust's website, the Trust or their service providers or third party firms engaged by the Trust or their service providers may collect or share information submitted by you, which may include personally identifiable information. This information can be useful to the Trust when assessing and offering services and website features. 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. The Trust does not look for web browser "do not track" requests.

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 February 15, 2017.
[2] PIMCO Investments LLC ("PI") serves as the Trust's distributor. This Privacy Policy applies to the activities of PI to the extent that PI regularly effects or engages in transactions with or for a Trust shareholder who is the record owner of such shares. For purposes of this Privacy Policy, references to "the Trust" shall include PI when acting in this capacity.
[3] 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 21-22, 2017, 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, 2018. 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, 2018. 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, 2018.

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 Broadridge Financial Solutions, 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 21-22, 2017 meeting. The Independent Trustees also conducted an in-person meeting and a telephonic meeting with counsel to the Trust and the Independent Trustees on July 21, 2017 and August 18, 2017, respectively, 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 connection with its review of the Agreements the Board received comparative information on the performance as well as the fees and expenses of other peer group funds and share classes. In addition, the Independent Trustees requested and received from PIMCO additional information including, but not limited to a proposal to reduce the advisory fee for the PIMCO Unconstrained Bond Portfolio.

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 renewal of the Agreements and the Asset Allocation Agreement, but is not intended to summarize all of the factors considered by the Board.

2. NATURE, EXTENT AND QUALITY OF SERVICES

(a) PIMCO, Research Affiliates, their Personnel, and Resources: The Board considered the depth and quality of PIMCO's investment management process, including: the experience, capability and integrity of its senior management and other personnel; the overall financial strength and stability of its organization; and the ability of its organizational structure to address changes in 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, compliance and risk management, 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 that PIMCO has continued to strengthen the process it uses to actively manage counterparty risk and 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 2016, including, but not limited to: continuing enhancement of its analytics and technology systems by upgrading hardware and software; enhancing data processing and security and development of tools and applications to support Portfolio Management, Compliance, Analytics, Risk Management, Client Reporting and Customer Relationship Management; continuing investment in its enterprise risk management function, including PIMCO's cybersecurity program; developing the PIMCO Global Advisory Board and continuing to hire new portfolio managers; expanding the Funds and Operations Group global operating model; developing a website monitoring application to ensure accurate data content; adding staff to fund accounting and financial reporting; engaging a third party to perform an independent assessment of PIMCO's proprietary accounting application and enhancing the same system to provide portfolio managers with more timely and high quality income reporting; establishing a Fund Treasurer's Office; developing a global tax management application that will enable investment professionals to access foreign market and security tax information on a real-time basis; enhancing reporting of tax reporting for portfolio managers for income products with improved transparency on tax factors impacting income generation and dividend yield; redesigning shareholder statements to be more user friendly and enable e-delivery; and continuing expansion of the pricing portal and the proprietary performance reconciliation tool.

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 further considered PIMCO's oversight of Research Affiliates in connection with Research Affiliates providing asset allocation services to the Asset Portfolio and 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 the overall financial strength of the organization.

Ultimately, the Board concluded that the nature, extent and quality of services provided or procured by PIMCO under the Agreements and provided 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 March 31, 2017 and other performance data, as available, over short- and long-term periods ended June 30, 2017 (the "PIMCO Report") and from Lipper concerning the Portfolios' performance, as available, over short- and long-term periods ended March 31, 2017 (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 21-22, 2017 meeting. The Trustees noted that a majority of the Portfolios outperformed their respective Lipper medians over the three- and ten-year periods ended March 31, 2017. The Board also noted that, as of March 31, 2017, the Administrative Class of 65%, 40% and 91% of the Portfolios outperformed its Lipper category median on a net-of-fees basis over the three-, five- 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 March 31, 2017. The Board noted that, as of March 31, 2017, 23%, 67% and 91% of the Trust's assets (based on Administrative Class performance) outperformed their respective benchmarks on a net-of-fees basis over the three-, five- and ten-year periods, respectively. 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 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 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 for 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 and the competitive marketplace for financial products. 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 carefully and considers changes where appropriate due to competitive positioning considerations or changes in the overall strategic positioning of the Portfolios.

In addition, PIMCO reported to the Board that it periodically reviews the fees charged to the Portfolios. The Board noted that, based upon this review, PIMCO may propose advisory fee or supervisory and administrative fee changes where (i) a Portfolio's long-term performance warrants additional consideration; (ii) there is a notable aid to market position; (iii) a Portfolio's fee does not reflect the current level of supervision or administration provided to the Portfolio; or (iv) PIMCO would like to change a Portfolio's overall strategic positioning.

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 considered that PIMCO reviews the Portfolios' fee levels and carefully considers changes where appropriate, and noted in particular, the proposed reduction in the advisory fee for the PIMCO Unconstrained Bond Portfolio effective October 2, 2017.

The Board also reviewed data comparing the Portfolios' advisory fees to the standard and negotiated fee rates PIMCO charges to separate accounts, collective investment trusts and sub-advised clients with similar investment strategies. In cases where the fees for other clients were lower than those charged to the Portfolios, the Trustees noted that the differences in fees were attributable to various factors, including, but not limited to, differences in the advisory and other services provided by PIMCO to the Portfolios, differences in the number or extent of the 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. The Board considered that, with respect to collective investment trusts, PIMCO performs fewer or less extensive services because collective investment trusts are generally exempt from SEC regulation; investors in a collective investment trust may receive shareholder services from a trustee bank, rather than PIMCO; collective investment trusts have less regulatory disclosure; and the management structure of collective investment trusts differs from that of funds. The Trustees also considered that PIMCO faces increased entrepreneurial, legal and regulatory risk in sponsoring and managing mutual funds and ETFs as compared to separate accounts, external sub-advised funds or other investment products.

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 differences 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 over the contract period, 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 over the contract period even if the Portfolios' operating costs rise when assets remain flat or decrease. Other factors the Board considered in assessing the unified fee include PIMCO's approach of pricing Portfolios to scale at inception and reinvesting in other important areas of the business that support the Portfolios. 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, such as service provider costs, are passed through to a smaller asset base. The Board considered historical advisory fee reductions implemented for different Portfolios, noting that the unified fee can be increased or decreased in subsequent contractual periods and is subject to the periodic reviews discussed above. 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 during the contractual period, 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 many of the Portfolios are 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. The Board noted that PIMCO is continuing waivers for these Funds of Funds, as well as for certain other Portfolios of the Trust.

The Board then discussed the proposal to reduce the advisory fee for the PIMCO Unconstrained Bond Portfolio by 0.05% for each share class of the Portfolio. The Board considered that the purpose of the proposal is to improve strategic positioning for the Portfolio. The Board noted that the fee reduction would be effective October 2, 2017.

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, after the proposal to decrease the management fee, 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 positive in 2016, on a pre- and post-distribution basis, as the allocation of compensation and benefits and other administrative expenses to the Trust decreased from 2015. 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 further noted PIMCO's engagement of a third party to review and to make recommendations regarding PIMCO's processes supporting its profitability estimation materials. 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 global infrastructure, technology capabilities, risk management processes and qualified personnel 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 investing in portfolio and trade operations management, firm technology, middle and back office support, legal and compliance, and fund administration logistics; senior management supervision and governance of those services; and through the pricing of Portfolios to scale from inception and the enhancement of services and oversight 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 during the contractual period 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 and noted that PIMCO has continued to reinvest in many areas of the business to support the Portfolios.

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 PIMCO is appropriately sharing economies of scale, if any, through the Portfolios' unified fee structure, generally pricing Portfolios to scale at inception and reinvesting in its business to provide enhanced and expanded services to the Portfolios and their 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. Such benefits may include possible ancillary benefits to PIMCO's institutional investment management business due to the reputation and market penetration of the Trust or third party service providers' relationship-level fee concessions, which decrease fees paid by PIMCO. 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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Transfer Agent
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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.

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PIMCO

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PIMCO

PIMCO Variable Insurance Trust

Annual Report

December 31, 2017

PIMCO Low Duration Portfolio

2017

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Table of Contents

Dear PIMCO Variable Insurance Trust Shareholder,

Please find enclosed the Annual Report for the PIMCO Variable Insurance Trust (the “Trust”) covering the twelve-month reporting period ended December 31, 2017. The following pages contain specific details about the investment performance of the Trust’s portfolios and a discussion of the factors that most affected performance over the reporting period.

Highlights of the financial markets during the twelve-month fiscal reporting period include:

- During the first half of the reporting period, geopolitics dominated headlines and contributed to brief periods of market volatility, but most risk assets generally gained as risk sentiment remained strong. In the U.S., the Federal Reserve (“Fed”) raised the Federal Funds Rate in March by 0.25% to a range of 0.75% to 1.00% and again in June by 0.25% to a range of 1.00% to 1.25%. Elsewhere, a perceived hawkish shift in tone from other major central banks, including the European Central Bank (“ECB”), the Bank of England (“BOE”), and the Bank of Canada (“BOC”), helped move most developed market yields higher even as longer-term U.S. interest rates actually fell during this part of the reporting period.
- During the second half of the reporting period, geopolitical concerns continued, but the global economy provided a solid fundamental backdrop with robust consumer confidence in both the eurozone and the U.S. This environment gave room for developed market central banks to adopt a more “dovish taper”. The ECB, for example, announced a tapering in its monthly asset purchases, but President Mario Draghi emphasized the ECB’s overall accommodative stance. In September, the Fed provided details on its plan to unwind its balance sheet and kept rates on hold through its November meeting, but raised the Federal Funds Rate in December by 0.25% to a range of 1.25% to 1.50%. The BOE raised its policy rate and suggested reduced stimulus on the horizon and the BOC raised interest rates twice after a seven-year gap. Furthermore, President Xi Jinping was extended a second five-year term following the 19th National Party Congress in China, while Japan’s Prime Minister Shinzo Abe won a decisive victory in snap elections.
- Over the full reporting period, many developed market yield curves flattened, as front-end rates moved higher alongside less accommodative monetary policy and longer-term rates generally remained steady and/or moved slightly lower. In the U.S., solid growth momentum and the Fed’s three rate hikes throughout the year pushed U.S. two-year yields higher, while the 10-year Treasury yield remained little changed. In turn, this drove the spread between two-year and 10-year rates to its narrowest level since November 2007. Front-end yields also moved higher in the U.K. and Canada as the BOE and the BOC both raised policy rates for the first time in years. In a similar vein, the ECB announced plans to taper its monthly purchases, which contributed to rates generally rising in the region.
- U.S. Treasuries, as represented by the Bloomberg Barclays U.S. Treasury Index, returned 2.31% for the reporting period. Yields rose across the short and intermediate portion of the U.S. Treasury yield curve through seven-year maturities, but declined across the longer-term portion of the U.S. Treasury yield curve. The benchmark 10-year U.S. Treasury note yielded 2.40% at the end of the reporting period, down from 2.45% on December 30, 2016. The Bloomberg Barclays U.S. Aggregate Index, a widely used index of U.S. investment-grade bonds, returned 3.54% for the reporting period.
- U.S. Treasury Inflation-Protected Securities (“TIPS”), as represented by the Bloomberg Barclays U.S. TIPS Index, returned 3.01% over the reporting period. Front-end U.S. real yields climbed higher and the yield curve flattened over the year, as the Fed continued on its tightening cycle by raising rates three times in 2017 and announcing detailed plans to reduce its balance sheet by tapering reinvestments. Inflation expectations slid lower over the first half of the year but rebounded strongly in the latter half due to higher crude oil prices, which resulted from reports of lower global inventories and Organization of the Petroleum Exporting Countries (“OPEC”)-led output cuts taking effect.
- Diversified commodities, as represented by the Bloomberg Commodity Index Total Return, returned 1.70% over the reporting period. Within energy, oil prices rebounded over the latter half of the year due to healthier demand, continued oil output management by OPEC, and elevated geopolitical risk. Natural gas prices experienced early-year pressure from a warm U.S winter and continued to underperform based on high production and inventory data. Returns in the agriculture sector were mixed, with soybeans and wheat ending

the year in negative territory on competitively high inventories, while sugar posted gains, supported by positive fundamentals and market technicals. Base metals pushed higher over the year from continued production investment restraint and overall positive global growth demand. Gold rallied over the span of the year due to safe-haven demand, geopolitical tensions, lower real yields, and a weakening U.S. dollar.

- Agency mortgage-backed securities ("MBS"), as represented by the Bloomberg Barclays U.S. MBS Fixed Rate Index, returned 2.48% over the reporting period and slightly outperformed U.S. Treasuries with similar duration. Sustained investor demand for high quality spread assets helped support the MBS asset class, despite a period marked by three Fed rate hikes, the commencement of Fed balance sheet tapering, a generally range-bound interest rate environment, and muted volatility. Non-Agency MBS also generated positive returns as market technicals and solid real estate fundamentals continued to drive performance.
- U.S. investment grade credit, as represented by the Bloomberg Barclays U.S. Credit Index, returned 6.18% over the reporting period, amid a flattening yield curve, improving fundamentals, low market volatility, and a strong technical backdrop. Developed market global high yield bonds, as measured by the BofA Merrill Lynch Developed Markets High Yield Constrained Index (USD Hedged), returned 7.84% over the reporting period. Performance was strong and reflected less dispersion across sectors, given the improving stability of commodities and generally supportive fundamentals.
- Emerging markets ("EM") external debt, as represented by the JPMorgan Emerging Markets Bond Index (EMBI) Global, returned 9.32% over the reporting period. EM local bonds, as represented by the JPMorgan Government Bond Index-Emerging Markets Global Diversified Index (Unhedged), returned 15.21% over the reporting period. Growth dynamics broadly improved across the EM universe, with developing economies benefiting from the synchronized global recovery, while inflationary pressures remained muted, allowing key EM central banks to conduct monetary easing. EM currencies broadly appreciated against the U.S. dollar, as commodity prices continued to strengthen and developed market central banks looked to remove accommodation on a more gradual trajectory.
- Global stock markets reached new highs as increasingly solid economic data, rising corporate earnings and non-restrictive central bank policy underpinned robust risk sentiment. U.S. equities, as represented by the S&P 500 Index, returned 21.83% over the reporting period. Developed market equities outside the U.S. and Canada, as represented by the MSCI EAFE Net Dividend Index (USD Hedged) and the MSCI EAFE Net Dividend Index (USD Unhedged), returned 16.84% and 25.03%, respectively, over the reporting period. Japanese equities, as represented by the Nikkei 225 Index (in JPY), returned 21.30% over the reporting period and European equities, as represented by the MSCI Europe Index (in EUR), returned 10.24% over the reporting period. EM equities, as represented by the MSCI Emerging Markets Index (Net Dividends in USD), returned 37.28% over the same period.

Thank you for the assets you have placed with us. We deeply value your trust, and we work diligently to meet your broad investment needs.

Sincerely,

Brent R. Harris
Chairman of the Board,
PIMCO Variable Insurance Trust

February 16, 2018

Past performance is no guarantee of future results. Unless otherwise noted, index returns reflect the reinvestment of income distributions 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 that includes 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 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 at or near historically low levels. As such, bond funds may currently face an increased exposure to the risks associated with a rising interest rate environment. This is especially true as the Fed ended its quantitative easing program in October 2014 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 and in the Principal Risks in the Notes to Financial Statements.

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 may vary by share class based on each class's expense ratios. The Portfolio measures its performance against at least one 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. There is no assurance that the Portfolio, even if the Portfolio has experienced high or unusual performance for one or more periods, will experience similar levels of performance in the future. High performance is defined as a significant increase in either 1) the Portfolio's total return in excess of that of the Portfolio's benchmark between reporting periods or 2) the Portfolio's total return in excess of the Portfolio's historical returns between reporting periods. Unusual performance is defined as a significant change in the Portfolio's performance as compared to one or more previous reporting periods.

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	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.

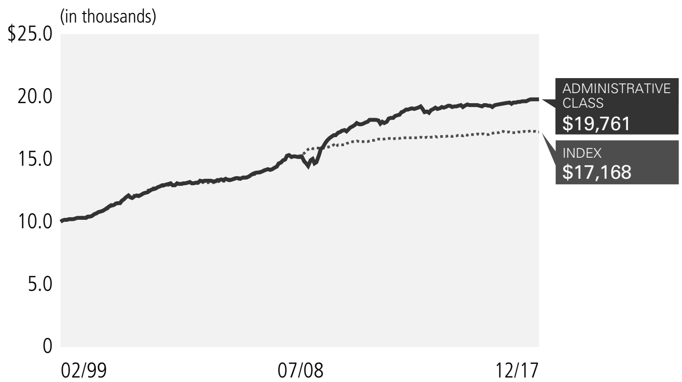
The Trustees are responsible generally for overseeing the management of the Trust. The Trustees authorize the Trust to enter into service agreements with the Adviser, the Distributor, the Administrator and other service providers in order to provide, and in some cases authorize service providers to procure 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 www.pimco.com/pvit, and on the Securities and Exchange Commission's ("SEC") website at www.sec.gov.

The Trust files a complete schedule of the Portfolio's holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. A copy of the Portfolio'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. A copy of the Portfolio's Form N-Q is also available without charge, upon request, by calling the Trust at (888) 87-PIMCO and on the Portfolio's website at www.pimco.com/pvit. 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, 2017



$10,000 invested at the end of the month when the Portfolio's Administrative Class commenced operations.

Allocation Breakdown as of 12/31/2017†§

Short-Term Instruments‡	36.8%
Corporate Bonds & Notes	33.8%
U.S. Government Agencies	15.8%
Asset-Backed Securities	6.5%
Sovereign Issues	4.9%
Non-Agency Mortgage-Backed Securities	2.2%

† % 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, 2017

	1 Year	5 Years	10 Years	Inception≈
PIMCO Low Duration Portfolio Institutional Class	1.50%	0.91%	2.97%	3.83%
PIMCO Low Duration Portfolio Administrative Class	1.35%	0.75%	2.82%	3.66%
PIMCO Low Duration Portfolio Advisor Class	1.25%	0.65%	2.72%	3.25%
ICE BofAML 1-3 Year U.S. Treasury Index±	0.42%	0.56%	1.44%	2.89%♦

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 ICE BofAML 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 prices of individual positions (which may be sourced from different pricing vendors or other sources) used by the Portfolio and the index. For performance current to the most recent month-end, visit www.pimco.com/pvit or via (888) 87-PIMCO.

The Portfolio's total annual operating expense ratio in effect as of period end were 0.50% for Institutional Class shares, 0.65% for Administrative Class shares, and 0.75% for Advisor Class shares. Details regarding any changes to the Portfolio's operating expenses, subsequent to period end, can be found in the Portfolio's current prospectus, as supplemented.

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 affected performance during the reporting period:

» U.S. interest rate strategies contributed to relative performance, particularly with underweight exposure to the front-end of the U.S. yield curve, as interest rates rose.

» Overweight exposure to investment-grade corporate spread duration contributed to relative performance, as the sector generally posted positive excess returns.

» Exposure to securitized debt contributed to performance, as these securities generally posted positive total returns.

» Long positions in the euro versus the U.S. dollar contributed to performance, as the euro appreciated against the U.S. dollar.

» Exposure to Brazilian real carry contributed to performance, as local rates provided a positive yield.

» Short positions against a basket of Asian emerging markets currencies, particularly the Korean won and Taiwanese dollar, detracted from relative performance, as these currencies appreciated against the U.S. dollar.

» Short exposure to the French OAT-German Bund spread detracted from relative performance, as the spread narrowed.

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, 2017 to December 31, 2017 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 this information, 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 (07/01/17)	**Ending Account Value (12/31/17)**	**Expenses Paid During Period***	**Beginning Account Value (07/01/17)**	**Ending Account Value (12/31/17)**	**Expenses Paid During Period***	**Net Annualized Expense Ratio****
Institutional Class	$ 1,000.00	$ 1,007.80	$ 2.52	$ 1,000.00	$ 1,022.56	$ 2.54	0.50%
Administrative Class	1,000.00	1,007.10	3.27	1,000.00	1,021.81	3.29	0.65
Advisor Class	1,000.00	1,006.60	3.77	1,000.00	1,021.31	3.80	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 183/365 (to reflect the one-half year period). Overall fees and expenses of investing in the Portfolio will be higher because the example does not reflect variable contract fees and expenses.

** Net Annualized Expense Ratio is reflective of any applicable contractual fee waivers and/or expense reimbursements or voluntary fee waivers. Details regarding fee waivers, if any, can be found in Note 9, Fees and Expenses, in the Notes to Financial Statements.

		Investment Operations			Less Distributions[(b)]			
Selected Per Share Data for the Year Ended^:	Net Asset Value Beginning of Year	Net Investment Income (Loss)[(a)]	Net Realized/ Unrealized Gain (Loss)	Total	From Net Investment Income	From Net Realized Capital Gain (Loss)	Tax Basis Return of Capital	Total
Institutional Class								
12/31/2017	$ 10.24	$ 0.15	$ 0.00	$ 0.15	$ (0.13)	$ 0.00	$ (0.02)	$ (0.15)
12/31/2016	10.25	0.16	0.00	0.16	(0.09)	0.00	(0.08)	(0.17)
12/31/2015	10.58	0.15	(0.10)	0.05	(0.38)	0.00	0.00	(0.38)
12/31/2014	10.61	0.10	0.01	0.11	(0.14)	0.00	0.00	(0.14)
12/31/2013	10.78	0.10	(0.10)	0.00	(0.17)	0.00	0.00	(0.17)
Administrative Class								
12/31/2017	10.24	0.13	0.01	0.14	(0.12)	0.00	(0.02)	(0.14)
12/31/2016	10.25	0.14	0.00	0.14	(0.07)	0.00	(0.08)	(0.15)
12/31/2015	10.58	0.14	(0.11)	0.03	(0.36)	0.00	0.00	(0.36)
12/31/2014	10.61	0.10	(0.01)	0.09	(0.12)	0.00	0.00	(0.12)
12/31/2013	10.78	0.08	(0.09)	(0.01)	(0.16)	0.00	0.00	(0.16)
Advisor Class								
12/31/2017	10.24	0.12	0.01	0.13	(0.11)	0.00	(0.02)	(0.13)
12/31/2016	10.25	0.13	0.00	0.13	(0.06)	0.00	(0.08)	(0.14)
12/31/2015	10.58	0.13	(0.11)	0.02	(0.35)	0.00	0.00	(0.35)
12/31/2014	10.61	0.09	(0.01)	0.08	(0.11)	0.00	0.00	(0.11)
12/31/2013	10.78	0.07	(0.10)	(0.03)	(0.14)	0.00	0.00	(0.14)

^ A zero balance may reflect actual amounts rounding to less than $0.01 or 0.01%.

(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, Distributions to Shareholders, in the Notes to Financial Statements for more information.

		Ratios/Supplemental Data						
			Ratios to Average Net Assets					
Net Asset Value End of Year	Total Return	Net Assets End of Year (000s)	Expenses	Expenses Excluding Waivers	Expenses Excluding Interest Expense	Expenses Excluding Interest Expense and Waivers	Net Investment Income (Loss)	Portfolio Turnover Rate
$ 10.24	1.50%	$ 15,368	0.50%	0.50%	0.50%	0.50%	1.44%	544%
10.24	1.56	8,710	0.50	0.50	0.50	0.50	1.59	391
10.25	0.47	8,291	0.51	0.51	0.50	0.50	1.39	181
10.58	1.00	13,590	0.50	0.50	0.50	0.50	0.96	208
10.61	0.01	58,621	0.50	0.50	0.50	0.50	0.95	316
10.24	1.35	1,272,418	0.65	0.65	0.65	0.65	1.31	544
10.24	1.41	1,248,263	0.65	0.65	0.65	0.65	1.40	391
10.25	0.31	1,323,009	0.66	0.66	0.65	0.65	1.32	181
10.58	0.85	1,481,605	0.65	0.65	0.65	0.65	0.90	208
10.61	(0.14)	1,510,077	0.65	0.65	0.65	0.65	0.79	316
10.24	1.25	761,611	0.75	0.75	0.75	0.75	1.21	544
10.24	1.30	717,542	0.75	0.75	0.75	0.75	1.31	391
10.25	0.21	677,728	0.76	0.76	0.75	0.75	1.25	181
10.58	0.75	647,468	0.75	0.75	0.75	0.75	0.80	208
10.61	(0.23)	617,374	0.75	0.75	0.75	0.75	0.69	316

Statement of Assets and Liabilities PIMCO Low Duration Portfolio

(Amounts in thousands, except per share amounts)	December 31, 2017
Assets:	
Investments, at value	
Investments in securities*	$ 2,203,437
Investments in Affiliates	183,090
Financial Derivative Instruments	
Exchange-traded or centrally cleared	1,176
Over the counter	3,921
Cash	1
Deposits with counterparty	16,708
Foreign currency, at value	1,766
Receivable for investments sold	1,558
Receivable for TBA investments sold	650,070
Receivable for Portfolio shares sold	1,984
Interest and/or dividends receivable	7,454
Dividends receivable from Affiliates	313
Total Assets	3,071,478
Liabilities:	
Borrowings & Other Financing Transactions	
Payable for short sales	$ 4,001
Financial Derivative Instruments	
Exchange-traded or centrally cleared	471
Over the counter	44,107
Payable for investments purchased	10,180
Payable for investments in Affiliates purchased	313
Payable for TBA investments purchased	959,102
Deposits from counterparty	253
Payable for Portfolio shares redeemed	2,410
Accrued investment advisory fees	449
Accrued supervisory and administrative fees	449
Accrued distribution fees	167
Accrued servicing fees	167
Other liabilities	12
Total Liabilities	1,022,081
Net Assets	$ 2,049,397
Net Assets Consist of:	
Paid in capital	$ 2,089,513
Undistributed (overdistributed) net investment income	(3,992)
Accumulated undistributed net realized gain (loss)	(40,341)
Net unrealized appreciation (depreciation)	4,217
Net Assets	$ 2,049,397
Net Assets:	
Institutional Class	$ 15,368
Administrative Class	1,272,418
Advisor Class	761,611
Shares Issued and Outstanding:	
Institutional Class	1,500
Administrative Class	124,211
Advisor Class	74,346
Net Asset Value Per Share Outstanding:	
Institutional Class	$ 10.24
Administrative Class	10.24
Advisor Class	10.24
Cost of investments in securities	$ 2,160,173
Cost of investments in Affiliates	$ 182,973
Cost of foreign currency held	$ 1,757
Proceeds received on short sales	$ 4,009
Cost or premiums of financial derivative instruments, net	$ (2,287)
* Includes repurchase agreements of:	$ 2,988

Statement of Operations PIMCO Low Duration Portfolio

(Amounts in thousands)	Year Ended December 31, 2017
Investment Income:	
Interest, net of foreign taxes*	$ 35,262
Dividends from Investments in Affiliates	4,283
Total Income	39,545
Expenses:	
Investment advisory fees	5,034
Supervisory and administrative fees	5,034
Servicing fees - Administrative Class	1,880
Distribution and/or servicing fees - Advisor Class	1,870
Trustee fees	51
Interest expense	56
Miscellaneous expense	10
Total Expenses	13,935
Net Investment Income (Loss)	25,610
Net Realized Gain (Loss):	
Investments in securities	(1,861)
Investments in Affiliates	1
Net capital gain distributions received from Affiliate investments	40
Exchange-traded or centrally cleared financial derivative instruments	(1,552)
Over the counter financial derivative instruments	(617)
Foreign currency	3,229
Net Realized Gain (Loss)	(760)
Net Change in Unrealized Appreciation (Depreciation):	
Investments in securities	56,801
Investments in Affiliates	133
Exchange-traded or centrally cleared financial derivative instruments	(3,454)
Over the counter financial derivative instruments	(51,795)
Foreign currency assets and liabilities	97
Net Change in Unrealized Appreciation (Depreciation)	1,782
Net Increase (Decrease) in Net Assets Resulting from Operations	$ 26,632
* Foreign tax withholdings	$ 2

Statements of Changes in Net Assets PIMCO Low Duration Portfolio

(Amounts in thousands)	Year Ended December 31, 2017	Year Ended December 31, 2016
Increase (Decrease) in Net Assets from:		
Operations:		
Net investment income (loss)	$ 25,610	$ 27,047
Net realized gain (loss)	(760)	(20,830)
Net change in unrealized appreciation (depreciation)	1,782	19,752
Net Increase (Decrease) in Net Assets Resulting from Operations	26,632	25,969
Distributions to Shareholders:		
From net investment income		
Institutional Class	(153)	(75)
Administrative Class	(13,953)	(9,587)
Advisor Class	(7,617)	(4,536)
Tax basis return of capital		
Institutional Class	(28)	(62)
Administrative Class	(2,787)	(9,447)
Advisor Class	(1,664)	(5,132)
Total Distributions[(a)]	(26,202)	(28,839)
Portfolio Share Transactions:		
Net increase (decrease) resulting from Portfolio share transactions**	74,452	(31,643)
Total Increase (Decrease) in Net Assets	74,882	(34,513)
Net Assets:		
Beginning of year	1,974,515	2,009,028
End of year*	$ 2,049,397	$ 1,974,515
* Including undistributed (overdistributed) net investment income of:	$ (3,992)	$ (3,490)

** See Note 13, Shares of Beneficial Interest, in the Notes to Financial Statements.

(a) The tax characterization of distributions is determined in accordance with Federal income tax regulations. See Note 2, Distributions to Shareholders, in the Notes to Financial Statements for more information.

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
INVESTMENTS IN SECURITIES 107.5%		
CORPORATE BONDS & NOTES 39.4%		
BANKING & FINANCE 33.2%		
ABN AMRO Bank NV		
1.800% due 06/04/2018	$ 4,300	$ 4,296
American Tower Corp.		
2.800% due 06/01/2020	9,900	9,967
AvalonBay Communities, Inc.		
3.625% due 10/01/2020	3,000	3,089
Bank of America Corp.		
5.650% due 05/01/2018	8,000	8,096
6.875% due 11/15/2018	2,700	2,812
Bank of Nova Scotia		
1.875% due 04/26/2021	3,900	3,826
Barclays PLC		
3.520% (US0003M + 2.110%) due 08/10/2021 ~	4,900	5,129
BRFkredit A/S		
1.000% due 01/01/2018	DKK 17,400	2,805
1.000% due 04/01/2018	77,700	12,571
CIT Group, Inc.		
3.875% due 02/19/2019	$ 600	608
Citigroup, Inc.		
1.800% due 02/05/2018	2,500	2,500
2.064% (US0003M + 0.690%) due 04/27/2018 ~	18,200	18,225
2.064% (US0003M + 0.690%) due 10/27/2022 ~	5,000	4,996
2.258% (US0003M + 0.880%) due 07/30/2018 ~	12,000	12,045
3.073% (US0003M + 1.380%) due 03/30/2021 ~	4,300	4,404
Citizens Bank N.A.		
2.300% due 12/03/2018	2,300	2,302
2.500% due 03/14/2019	2,500	2,506
Commonwealth Bank of Australia		
1.750% due 11/02/2018	1,800	1,796
Credit Suisse Group Funding Guernsey Ltd.		
3.644% (US0003M + 2.290%) due 04/16/2021 ~	5,800	6,096
Deutsche Bank AG		
3.320% (US0003M + 1.910%) due 05/10/2019 ~	6,400	6,520
4.250% due 10/14/2021	2,000	2,088
Eksportfinans ASA		
1.570% due 02/14/2018	JPY 500,000	4,444
European Investment Bank		
1.375% due 01/15/2018	GBP 6,200	8,374
Ford Motor Credit Co. LLC		
2.321% (US0003M + 0.930%) due 11/04/2019 ~	$ 6,000	6,057
2.375% due 01/16/2018	5,224	5,225
2.488% (US0003M + 0.900%) due 06/15/2018 ~	6,000	6,015
2.930% (US0003M + 1.580%) due 01/08/2019 ~	5,600	5,670
5.750% due 02/01/2021	600	652
General Motors Financial Co., Inc.		
2.289% (US0003M + 0.930%) due 04/13/2020 ~	3,800	3,839
2.710% (US0003M + 1.360%) due 04/10/2018 ~	4,600	4,609
2.919% (US0003M + 1.560%) due 01/15/2020 ~	3,900	3,980
3.200% due 07/13/2020	7,000	7,099
3.419% (US0003M + 2.060%) due 01/15/2019 ~	5,500	5,594
Goldman Sachs Group, Inc.		
2.405% (US0003M + 0.730%) due 12/27/2020 ~	9,600	9,638
2.523% (US0003M + 1.160%) due 04/23/2020 ~	5,684	5,773
2.727% (US0003M + 1.360%) due 04/23/2021 ~	1,300	1,333

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
2.788% (US0003M + 1.200%) due 09/15/2020 ~	$ 4,500	$ 4,587
6.000% due 06/15/2020	2,000	2,164
7.500% due 02/15/2019	700	740
HSBC Bank PLC		
2.056% (US0003M + 0.640%) due 05/15/2018 ~	500	501
HSBC USA, Inc.		
2.023% (US0003M + 0.610%) due 11/13/2019 ~	12,900	12,976
ING Bank NV		
2.050% due 08/17/2018	4,000	4,001
International Lease Finance Corp.		
5.875% due 04/01/2019	1,500	1,562
6.250% due 05/15/2019	2,250	2,358
JPMorgan Chase & Co.		
2.583% (US0003M + 1.205%) due 10/29/2020 ~	5,800	5,932
LeasePlan Corp. NV		
2.500% due 05/16/2018	900	900
Macquarie Bank Ltd.		
2.498% (US0003M + 1.120%) due 07/29/2020 ~	8,900	9,058
Mitsubishi UFJ Financial Group, Inc.		
3.361% (US0003M + 1.880%) due 03/01/2021 ~	1,300	1,353
Morgan Stanley		
2.752% (US0003M + 1.375%) due 02/01/2019 ~	5,600	5,664
MUFG Americas Holdings Corp.		
1.973% (US0003M + 0.570%) due 02/09/2018 ~	3,500	3,501
Nordea Hypotek AB		
2.250% due 06/19/2019	SEK 142,800	18,040
Nordea Kredit Realkreditaktieselskab		
1.000% due 04/01/2018	DKK 125,542	20,331
Nykredit Realkredit A/S		
1.000% due 01/01/2018	167,100	26,933
1.000% due 04/01/2018	319,800	51,736
1.000% due 07/01/2018	183,700	29,843
2.000% due 04/01/2018	60,000	9,730
2.000% due 07/01/2018	15,100	2,465
Pacific Life Global Funding		
4.323% (CPI YOY + 2.120%) due 06/02/2018 ~	$ 3,500	3,524
Piper Jaffray Cos.		
5.060% due 10/09/2018	1,500	1,522
Realkredit Danmark A/S		
1.000% due 01/01/2018	DKK 199,600	32,172
1.000% due 04/01/2018	474,200	76,716
2.000% due 01/01/2018	118,400	19,085
2.000% due 04/01/2018	135,800	22,024
Royal Bank of Scotland PLC		
6.934% due 04/09/2018	EUR 2,735	3,342
Santander Holdings USA, Inc.		
2.700% due 05/24/2019	$ 3,400	3,408
Skandinaviska Enskilda Banken AB		
3.000% due 06/19/2019	SEK 89,000	11,375
Stadshypotek AB		
2.500% due 09/18/2019	124,000	15,813
Sumitomo Mitsui Banking Corp.		
1.939% (US0003M + 0.580%) due 01/16/2018 ~	$ 12,300	12,301
Sumitomo Mitsui Trust Bank Ltd.		
2.053% (US0003M + 0.440%) due 09/19/2019 ~	6,000	6,000
Sveriges Sakerstallda Obligationer AB		
4.000% due 09/18/2019	SEK 54,000	7,065
Swedbank Hypotek AB		
3.750% due 06/19/2019	53,000	6,842
Synchrony Financial		
2.615% (US0003M + 1.230%) due 02/03/2020 ~	$ 5,600	5,681

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
UBS AG		
1.799% (US0003M + 0.320%) due 05/28/2019 ~	$ 7,200	$ 7,202
1.835% (US0003M + 0.320%) due 12/07/2018 ~	6,400	6,408
2.450% due 12/01/2020	4,100	4,090
UBS Group Funding Switzerland AG		
3.139% (US0003M + 1.780%) due 04/14/2021 ~	9,900	10,278
Unibail-Rodamco SE		
2.129% (US0003M + 0.770%) due 04/16/2019 ~	9,800	9,857
Wells Fargo & Co.		
2.243% (US0003M + 0.880%) due 07/22/2020 ~	2,000	2,030
2.827% (US0003M + 1.340%) due 03/04/2021 ~	4,000	4,112
		680,201
INDUSTRIALS 4.8%		
Adani Ports & Special Economic Zone Ltd.		
3.500% due 07/29/2020	4,300	4,351
Allergan Funding SCS		
2.629% (US0003M + 1.080%) due 03/12/2018 ~	1,700	1,703
Amazon.com, Inc.		
1.900% due 08/21/2020	4,200	4,168
BAT Capital Corp.		
2.003% (US0003M + 0.590%) due 08/14/2020 ~	6,200	6,236
Boston Scientific Corp.		
2.850% due 05/15/2020	2,800	2,824
Canadian Natural Resources Ltd.		
1.750% due 01/15/2018	1,000	1,000
Cardinal Health, Inc.		
1.950% due 06/15/2018	1,000	1,000
Charter Communications Operating LLC		
3.579% due 07/23/2020	3,700	3,771
4.464% due 07/23/2022	600	627
Conagra Brands, Inc.		
1.857% (US0003M + 0.500%) due 10/09/2020 ~	2,500	2,505
D.R. Horton, Inc.		
3.750% due 03/01/2019	1,900	1,926
Daimler Finance North America LLC		
1.907% (US0003M + 0.420%) due 03/02/2018 ~	2,700	2,700
2.000% due 08/03/2018	6,000	6,001
2.375% due 08/01/2018	900	902
Dell International LLC		
3.480% due 06/01/2019	2,700	2,734
Dominion Energy Gas Holdings LLC		
2.500% due 12/15/2019	2,300	2,304
Energy Transfer LP		
6.700% due 07/01/2018	2,800	2,862
Georgia-Pacific LLC		
5.400% due 11/01/2020	6,800	7,336
Harris Corp.		
1.871% (US0003M + 0.480%) due 04/30/2020 ~	4,400	4,401
Imperial Brands Finance PLC		
2.050% due 02/11/2018	1,250	1,250
Kinder Morgan, Inc.		
7.250% due 06/01/2018	400	408
Kraft Heinz Foods Co.		
2.000% due 07/02/2018	1,000	1,000
Local Initiatives Support Corp.		
3.005% due 03/01/2022	1,300	1,290
MGM Resorts International		
8.625% due 02/01/2019	1,000	1,065
Mylan NV		
3.750% due 12/15/2020	1,600	1,636

See Accompanying Notes

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Newell Brands, Inc.		
2.600% due 03/29/2019	$ 245	$ 246
Nissan Motor Acceptance Corp.		
1.800% due 03/15/2018	200	200
2.350% due 03/04/2019	200	200
Oracle Corp.		
1.900% due 09/15/2021	9,900	9,748
Pioneer Natural Resources Co.		
6.875% due 05/01/2018	300	305
QUALCOMM, Inc.		
3.000% due 05/20/2022	3,200	3,204
Reynolds American, Inc.		
2.300% due 06/12/2018	1,000	1,001
Teva Pharmaceutical Finance Netherlands BV		
1.400% due 07/20/2018	4,700	4,669
Time Warner Cable LLC		
6.750% due 07/01/2018	1,900	1,942
8.750% due 02/14/2019	1,100	1,173
UnitedHealth Group, Inc.		
1.900% due 07/16/2018	1,500	1,501
Volkswagen Group of America Finance LLC		
1.916% (US0003M + 0.470%) due 05/22/2018 ~	1,900	1,900
2.450% due 11/20/2019	4,200	4,199
WestRock RKT Co.		
4.450% due 03/01/2019	400	409
Zimmer Biomet Holdings, Inc.		
2.700% due 04/01/2020	2,300	2,302
		98,999
UTILITIES 1.4%		
AT&T, Inc.		
2.309% (US0003M + 0.950%) due 07/15/2021 ~	1,600	1,623
Consumers Energy Co.		
6.700% due 09/15/2019	200	214
DTE Energy Co.		
2.400% due 12/01/2019	3,700	3,697
Kinder Morgan Finance Co. LLC		
6.000% due 01/15/2018	1,500	1,503
Verizon Communications, Inc.		
2.946% due 03/15/2022	4,759	4,792
3.376% due 02/15/2025	15,606	15,686
		27,515
Total Corporate Bonds & Notes (Cost $769,918)		**806,715**
MUNICIPAL BONDS & NOTES 0.0%		
TEXAS 0.0%		
North Texas Higher Education Authority, Inc., Revenue Bonds, Series 2011		
2.435% (US0003M + 1.100%) due 04/01/2040 ~	251	254
Total Municipal Bonds & Notes (Cost $256)		**254**
U.S. GOVERNMENT AGENCIES 18.4%		
Fannie Mae		
1.000% due 01/25/2043	218	199
1.612% (LIBOR01M + 0.060%) due 12/25/2036 - 07/25/2037 ~	319	315
1.678% (US0001M + 0.350%) due 09/25/2042 ~	249	248
1.902% (US0001M + 0.350%) due 03/25/2044 ~	49	49
2.052% (LIBOR01M + 0.500%) due 12/25/2022 ~	18	18
2.202% (12MTA + 1.200%) due 07/01/2042 - 06/01/2043 ~	223	227
2.252% (12MTA + 1.250%) due 09/01/2041 ~	151	153

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
2.352% (LIBOR01M + 0.800%) due 04/25/2023 ~	$ 28	$ 28
2.391% (LIBOR01M + 0.900%) due 06/17/2027 ~	22	22
2.402% (LIBOR01M + 0.850%) due 02/25/2023 ~	1	1
2.402% (12MTA + 1.400%) due 09/01/2040 ~	1	1
2.452% (LIBOR01M + 0.900%) due 05/25/2022 ~	1	1
2.832% (12MTA + 1.838%) due 11/01/2035 ~	32	34
3.280% (US0012M + 1.525%) due 09/01/2035 ~	161	168
3.360% (US0012M + 1.636%) due 07/01/2035 ~	36	37
3.488% (US0012M + 1.732%) due 05/01/2038 ~	3,031	3,188
4.000% due 11/01/2044 - 08/01/2045	120	126
4.287% (COF 11 + 1.926%) due 12/01/2036 ~	9	10
4.500% due 08/01/2018 - 08/01/2046	10,436	11,079
4.865% (COF 11 + 1.735%) due 09/01/2034 ~	5	5
5.000% due 05/01/2027 - 04/25/2033	158	170
5.500% due 12/01/2027 - 12/01/2028	512	560
6.000% due 02/01/2033 - 01/01/2039	1,820	2,055
6.500% due 04/01/2036	91	100
6.500% due 12/25/2042 ~	6	7
Fannie Mae, TBA		
3.000% due 02/01/2048	19,600	19,579
3.500% due 01/01/2048 - 03/01/2048	55,000	56,372
4.000% due 02/01/2048 - 03/01/2048	132,400	138,340
4.500% due 02/01/2048	93,000	98,841
FDIC Structured Sale Guaranteed Notes		
2.980% due 12/06/2020	349	349
Federal Housing Administration		
7.430% due 10/01/2020	1	1
Freddie Mac		
1.369% (LIBOR01M + 0.040%) due 12/25/2036 ~	295	295
1.642% (LIBOR01M + 0.400%) due 12/15/2042 ~	9,048	9,034
1.812% (LIBOR01M + 0.260%) due 08/25/2031 ~	102	101
2.000% due 11/15/2026	5,246	5,206
2.202% (12MTA + 1.200%) due 02/25/2045 ~	199	201
3.497% (US0012M + 1.717%) due 07/01/2035 ~	50	53
3.521% (US0012M + 1.771%) due 09/01/2035 ~	211	222
5.000% due 05/01/2024 - 12/01/2041	437	473
5.500% due 12/01/2022 - 08/15/2030	1	1
6.500% due 07/25/2043	46	53
7.317% (- 1.6*LIBOR01M + 9.680%) due 08/15/2044 ~	3,962	4,368
Ginnie Mae		
1.530% due 02/20/2041 ~	126	127
1.693% (US0001M + 0.460%) due 06/20/2065 ~	3,460	3,458
1.763% (US0001M + 0.520%) due 10/20/2065 ~	9,515	9,534
1.783% (US0001M + 0.540%) due 07/20/2063 ~	3,719	3,725
2.530% (LIBOR12M + 0.800%) due 07/20/2067 ~	7,847	8,111
Total U.S. Government Agencies (Cost $376,656)		**377,245**

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
NON-AGENCY MORTGAGE-BACKED SECURITIES 2.5%		
Adjustable Rate Mortgage Trust		
3.621% due 09/25/2035 ~	$ 587	$ 549
American Home Mortgage Investment Trust		
3.342% (US0012M + 1.500%) due 10/25/2034 ~	67	67
3.661% (US0006M + 2.000%) due 02/25/2045 ~	90	92
Banc of America Funding Trust		
1.832% (US0001M + 0.280%) due 07/25/2037 ~	800	771
3.830% due 01/20/2047 ^~	292	280
Banc of America Mortgage Trust		
3.771% due 07/25/2034 ~	369	378
3.810% due 08/25/2034 ~	1,093	1,087
3.917% due 05/25/2033 ~	180	184
6.500% due 10/25/2031	4	4
BCAP LLC Trust		
1.540% (US0001M + 0.225%) due 01/26/2036 ~	4,271	4,186
Bear Stearns Adjustable Rate Mortgage Trust		
3.142% due 04/25/2033 ~	3	3
3.580% (H15T1Y + 2.150%) due 08/25/2035 ~	621	620
3.592% due 02/25/2033 ~	1	1
3.636% (US0012M + 1.950%) due 03/25/2035 ~	769	778
3.710% due 01/25/2035 ~	2,106	2,093
3.732% due 07/25/2034 ~	177	173
3.796% due 01/25/2034 ~	14	14
3.814% due 01/25/2035 ~	102	100
Bear Stearns ALT-A Trust		
1.712% (US0001M + 0.160%) due 02/25/2034 ~	307	288
Bear Stearns Structured Products, Inc. Trust		
3.202% due 12/26/2046 «~	408	361
4.009% due 01/26/2036 ~	687	608
Chevy Chase Funding LLC Mortgage-Backed Certificates		
1.832% (US0001M + 0.280%) due 01/25/2035 ~	52	52
Citigroup Global Markets Mortgage Securities, Inc.		
7.000% due 12/25/2018	2	2
Citigroup Mortgage Loan Trust		
3.430% (H15T1Y + 2.400%) due 05/25/2035 ~	87	87
3.486% due 08/25/2035 ^~	334	257
Countrywide Alternative Loan Trust		
1.732% (US0001M + 0.180%) due 05/25/2047 ~	355	347
6.000% due 10/25/2033	9	10
Countrywide Home Loan Mortgage Pass-Through Trust		
3.484% due 11/20/2034 ~	721	737
3.488% due 11/25/2034 ~	390	389
3.513% due 02/20/2035 ~	419	424
3.537% (US0012M + 1.750%) due 02/20/2036 ^~	322	296
Credit Suisse First Boston Mortgage Securities Corp.		
1.831% due 03/25/2032 ~	1	1
Credit Suisse Mortgage Capital Certificates		
3.419% due 09/26/2047 ~	239	242
Eurosail PLC		
0.044% (EUR003M + 0.160%) due 12/10/2044 ~	EUR 104	125
1.220% (BP0003M + 0.700%) due 09/13/2045 ~	GBP 313	422
1.470% (BP0003M + 0.950%) due 06/13/2045 ~	8,675	11,786
First Horizon Alternative Mortgage Securities Trust		
3.132% due 09/25/2034 ~	$ 725	718
First Horizon Mortgage Pass-Through Trust		
3.276% due 08/25/2035 ~	162	141
3.468% due 02/25/2035 ~	1,335	1,333
GE Commercial Mortgage Corp. Trust		
5.483% due 12/10/2049 ~	700	704

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
GMAC Mortgage Corp. Loan Trust		
3.708% due 11/19/2035 ~	$ 116	$ 110
Great Hall Mortgages PLC		
1.730% (US0003M + 0.130%) due 06/18/2039 ~	1,622	1,591
GS Mortgage Securities Corp. Trust		
3.980% due 02/10/2029	5,000	5,123
GS Mortgage Securities Trust		
1.972% due 11/10/2045 ~(a)	2,233	176
GSR Mortgage Loan Trust		
3.472% due 09/25/2035 ~	394	404
3.832% due 09/25/2034 ~	92	94
HarborView Mortgage Loan Trust		
1.935% (US0001M + 0.440%) due 05/19/2035 ~	89	86
3.591% due 07/19/2035 ~	416	370
Impac CMB Trust		
2.552% (US0001M + 1.000%) due 07/25/2033 ~	102	100
JPMorgan Chase Commercial Mortgage Securities Trust		
1.800% due 10/15/2045 ~(a)	16,211	1,095
JPMorgan Mortgage Trust		
5.750% due 01/25/2036 ^	18	16
Juno Eclipse Ltd.		
0.000% due 11/20/2022 •	EUR 763	910
Merrill Lynch Mortgage Investors Trust		
1.802% (US0001M + 0.250%) due 11/25/2035 ~	$ 105	99
2.212% (US0001M + 0.660%) due 09/25/2029 ~	619	619
2.361% (US0001M + 1.000%) due 10/25/2035 ~	71	68
PHHMC Trust		
5.597% due 07/18/2035 ~	401	402
Prime Mortgage Trust		
1.952% (US0001M + 0.400%) due 02/25/2034 ~	6	5
Residential Funding Mortgage Securities, Inc. Trust		
3.785% due 09/25/2035 ^~	704	581
RFTI Issuer Ltd.		
3.227% (LIBOR01M + 1.750%) due 08/15/2030 ~	3,420	3,425
Structured Adjustable Rate Mortgage Loan Trust		
2.532% (12MTA + 1.400%) due 01/25/2035 ~	198	187
3.473% due 02/25/2034 ~	203	205
3.494% due 08/25/2035 ~	183	182
3.496% due 08/25/2034 ~	258	259
Structured Asset Mortgage Investments Trust		
1.832% (US0001M + 0.280%) due 02/25/2036 ^~	129	123
2.155% (US0001M + 0.660%) due 09/19/2032 ~	2	2
WaMu Mortgage Pass-Through Certificates Trust		
1.793% (12MTA + 0.730%) due 01/25/2047 ~	250	250
1.822% (US0001M + 0.270%) due 12/25/2045 ~	107	104
2.232% (US0001M + 0.680%) due 01/25/2045 ~	658	656
2.263% (12MTA + 1.200%) due 11/25/2042 ~	43	41
2.463% (12MTA + 1.400%) due 06/25/2042 ~	22	21
2.463% (12MTA + 1.400%) due 08/25/2042 ~	90	87
Wells Fargo Commercial Mortgage Trust		
1.796% due 10/15/2045 ~(a)	3,810	263
Wells Fargo Mortgage-Backed Securities Trust		
3.225% due 03/25/2035 ~	149	152
3.514% due 09/25/2034 ~	3,093	3,169
3.544% due 03/25/2036 ~	202	205
3.661% due 01/25/2035 ~	215	220
3.739% due 12/25/2034 ~	177	181
Total Non-Agency Mortgage-Backed Securities (Cost $53,462)		**52,291**

ASSET-BACKED SECURITIES 7.6%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
ACE Securities Corp. Home Equity Loan Trust		
1.612% (US0001M + 0.060%) due 10/25/2036 ~	$ 68	$ 38
2.452% (US0001M + 0.900%) due 12/25/2034 ~	1,433	1,372
Ally Auto Receivables Trust		
1.490% due 11/15/2019	5,346	5,340
Ameriquest Mortgage Securities, Inc. Asset-Backed Pass-Through Certificates		
2.052% (US0001M + 0.500%) due 09/25/2035 ~	7,100	7,140
Amortizing Residential Collateral Trust		
2.132% (US0001M + 0.580%) due 07/25/2032 ~	12	11
Asset-Backed Funding Certificates Trust		
2.227% (US0001M + 0.675%) due 06/25/2035 ~	6,115	6,148
Asset-Backed Securities Corp. Home Equity Loan Trust		
3.127% (US0001M + 1.650%) due 03/15/2032 ~	89	89
Babson CLO Ltd.		
2.503% (US0003M + 1.150%) due 10/17/2026 ~	4,000	4,005
Bear Stearns Asset-Backed Securities Trust		
2.552% (US0001M + 1.000%) due 10/25/2037 ~	1,517	1,527
Black Diamond CLO Ltd.		
2.403% (US0003M + 1.050%) due 02/06/2026 ~	5,100	5,104
CIFC Funding Ltd.		
2.385% (US0003M + 1.020%) due 10/24/2025 ~	4,000	4,006
Citigroup Mortgage Loan Trust, Inc.		
2.272% (US0001M + 0.720%) due 09/25/2035 ^~	3,003	3,022
Countrywide Asset-Backed Certificates		
2.032% (LIBOR01M + 0.480%) due 12/25/2031 ^~	25	22
2.252% (US0001M + 0.700%) due 12/25/2033 ~	1,345	1,305
2.352% (US0001M + 0.800%) due 03/25/2033 ~	780	771
Credit Suisse First Boston Mortgage Securities Corp.		
2.172% (US0001M + 0.620%) due 01/25/2032 ~	6	6
Edsouth Indenture LLC		
2.702% (US0001M + 1.150%) due 09/25/2040 ~	1,079	1,087
Equity One Mortgage Pass-Through Trust		
2.112% (LIBOR01M + 0.560%) due 11/25/2032 ~	1	1
First Franklin Mortgage Loan Trust		
2.272% (US0001M + 0.720%) due 05/25/2035 ~	148	148
Ford Credit Auto Lease Trust		
1.560% due 11/15/2019	2,252	2,249
1.617% (US0001M + 0.140%) due 11/15/2019 ~	3,378	3,378
GE-WMC Mortgage Securities Trust		
1.592% (US0001M + 0.040%) due 08/25/2036 ~	10	6
GM Financial Automobile Leasing Trust		
2.001% (US0001M + 0.500%) due 10/22/2018 ~	1,978	1,979
GM Financial Consumer Automobile		
1.510% due 03/16/2020	4,964	4,957
GSAMP Trust		
1.942% (US0001M + 0.390%) due 01/25/2036 ~	1,067	1,057
ICG U.S. CLO Ltd.		
2.549% (US0003M + 1.190%) due 10/15/2026 ~	3,700	3,716

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
JMP Credit Advisors CLO Ltd.		
2.593% (US0003M + 1.240%) due 10/17/2025 ~	$ 4,900	$ 4,927
JPMorgan Mortgage Acquisition Corp.		
1.732% (US0001M + 0.180%) due 02/25/2036 ~	437	438
1.782% (US0001M + 0.230%) due 05/25/2035 ~	4,515	4,525
Malin CLO BV		
0.000% due 05/07/2023 •	EUR 2,341	2,810
Massachusetts Educational Financing Authority		
2.317% (US0003M + 0.950%) due 04/25/2038 ~	$ 339	341
MP CLO Ltd.		
2.370% (US0003M + 0.840%) due 04/18/2027 ~	5,000	5,000
Navient Private Education Loan Trust		
2.677% (US0001M + 1.200%) due 12/15/2028 ~	1,859	1,896
NovaStar Mortgage Funding Trust		
1.872% (US0001M + 0.320%) due 05/25/2036 ~	5,037	5,002
NYMT Residential		
4.000% due 03/25/2021	945	948
Octagon Investment Partners Ltd.		
2.367% (US0003M + 1.000%) due 10/25/2025 ~	6,200	6,207
2.459% (US0003M + 1.100%) due 04/15/2026 ~	4,000	4,011
Opteum Mortgage Acceptance Corp. Asset-Backed Pass-Through Certificates		
1.832% (US0001M + 0.280%) due 12/25/2035 ~	485	474
OZLM Funding Ltd.		
2.483% (US0003M + 1.130%) due 01/17/2026 ~	4,900	4,924
Panhandle-Plains Higher Education Authority, Inc.		
2.465% (US0003M + 1.130%) due 10/01/2035 ~	954	961
Prestige Auto Receivables Trust		
1.460% due 07/15/2020	3,174	3,167
RAAC Trust		
2.032% (US0001M + 0.480%) due 03/25/2037 ~	322	323
Renaissance Home Equity Loan Trust		
2.052% (US0001M + 0.500%) due 12/25/2033 ~	2,835	2,796
Residential Asset Securities Corp. Trust		
2.437% (US0001M + 0.885%) due 01/25/2034 ~	3,253	3,249
Santander Drive Auto Receivables Trust		
1.490% due 02/18/2020	2,699	2,696
SLC Student Loan Trust		
1.688% (US0003M + 0.100%) due 09/15/2026 ~	3,278	3,272
1.698% (US0003M + 0.110%) due 03/15/2027 ~	5,360	5,336
SLM Private Credit Student Loan Trust		
1.778% (US0003M + 0.190%) due 12/15/2023 ~	30	30
SLM Student Loan Trust		
1.457% (US0003M + 0.090%) due 10/25/2024 ~	2,235	2,234
1.867% (US0003M + 0.500%) due 04/25/2024 ~	4,419	4,432
2.867% (US0003M + 1.500%) due 04/25/2023 ~	367	376
SoFi Consumer Loan Program LLC		
2.200% due 11/25/2026	4,914	4,906
3.050% due 12/26/2025	3,321	3,339
South Carolina Student Loan Corp.		
2.231% (US0003M + 0.750%) due 03/02/2020 ~	122	122
Specialty Underwriting & Residential Finance Trust		
1.942% (US0001M + 0.390%) due 12/25/2036 ~	4,800	4,769

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Structured Asset Investment Loan Trust		
2.257% (US0001M + 0.705%) due 03/25/2034 ~	$ 527	$ 512
2.527% (US0001M + 0.975%) due 10/25/2033 ~	323	322
VOLT LLC		
3.375% due 04/25/2047	1,822	1,833
3.500% due 03/25/2047	2,455	2,470
4.375% due 11/27/2045	1,134	1,140
Wells Fargo Home Equity Asset-Backed Securities Trust		
1.812% (US0001M + 0.260%) due 05/25/2036 ~	926	925
Westlake Automobile Receivables Trust		
1.780% due 04/15/2020	3,313	3,311
WhiteHorse Ltd.		
2.581% (US0003M + 1.200%) due 02/03/2025 ~	2,456	2,464
Total Asset-Backed Securities (Cost $149,443)		**154,972**

SOVEREIGN ISSUES 5.7%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Autonomous Community of Catalonia		
4.750% due 06/04/2018	EUR 2,700	3,290
Brazil Letras do Tesouro Nacional		
0.000% due 04/01/2018 (d)	BRL 173,300	51,425
0.000% due 07/01/2018 (d)	159,600	46,614
Japan Finance Organization for Municipalities		
2.000% due 09/08/2020	$ 8,400	8,290
Republic of Germany		
4.000% due 01/04/2018	EUR 5,400	6,481
Total Sovereign Issues (Cost $118,483)		**116,100**

CONVERTIBLE PREFERRED SECURITIES 0.0%

INDUSTRIALS 0.0%

	SHARES	MARKET VALUE (000S)
Motors Liquidation Co. «(b)	4,000	0
Total Convertible Preferred Securities (Cost $0)		**0**

SHORT-TERM INSTRUMENTS 33.9%

CERTIFICATES OF DEPOSIT 1.2%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Barclays Bank PLC		
1.892% due 05/17/2018	$ 9,700	9,711
2.060% due 03/16/2018	15,300	15,316
		25,027

COMMERCIAL PAPER 13.3%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Ameren Corp.		
1.450% due 01/02/2018	5,200	5,199
Amphenol Corp.		
1.480% due 01/08/2018	5,200	5,198
Bank of Montreal		
1.231% due 01/08/2018	CAD 6,600	5,249
1.272% due 01/15/2018	7,900	6,281
Bank of Nova Scotia		
1.240% due 01/03/2018	6,800	5,409
Bell Canada		
1.580% due 02/15/2018	$ 5,200	5,188
Boston Scientific Corp.		
1.800% due 01/31/2018	5,200	5,192
Caterpillar Financial Services Ltd.		
1.420% due 02/26/2018	2,400	2,393
CenterPoint Energy, Inc.		
1.570% due 01/23/2018	5,200	5,194
1.600% due 01/16/2018	5,100	5,096
Deutsche Telekom AG		
1.630% due 01/30/2018	12,300	12,279
Dominion Resources, Inc.		
1.520% due 01/03/2018	$ 3,200	$ 3,199
1.530% due 01/16/2018	5,000	4,996
Enbridge Energy Partners LP		
2.250% due 01/19/2018	5,100	5,095
Energy Transfer Partners LP		
2.350% due 01/02/2018	5,100	5,099
ENI Finance USA, Inc.		
1.980% due 05/07/2018	7,900	7,847
Entergy Corp.		
1.590% due 02/12/2018	2,100	2,095
Enterprise Products Operating LLC		
1.510% due 01/05/2018	5,200	5,198
1.510% due 01/12/2018	5,200	5,196
1.550% due 01/16/2018	400	400
ERP Operating LP		
1.600% due 02/16/2018	4,250	4,240
Glencore Funding LLC		
1.650% due 01/17/2018	6,300	6,294
1.650% due 01/18/2018	10,200	10,190
HP, Inc.		
1.630% due 01/29/2018	5,800	5,793
1.830% due 01/25/2018	5,100	5,094
HSBC Bank Canada		
1.245% due 01/08/2018	CAD 6,200	4,931
1.253% due 01/08/2018	6,600	5,249
Humana, Inc.		
1.600% due 01/10/2018	$ 5,000	4,997
ING U.S. Funding LLC		
0.000% due 09/11/2018	2,300	2,299
Marriott International		
1.510% due 01/02/2018	5,200	5,199
1.540% due 01/09/2018	5,100	5,097
Mondelez International, Inc.		
1.500% due 01/03/2018	4,200	4,199
1.500% due 01/08/2018	4,500	4,498
1.500% due 01/11/2018	5,100	5,097
Nissan Motor Acceptance Corp.		
1.400% due 02/21/2018	5,200	5,186
Royal Bank of Canada		
1.272% due 01/15/2018	CAD 7,900	6,281
Schlumberger Holdings		
1.900% due 03/14/2018	$ 6,300	6,276
Southern Co.		
1.530% due 01/03/2018	5,200	5,199
Southern Co. Gas Capital Corp.		
1.500% due 01/04/2018	5,200	5,198
1.520% due 01/03/2018	5,600	5,599
1.550% due 01/08/2018	3,900	3,898
Spectra Energy Partners LP		
1.750% due 01/11/2018	5,100	5,097
Syngenta Wilmington, Inc.		
3.100% due 01/04/2018	4,000	3,999
Thomson Reuters Corp.		
1.620% due 02/13/2018	5,100	5,088
1.650% due 02/20/2018	5,100	5,086
Time Warner, Inc.		
1.800% due 01/29/2018	5,100	5,092
1.850% due 01/17/2018	6,300	6,294
TransCanada American, Inc.		
1.700% due 01/16/2018	5,100	5,096
Viacom, Inc.		
2.390% due 02/01/2018	10,200	10,183
Walgreens Boots Alliance, Inc.		
1.570% due 02/16/2018	5,200	5,187
WPP CP Finance PLC		
1.650% due 01/12/2018	4,500	4,497
1.700% due 02/13/2018	3,600	3,592
		271,828

REPURCHASE AGREEMENTS (f) 0.1%

		2,988

SHORT-TERM NOTES 0.4%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
Nigeria Open Market Operation Bills		
19.252% due 05/24/2018	NGN 744,900	$ 1,975
Pacific Gas & Electric Co.		
1.707% (US0003M + 0.230%) due 11/28/2018 ~	$ 6,800	6,797
		8,772

ARGENTINA TREASURY BILLS 0.7%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
3.142% due 04/27/2018 - 10/26/2018 (c)(d)	ARS 14,000	13,774

FRANCE TREASURY BILLS 1.0%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
(1.540)% due 01/10/2018 - 01/31/2018 (c)(d)	EUR 17,200	20,644

GREECE TREASURY BILLS 0.6%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
1.688% due 02/09/2018 - 03/16/2018 (c)(d)	10,500	12,567

ITALY TREASURY BILLS 0.9%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
(0.847)% due 02/28/2018 (d)(e)	15,000	18,012

JAPAN TREASURY BILLS 12.1%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
(0.240)% due 01/12/2018 - 03/26/2018 (c)(d)	JPY 28,060,000	249,069

SPAIN TREASURY BILLS 0.3%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
(0.791)% due 02/16/2018 (d)(e)	EUR 5,000	6,004

U.K. TREASURY BILLS 1.3%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
0.048% due 01/29/2018 (c)(d)	GBP 19,200	25,919

U.S. TREASURY BILLS 2.0%

	PRINCIPAL AMOUNT (000S)	MARKET VALUE (000S)
1.177% due 01/04/2018 - 03/01/2018 (c)(h)(j)	$ 41,303	41,256
Total Short-Term Instruments (Cost $691,955)		**695,860**
Total Investments in Securities (Cost $2,160,173)		**2,203,437**

INVESTMENTS IN AFFILIATES 8.9%

SHORT-TERM INSTRUMENTS 8.9%

CENTRAL FUNDS USED FOR CASH MANAGEMENT PURPOSES 8.9%

	SHARES	MARKET VALUE (000S)
PIMCO Short Asset Portfolio	15,056,545	150,731
PIMCO Short-Term Floating NAV Portfolio III	3,273,505	32,359
Total Short-Term Instruments (Cost $182,973)		**183,090**
Total Investments in Affiliates (Cost $182,973)		**183,090**
Total Investments 116.4% (Cost $2,343,146)		**$ 2,386,527**
Financial Derivative Instruments (g)(i) (1.9)% (Cost or Premiums, net $(2,287))		**(39,481)**
Other Assets and Liabilities, net (14.5)%		**(297,649)**
Net Assets 100.0%		**$ 2,049,397**

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.**

« **Security valued using significant unobservable inputs (Level 3).**

~ **Variable or Floating rate security. Rate shown is the rate in effect as of period end. Certain variable rate securities are not based on a published reference rate and spread, rather are determined by the issuer or agent and are based on current market conditions. Reference rate is as of reset date, which may vary by security. These securities may not indicate a reference rate and/or spread in their description.**

• **Rate shown is the rate in effect as of period end. The rate may be based on a fixed rate, a capped rate or a floor rate and may convert to a variable or floating rate in the future. These securities do not indicate a reference rate and spread in their description.**

(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.**

BORROWINGS AND OTHER FINANCING TRANSACTIONS

(f) REPURCHASE AGREEMENTS:

Counterparty	Lending Rate	Settlement Date	Maturity Date	Principal Amount	Collateralized By	Collateral (Received)	Repurchase Agreements, at Value	Repurchase Agreement Proceeds to be Received[(1)]
FICC	0.700%	12/29/2017	01/02/2018	$ 2,988	U.S. Treasury Notes 1.375% due 06/30/2023	$ (3,051)	$ 2,988	$ 2,988
Total Repurchase Agreements						**$ (3,051)**	**$ 2,988**	**$ 2,988**

SHORT SALES:

Description	Coupon	Maturity Date	Principal Amount	Proceeds	Payable for Short Sales
U.S. Government Agencies (0.2)%					
Fannie Mae, TBA	5.000%	01/01/2048	$ 100	$ (108)	$ (108)
Fannie Mae, TBA	6.000	01/01/2048	3,000	(3,363)	(3,356)
Freddie Mac, TBA	5.000	01/01/2048	500	(538)	(537)
Total Short Sales (0.2)%				**$ (4,009)**	**$ (4,001)**

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, 2017:

Counterparty	Repurchase Agreement Proceeds to be Received[(1)]	Payable for Reverse Repurchase Agreements	Payable for Sale-Buyback Transactions	Total Borrowings and Other Financing Transactions	Collateral Pledged/(Received)	Net Exposure[(2)]
Global/Master Repurchase Agreement						
FICC	$ 2,988	$ 0	$ 0	$ 2,988	$ (3,051)	$ (63)
Total Borrowings and Other Financing Transactions	**$ 2,988**	**$ 0**	**$ 0**			

(1) Includes accrued interest.

(2) Net Exposure represents the net receivable/(payable) that would be due from/to the counterparty in the event of default. Exposure from borrowings and other financing transactions can only be netted across transactions governed under the same master agreement with the same legal entity. See Note 8, Master Netting Arrangements, in the Notes to Financial Statements for more information regarding master netting arrangements.

The average amount of borrowings outstanding during the period ended December 31, 2017 was $(729) at a weighted average interest rate of 1.236%. Average borrowings may include sale-buyback transactions and reverse repurchase agreements, if held during the period.

(g) FINANCIAL DERIVATIVE INSTRUMENTS: EXCHANGE-TRADED OR CENTRALLY CLEARED

PURCHASED OPTIONS:

OPTIONS ON EXCHANGE-TRADED FUTURES CONTRACTS

Description	Strike Price	Expiration Date	# of Contracts	Notional Amount	Cost	Market Value
Put - CME 90-Day Eurodollar March Futures	$ 98.250	03/19/2018	976	$ 2,440	$ 83	$ 128
Total Purchased Options					**$ 83**	**$ 128**

WRITTEN OPTIONS:

OPTIONS ON EXCHANGE-TRADED FUTURES CONTRACTS

Description	Strike Price	Expiration Date	# of Contracts	Notional Amount	Premiums (Received)	Market Value
Call - CME 90-Day Eurodollar March Futures	$ 98.750	03/19/2018	976	$ 2,440	$ (105)	$ (6)
Total Written Options					**$ (105)**	**$ (6)**

FUTURES CONTRACTS:

LONG FUTURES CONTRACTS

Description	Expiration Month	# of Contracts	Notional Amount	Unrealized Appreciation/ (Depreciation)	Variation Margin Asset	Variation Margin Liability
3-Month Euribor March Futures	03/2018	696	EUR 209,442	$ (11)	$ 0	$ (10)
90-Day Eurodollar June Futures	06/2018	10	$ 2,452	(4)	0	0
90-Day Eurodollar March Futures	03/2018	550	135,080	(320)	7	0
90-Day Eurodollar March Futures	03/2019	916	223,951	(493)	34	0
90-Day Eurodollar September Futures	09/2018	240	58,776	(236)	6	0
Euro-Bund 10-Year Bond March Futures	03/2018	568	EUR 110,187	(707)	0	(416)
U.S. Treasury 2-Year Note March Futures	03/2018	2,344	$ 501,872	(1,149)	147	0
				$ (2,920)	$ 194	$ (426)

SHORT FUTURES CONTRACTS

Description	Expiration Month	# of Contracts	Notional Amount	Unrealized Appreciation/ (Depreciation)	Variation Margin Asset	Variation Margin Liability
Euro-OAT France Government 10-Year Bond March Futures	03/2018	662	EUR (123,260)	$ 1,532	$ 747	$ 0
U.S. Treasury 30-Year Bond March Futures	03/2018	37	$ (5,661)	9	0	(10)
				$ 1,541	$ 747	$ (10)
Total Futures Contracts				**$ (1,379)**	**$ 941**	**$ (436)**

SWAP AGREEMENTS:

CREDIT DEFAULT SWAPS ON CORPORATE ISSUES - SELL PROTECTION(1)

Reference Entity	Fixed Receive Rate	Payment Frequency	Maturity Date	Implied Credit Spread at December 31, 2017(2)	Notional Amount(3)	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Market Value	Variation Margin Asset	Variation Margin Liability
Berkshire Hathaway, Inc.	1.000%	Quarterly	12/20/2023	0.682%	$ 1,000	$ (11)	$ 29	$ 18	$ 0	$ (1)
MetLife, Inc.	1.000	Quarterly	03/20/2019	0.101	1,700	21	(2)	19	0	0
Volkswagen International Finance NV	1.000	Quarterly	12/20/2018	0.099	EUR 1,700	18	1	19	0	0
						$ 28	$ 28	$ 56	$ 0	$ (1)

INTEREST RATE SWAPS

Pay/Receive Floating Rate	Floating Rate Index	Fixed Rate	Payment Frequency	Maturity Date	Notional Amount	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Market Value	Variation Margin Asset	Variation Margin Liability
Pay	1-Year BRL-CDI	8.180%	Maturity	01/02/2020	BRL 348,700	$ (6)	$ 397	$ 391	$ 0	$ (13)
Pay	1-Year BRL-CDI	8.220	Maturity	01/02/2020	308,000	(438)	850	412	0	(12)
Pay	1-Year BRL-CDI	8.489	Maturity	01/02/2020	37,000	0	97	97	0	(1)
Pay	1-Year BRL-CDI	8.493	Maturity	01/02/2020	54,400	0	144	144	0	(2)
Receive(4)	6-Month GBP-LIBOR	1.500	Semi-Annual	03/21/2028	GBP 30,800	(991)	200	(791)	75	0
Receive	6-Month JPY-LIBOR	0.300	Semi-Annual	03/18/2026	JPY 11,480,000	(741)	198	(543)	32	0
						$ (2,176)	$ 1,886	$ (290)	$ 107	$ (28)
Total Swap Agreements						**$ (2,148)**	**$ 1,914**	**$ (234)**	**$ 107**	**$ (29)**

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, 2017:

	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	**$ 128**	**$ 941**	**$ 107**	**$ 1,176**	**$ (6)**	**$ (436)**	**$ (29)**	**$ (471)**

(h) Securities with an aggregate market value of $1,368 and cash of $16,708 have been pledged as collateral for exchange-traded and centrally cleared financial derivative instruments as of December 31, 2017. See Note 8, Master Netting Arrangements, in the Notes to Financial Statements for more information regarding master netting arrangements.

(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 indicators 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) This instrument has a forward starting effective date. See Note 2, Securities Transactions and Investment Income, in the Notes to Financial Statements for further information.

(i) FINANCIAL DERIVATIVE INSTRUMENTS: OVER THE COUNTER

FORWARD FOREIGN CURRENCY CONTRACTS:

Counterparty	Settlement Month	Currency to be Delivered		Currency to be Received		Unrealized Appreciation/ (Depreciation) Asset	Unrealized Appreciation/ (Depreciation) Liability
BOA	01/2018	BRL	64,591	$	19,526	$ 54	$ 0
	01/2018	DKK	176,899		25,977	0	(2,533)
	01/2018		$19,756	BRL	64,591	0	(284)
	01/2018		5,195	CAD	6,600	57	0
	01/2018		998	DKK	6,265	12	0
	01/2018		3,562	MXN	67,572	0	(138)
	02/2018	EUR	12,371	$	14,494	0	(386)
	03/2018	JPY	430,000		3,839	7	0
	04/2018	DKK	351,426		51,582	0	(5,388)
	07/2018		111,105		17,180	0	(944)
BPS	01/2018	CAD	15,800		12,295	0	(278)
	01/2018	DKK	121,035		17,653	0	(1,854)
	01/2018		$103	DKK	674	6	0
	02/2018	GBP	29,483	$	38,875	0	(986)
	02/2018	JPY	4,010,000		35,366	0	(291)
	02/2018		$102	ILS	356	1	0
	02/2018		24,645	JPY	2,762,000	0	(83)
	03/2018	MXN	138,400	$	6,618	0	(348)
	03/2018		$7,318	MXN	138,400	0	(351)
	04/2018	BRL	77,100	$	20,421	0	(2,594)
	04/2018	DKK	209,863		30,918	0	(3,103)
	04/2018		$5,605	RUB	334,704	126	0
	07/2018	DKK	93,010	$	14,029	0	(1,144)
	12/2018		$12,327	CAD	15,785	268	0
BRC	01/2018	EUR	4,800	$	5,720	0	(48)
	01/2018	MXN	33,912		1,774	56	0
	02/2018	JPY	485,000		4,289	0	(25)
CBK	01/2018	DKK	90,022		13,313	0	(1,196)
	01/2018	EUR	5,400		6,419	0	(61)
	01/2018	GBP	3,800		5,082	0	(53)
	01/2018		$243	DKK	1,540	5	0
	02/2018	GBP	3,957	$	5,194	0	(156)
	02/2018	JPY	13,289,500		117,935	173	(422)
	03/2018		560,000		5,000	9	0

Counterparty	Settlement Month	Currency to be Delivered		Currency to be Received		Unrealized Appreciation/ (Depreciation) Asset	Unrealized Appreciation/ (Depreciation) Liability
	04/2018	DKK	1,540	$	245	$ 0	$ (5)
	07/2018	$	489	DKK	3,176	29	0
DUB	01/2018	EUR	12,400	$	14,670	0	(214)
	01/2018	GBP	7,700		10,346	0	(58)
	02/2018	EUR	20,000		23,739	0	(332)
	02/2018	SEK	345,735		41,122	0	(1,132)
	03/2018	KRW	47,786,020		42,965	0	(1,846)
	03/2018	$	6,496	SGD	8,838	119	0
FBF	01/2018		10,300	CAD	13,200	203	0
GLM	01/2018	MXN	45,656	$	2,388	75	0
	02/2018	EUR	216		255	0	(5)
	02/2018	GBP	12,677		17,012	17	(145)
	02/2018	JPY	5,588,600		49,588	0	(104)
	02/2018	$	15,874	JPY	1,767,400	0	(157)
	03/2018	EUR	5,100	$	6,040	0	(105)
	03/2018		$123	MYR	520	5	0
	04/2018	DKK	68,882	$	10,070	0	(1,096)
	04/2018	$	709	DKK	4,631	41	0
HUS	01/2018	BRL	36,700	$	10,803	0	(261)
	01/2018	$	11,094	BRL	36,700	0	(30)
	02/2018	JPY	5,190,500	$	46,055	0	(103)
	03/2018	SGD	14,177		10,432	0	(179)
	03/2018	$	3,987	RUB	235,809	63	0
	04/2018	BRL	80,800	$	23,795	0	(325)
	04/2018	DKK	39,462		5,874	0	(523)
	04/2018	$	14,822	RUB	883,943	315	0
JPM	01/2018	BRL	83,500	$	24,344	0	(829)
	01/2018	CAD	28,985		22,705	0	(359)
	01/2018	DKK	129,232		18,903	0	(1,925)
	01/2018	$	25,242	BRL	83,500	0	(69)
	01/2018		30,590	CAD	38,906	367	0
	02/2018	EUR	4,649	$	5,556	0	(36)
	02/2018	GBP	7,751		10,308	0	(172)
	02/2018	JPY	5,133,300		45,854	299	(93)
	02/2018	SEK	138,850		16,523	0	(447)
	02/2018	$	5,790	EUR	4,879	78	0
	02/2018		31,238	GBP	23,218	153	0
	02/2018		56,413	JPY	6,287,700	0	(498)
	04/2018	BRL	15,400	$	4,854	257	0
	04/2018	DKK	168,500		25,873	0	(1,442)
	05/2018	NGN	700,391		1,862	11	0
	07/2018	BRL	31,800		9,289	0	(112)
MSB	01/2018	CAD	45,347		35,324	0	(758)
	01/2018	JPY	3,610,000		31,919	0	(136)
	02/2018	EUR	206		243	0	(4)
	02/2018	JPY	3,342,100		29,554	0	(165)
	03/2018		30,000		268	1	0
	03/2018	THB	10,231		309	0	(5)
NGF	01/2018	BRL	68,200		20,095	0	(465)
	01/2018	$	20,617	BRL	68,200	0	(57)
	03/2018	TWD	1,366,264	$	45,595	0	(828)
	03/2018	$	10,026	TWD	299,345	145	0
SCX	01/2018	BRL	125,100	$	37,817	104	0
	01/2018	CAD	6,800		5,357	0	(53)
	01/2018	$	38,171	BRL	125,100	0	(457)
	02/2018	EUR	1,638	$	1,931	0	(39)
	03/2018	$	224	INR	14,797	6	0
	03/2018		1,685	RUB	100,721	45	0
	04/2018	DKK	279,881	$	41,759	0	(3,613)
	07/2018	BRL	127,800		38,181	403	0
SOG	02/2018	SEK	5,795		697	0	(12)
TOR	04/2018	DKK	99,990		14,622	0	(1,588)
UAG	01/2018	CAD	19,400		15,096	0	(340)
	01/2018	GBP	13,900		18,631	0	(149)
	01/2018	$	25,426	GBP	19,102	370	0
	02/2018	JPY	3,460,000	$	30,627	0	(128)
	02/2018	$	2,325	GBP	1,734	19	0
	03/2018	EUR	1,800	$	2,137	0	(32)
Total Forward Foreign Currency Contracts						**$ 3,899**	**$ (44,097)**

WRITTEN OPTIONS:

FOREIGN CURRENCY OPTIONS

Counterparty	Description	Strike Price	Expiration Date	Notional Amount	Premiums (Received)	Market Value
BOA	Call - OTC USD versus RUB	RUB 60.173	01/12/2018	$ 6,600	$ (50)	$ (2)
CBK	Call - OTC USD versus RUB	60.850	02/02/2018	4,000	(35)	(7)
GLM	Call - OTC USD versus BRL	BRL 3.400	01/03/2018	3,800	(36)	(1)
					$ (121)	$ (10)
Total Written Options					**$ (121)**	**$ (10)**

SWAP AGREEMENTS:

CREDIT DEFAULT SWAPS ON CORPORATE AND SOVEREIGN ISSUES - SELL PROTECTION(1)

Counterparty	Reference Entity	Fixed Receive Rate	Payment Frequency	Maturity Date	Implied Credit Spread at December 31, 2017(2)	Notional Amount(3)	Premiums Paid/(Received)	Unrealized Appreciation/ (Depreciation)	Swap Agreements, at Value	
									Asset	Liability
BRC	Mexico Government International Bond	1.000%	Quarterly	03/20/2018	0.254%	$ 4,300	$ (7)	$ 16	$ 9	$ 0
JPM	PSEG Power LLC	1.000	Quarterly	12/20/2018	0.229	1,700	11	2	13	0
							$ 4	$ 18	$ 22	$ 0
Total Swap Agreements							**$ 4**	**$ 18**	**$ 22**	**$ 0**

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, 2017:

	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(4)
BOA	$ 130	$ 0	$ 0	$ 130	$ (9,673)	$ (2)	$ 0	$ (9,675)	$ (9,545)	$ 9,120	$(425)
BPS	401	0	0	401	(11,032)	0	0	(11,032)	(10,631)	10,228	(403)
BRC	56	0	9	65	(73)	0	0	(73)	(8)	0	(8)
CBK	216	0	0	216	(1,893)	(7)	0	(1,900)	(1,684)	1,317	(367)
DUB	119	0	0	119	(3,582)	0	0	(3,582)	(3,463)	2,797	(666)
FBF	203	0	0	203	0	0	0	0	203	0	203
GLM	138	0	0	138	(1,612)	(1)	0	(1,613)	(1,475)	1,292	(183)
HUS	378	0	0	378	(1,421)	0	0	(1,421)	(1,043)	799	(244)
JPM	1,165	0	13	1,178	(5,982)	0	0	(5,982)	(4,804)	5,056	252
MSB	1	0	0	1	(1,068)	0	0	(1,068)	(1,067)	934	(133)
NGF	145	0	0	145	(1,350)	0	0	(1,350)	(1,205)	1,099	(106)
SCX	558	0	0	558	(4,162)	0	0	(4,162)	(3,604)	3,253	(351)
SOG	0	0	0	0	(12)	0	0	(12)	(12)	0	(12)
TOR	0	0	0	0	(1,588)	0	0	(1,588)	(1,588)	1,348	(240)
UAG	389	0	0	389	(649)	0	0	(649)	(260)	0	(260)
Total Over the Counter	**$ 3,899**	**$ 0**	**$ 22**	**$ 3,921**	**$ (44,097)**	**$ (10)**	**$ 0**	**$ (44,107)**			

(j) Securities with an aggregate market value of $37,242 have been pledged as collateral for financial derivative instruments as governed by International Swaps and Derivatives Association, Inc. master agreements as of December 31, 2017.

(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 indicators 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) 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 8, Master Netting Arrangements, 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, 2017:

	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	$ 128	$ 128
Futures	0	0	0	0	941	941
Swap Agreements	0	0	0	0	107	107
	$ 0	$ 0	$ 0	$ 0	$ 1,176	$ 1,176
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 3,899	$ 0	$ 3,899
Swap Agreements	0	22	0	0	0	22
	$ 0	$ 22	$ 0	$ 3,899	$ 0	$ 3,921
	$ 0	$ 22	$ 0	$ 3,899	$ 1,176	$ 5,097
Financial Derivative Instruments - Liabilities						
Exchange-traded or centrally cleared						
Written Options	$ 0	$ 0	$ 0	$ 0	$ 6	$ 6
Futures	0	0	0	0	436	436
Swap Agreements	0	1	0	0	28	29
	$ 0	$ 1	$ 0	$ 0	$ 470	$ 471
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ 44,097	$ 0	$ 44,097
Written Options	0	0	0	10	0	10
	$ 0	$ 0	$ 0	$ 44,107	$ 0	$ 44,107
	$ 0	$ 1	$ 0	$ 44,107	$ 470	$ 44,578

The effect of Financial Derivative Instruments on the Statement of Operations for the period ended December 31, 2017:

	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	$ (76)	$ (76)
Written Options	0	0	0	0	147	147
Futures	0	0	0	0	(5,104)	(5,104)
Swap Agreements	0	231	0	0	3,250	3,481
	$ 0	$ 231	$ 0	$ 0	$ (1,783)	$ (1,552)
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ (3,624)	$ 0	$ (3,624)
Purchased Options	0	0	0	0	(88)	(88)
Written Options	0	0	0	1,573	475	2,048
Swap Agreements	0	737	0	0	310	1,047
	$ 0	$ 737	$ 0	$ (2,051)	$ 697	$ (617)
	$ 0	$ 968	$ 0	$ (2,051)	$ (1,086)	$ (2,169)
Net Change in Unrealized Appreciation (Depreciation) on Financial Derivative Instruments						
Exchange-traded or centrally cleared						
Purchased Options	$ 0	$ 0	$ 0	$ 0	$ 44	$ 44
Written Options	0	0	0	0	99	99
Futures	0	0	0	0	(862)	(862)
Swap Agreements	0	(35)	0	0	(2,700)	(2,735)
	$ 0	$ (35)	$ 0	$ 0	$ (3,419)	$ (3,454)
Over the counter						
Forward Foreign Currency Contracts	$ 0	$ 0	$ 0	$ (49,498)	$ 0	$ (49,498)
Written Options	0	0	0	(83)	(108)	(191)
Swap Agreements	0	(641)	0	0	(1,465)	(2,106)
	$ 0	$ (641)	$ 0	$ (49,581)	$ (1,573)	$ (51,795)
	$ 0	$ (676)	$ 0	$ (49,581)	$ (4,992)	$ (55,249)

FAIR VALUE MEASUREMENTS

The following is a summary of the fair valuations according to the inputs used as of December 31, 2017 in valuing the Portfolio's assets and liabilities:

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 12/31/2017
Investments in Securities, at Value				
Corporate Bonds & Notes				
Banking & Finance	$ 0	$ 680,201	$ 0	$ 680,201
Industrials	0	98,999	0	98,999
Utilities	0	27,515	0	27,515
Municipal Bonds & Notes				
Texas	0	254	0	254
U.S. Government Agencies	0	377,245	0	377,245
Non-Agency Mortgage-Backed Securities	0	51,930	361	52,291
Asset-Backed Securities	0	154,972	0	154,972
Sovereign Issues	0	116,100	0	116,100
Short-Term Instruments				
Certificates of Deposit	0	25,027	0	25,027
Commercial Paper	0	271,828	0	271,828
Repurchase Agreements	0	2,988	0	2,988
Short-Term Notes	0	8,772	0	8,772
Argentina Treasury Bills	0	13,774	0	13,774
France Treasury Bills	0	20,644	0	20,644
Greece Treasury Bills	0	12,567	0	12,567
Italy Treasury Bills	0	18,012	0	18,012
Japan Treasury Bills	0	249,069	0	249,069
Spain Treasury Bills	0	6,004	0	6,004
U.K. Treasury Bills	0	25,919	0	25,919
U.S. Treasury Bills	0	41,256	0	41,256
	$ 0	$ 2,203,076	$ 361	$ 2,203,437

Category and Subcategory	Level 1	Level 2	Level 3	Fair Value at 12/31/2017
Investments in Affiliates, at Value				
Short-Term Instruments				
Central Funds Used for Cash Management Purposes	$ 183,090	$ 0	$ 0	$ 183,090
Total Investments	$ 183,090	$ 2,203,076	$ 361	$ 2,386,527
Short Sales, at Value - Liabilities				
U.S. Government Agencies	$ 0	$ (4,001)	$ 0	$ (4,001)
Financial Derivative Instruments - Assets				
Exchange-traded or centrally cleared	1,069	107	0	1,176
Over the counter	0	3,921	0	3,921
	$ 1,069	$ 4,028	$ 0	$ 5,097
Financial Derivative Instruments - Liabilities				
Exchange-traded or centrally cleared	(442)	(29)	0	(471)
Over the counter	0	(44,107)	0	(44,107)
	$ (442)	$ (44,136)	$ 0	$ (44,578)
Total Financial Derivative Instruments	$ 627	$ (40,108)	$ 0	$ (39,481)
Totals	$ 183,717	$ 2,158,967	$ 361	$ 2,343,045

There were no significant transfers among Levels 1, 2, or 3 during the period ended December 31, 2017.

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, if any, are recorded as components of interest income on the Statement of Operations. Income or short-term capital gain distributions received from registered investment companies, if any, are recorded as dividend income. Long-term capital gain distributions received from registered investment companies, if any, 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 the Portfolio estimates that a portion of one of its dividend distributions may be comprised of amounts from sources other than net investment income in accordance with its policies and good accounting practices, the Portfolio will notify shareholders of record of the estimated composition of such distribution through a Section 19 Notice. For these purposes, the Portfolio estimates the source or sources from which a distribution is paid, to the close of the period as of which it is paid, in reference to its internal accounting records and related accounting practices. If, based on such accounting records and practices, it is estimated that 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 the Portfolio's daily internal accounting records and practices, the Portfolio's financial statements presented in accordance with U.S. GAAP, and recordkeeping practices under income tax regulations. For instance, the Portfolio's internal accounting records and practices may take into account, among other factors, tax-related characteristics of certain sources of distributions that differ from treatment under U.S. GAAP. 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. Accordingly, among other consequences, it is possible that the 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 and/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. 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 March 2016, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU"), ASU 2016-05, which provides guidance related to the impact of derivative contract novations on certain relationships under Accounting Standards Codification ("ASC") 815. The ASU is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Portfolio has adopted the ASU. The implementation of 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 require standardized, enhanced disclosure about derivatives in investment company financial statements, and also change the rules governing the form and content of such financial statements. The compliance date for these amendments was August 1, 2017. Compliance is based on reporting period-end date. Management has adopted these amendments and the changes are incorporated in the financial statements.

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.

In March 2017, the FASB issued ASU 2017-08 which provides guidance related to the amortization period for certain purchased callable debt securities held at a premium. The ASU is effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods. The Portfolio has adopted the ASU. The implementation of the ASU did not have an impact on the Portfolio's 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 as of which its NAV is calculated if the Portfolio closes earlier, or as permitted by the SEC.

For purposes of calculating a 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. If market value pricing is used, 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. The Portfolio's investments in open-end management investment companies, other than exchange-traded funds ("ETFs"), are valued at the NAVs of such investments. Open-end management investment companies may include affiliated funds.

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 foreign (non-U.S.) securities. For these purposes, any movement in the applicable reference index or instrument ("zero trigger") between the earlier close of the applicable foreign market and the NYSE Close may be deemed to be a significant event, prompting the application of the pricing model (effectively resulting in daily fair valuations). 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 the 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 the Portfolio could obtain for a security if it were to dispose of that security as of the time of pricing (for instance, in a forced or distressed sale). The prices used by the Portfolio may differ from the value that would be realized if the securities were sold. 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.

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 (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.

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 value of such short-term debt instruments is approximately the same as the fair value of the instrument as determined without the use of amortized cost valuation. These securities are categorized as Level 2 or Level 3 of the fair value hierarchy depending on the source of the base price.

4. SECURITIES AND OTHER INVESTMENTS

(a) Investments in Affiliates

The Portfolio may invest in the PIMCO Short Asset Portfolio and the PIMCO Short-Term Floating NAV Portfolio III ("Central Funds") to the extent permitted by the Act and rules thereunder. The Central Funds are registered investment companies created for use solely by the series of the Trust and other series of registered investment companies advised by the Adviser, in connection with their cash management activities. The main investments of the Central Funds are money market and short maturity fixed income instruments. The Central Funds may incur expenses related to their investment activities, but do not pay Investment Advisory Fees or Supervisory and Administrative Fees to the Adviser. The Central Funds are considered to be affiliated with the Portfolio. The tables below show the Portfolio's transactions in and earnings from investments in the affiliated Funds for the period ended December 31, 2017 (amounts in thousands†):

Investment in PIMCO Short Asset Portfolio

Market Value 12/31/2016	Purchases at Cost	Proceeds from Sales	Net Realized Gain (Loss)	Change in Unrealized Appreciation (Depreciation)	Market Value 12/31/2017	Dividend Income(1)	Realized Net Capital Gain Distributions(1)
$ 0	$ 150,615	$ 0	$ 0	$ 116	$ 150,731	$ 1,560	$ 40

Investment in PIMCO Short-Term Floating NAV Portfolio III

Market Value 12/31/2016	Purchases at Cost	Proceeds from Sales	Net Realized Gain (Loss)	Change in Unrealized Appreciation (Depreciation)	Market Value 12/31/2017	Dividend Income(1)	Realized Net Capital Gain Distributions(1)
$ 322,117	$ 1,908,623	$ (2,198,399)	$ 1	$ 17	$ 32,359	$ 2,723	$ 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 and may contain a return of capital. The actual tax characterization of distributions received is determined at the end of the fiscal year of the affiliated fund. See Note 2, Distributions to Shareholders, in the Notes to Financial Statements for more information.

(b) Investments in Securities

The Portfolio may utilize the investments and strategies described below to the extent permitted by the Portfolio's investment policies.

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.

Mortgage-Related and Other Asset-Backed Securities 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.

Securities Issued by U.S. Government Agencies or Government-Sponsored Enterprises 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.

Roll-timing strategies can be used where the Portfolio seeks to extend the expiration or maturity of a position, such as a TBA security on an underlying asset, by closing out the position before expiration and opening a new position with respect to substantially 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 are purchases or sales made 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 Portfolio may enter into the borrowings and other financing transactions described below to the extent permitted by the Portfolio's investment policies.

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.

(a) 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. In an open maturity repurchase agreement, there is no pre-determined repurchase date and the agreement can be terminated by the Portfolio or counterparty at any 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 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. In an open maturity reverse repurchase agreement, there is no pre-determined repurchase date and the agreement can be terminated by the Portfolio or counterparty at any time. 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 A sale-buyback financing 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 Short sales are transactions in which the Portfolio sells a security that it may not own. The Portfolio may make short sales of securities to (i) offset potential declines in long positions in similar securities, (ii) to increase the flexibility of the Portfolio, (iii) for investment return, (iv) as part of a risk arbitrage strategy, and (v) as part of its overall portfolio management strategies involving the use of derivative instruments. When the Portfolio engages in a short sale, it may borrow the security sold short and deliver it to the counterparty. The Portfolio will ordinarily have to pay a fee or premium to borrow a security and be obligated to repay the lender of the security any dividend or interest that accrues on the security during the period of the loan. Securities sold in short sale transactions and the dividend or interest payable on such securities, if any, are reflected as payable for short sales on the Statement of Assets and Liabilities. Short sales expose the Portfolio to the risk that it will be required to cover its short position at a time when the security or other asset has appreciated in value, thus resulting in losses to the Portfolio. A short sale is "against the box" if the Portfolio holds in its portfolio or has the right to acquire the security sold short at no additional cost. The Portfolio will be subject to additional risks to the extent that it engages in short sales that are not "against the box." The Portfolio's loss on a short sale could theoretically be unlimited in cases where the Portfolio is unable, for whatever reason, to close out its short position.

6. FINANCIAL DERIVATIVE INSTRUMENTS

The Portfolio may enter into the financial derivative instruments described below to the extent permitted by the Portfolio's investment policies.

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 may be engaged, 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 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 are agreements to buy or sell a security or other asset for a set price on a future date. 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 may be written or purchased 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.

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 may be written or purchased to be used as a short or long hedge against possible variations in foreign exchange rates or to gain exposure to foreign currencies. Purchasing foreign currency options gives the Portfolio the right, but not the obligation to buy or sell specified amounts of currency at a rate of exchange that may be exercised by a certain date.

Interest Rate Swaptions 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 ("Futures Option") may be written or purchased 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 may be written or purchased to enhance returns or to hedge an existing position or future investment. An option on a security uses a specified security as the underlying instrument for the option contract.

(d) 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. Centrally Cleared and 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 gain (loss) 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 in general better reflects the Portfolio's actual economic exposure during the term of the credit default swap agreement. As a result, the Portfolio may, at times, have notional exposure to an asset class (before netting) that is greater or lesser than the stated limit or restriction noted in the Portfolio's prospectus. 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 or the values of the asset upon which the swap is based.

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.

To the extent the Portfolio has a policy to limit the net amount owed to or to be received from a single counterparty under existing swap agreements, such limitation only applies to counterparties to OTC swaps and does not apply to centrally cleared swaps where the counterparty is a central counterparty or derivatives clearing organization.

Credit Default Swap Agreements on corporate, loan, sovereign, U.S. municipal or U.S. Treasury issues are entered into 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.

Interest Rate Swap Agreements may be entered into to help hedge against interest rate risk exposure and to maintain the Portfolio's ability to generate income at prevailing market rates. 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

The principal risks of investing in the Portfolio, which could adversely affect its net asset value, yield and total return, are listed below. Please see "Description of Principal Risks" in the Portfolio's prospectus for a more detailed description of the risks of investing in the Portfolio.

Interest Rate Risk is the risk that fixed income securities will decline in value because of an increase in interest rates; a portfolio with a longer average portfolio duration will be more sensitive to changes in interest rates than a portfolio with a shorter average portfolio duration.

Call Risk is the risk that an issuer may exercise its right to redeem a fixed income security earlier than expected (a call). Issuers may call outstanding securities prior to their maturity for a number of reasons (e.g., declining interest rates, changes in credit spreads and improvements in the issuer's credit quality). If an issuer calls a security that the Portfolio has invested in, the Portfolio may not recoup the full amount of its initial investment and may be forced to reinvest in lower-yielding securities, securities with greater credit risks or securities with other, less favorable features.

Credit Risk is the risk that the Portfolio could lose money if the issuer or guarantor of a fixed income security, or the counterparty to a derivative contract, is unable or unwilling to meet its financial obligations.

High Yield Risk is the risk that high yield securities and unrated securities of similar credit quality (commonly known as "junk bonds") are subject to greater levels of credit, call and liquidity risks. High yield securities are considered primarily speculative with respect to the issuer's continuing ability to make principal and interest payments, and may be more volatile than higher-rated securities of similar maturity.

Market Risk is the risk that the value of securities owned by the Portfolio may go up or down, sometimes rapidly or unpredictably, due to factors affecting securities markets generally or particular industries.

Issuer Risk is the risk that the value of a security may decline for a reason directly related to the issuer, such as management performance, financial leverage and reduced demand for the issuer's goods or services.

Liquidity Risk is the risk that a particular investment may be difficult to purchase or sell and that the Portfolio may be unable to sell illiquid securities at an advantageous time or price or achieve its desired level of exposure to a certain sector. Liquidity risk may result from the lack of an active market, reduced number and capacity of traditional market participants to make a market in fixed income securities, and may be magnified in a rising interest rate environment or other circumstances where investor redemptions from fixed income mutual funds may be higher than normal, causing increased supply in the market due to selling activity.

Derivatives Risk is the risk of investing in derivative instruments (such as futures, swaps and structured securities), including leverage, liquidity, interest rate, market, credit and management risks, mispricing or valuation complexity. Changes in the value of the derivative may not correlate perfectly with, and may be more sensitive to market events than, the underlying asset, rate or index, and the Portfolio could lose more than the initial amount invested. The Portfolio's use of derivatives may result in losses to the Portfolio, a reduction in the Portfolio's returns and/or increased volatility. Over-the-counter ("OTC") derivatives are also 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 derivatives. 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. 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 of derivatives and the Portfolio's performance.

Equity Risk is the risk that the value of equity securities, such as common stocks and preferred stocks, may decline due to general market conditions which are not specifically related to a particular company or to factors affecting a particular industry or industries. Equity securities generally have greater price volatility than fixed income securities.

Mortgage-Related and Other Asset-Backed Securities Risk is the risk of investing in mortgage-related and other asset-backed securities, including interest rate risk, extension risk, prepayment risk and credit risk.

Foreign (Non-U.S.) Investment Risk is the risk that investing in foreign (non-U.S.) securities may result in the Portfolio experiencing more rapid and extreme changes in value than a portfolio that invests exclusively in securities of U.S. companies, due to smaller markets, differing reporting, accounting and auditing standards, increased risk of delayed settlement of portfolio transactions or loss of certificates of portfolio securities, and the risk of unfavorable foreign government actions, including nationalization, expropriation or confiscatory taxation, currency blockage, or political changes or diplomatic developments. Foreign securities may also be less liquid and more difficult to value than securities of U.S. issuers.

Emerging Markets Risk is the risk of investing in emerging market securities, primarily increased foreign (non-U.S.) investment risk.

Sovereign Debt Risk is the risk that investments in fixed income instruments issued by sovereign entities may decline in value as a result of default or other adverse credit event resulting from an issuer's inability or unwillingness to make principal or interest payments in a timely fashion.

Currency Risk is the risk that foreign (non-U.S.) currencies will decline in value relative to the U.S. dollar and affect the Portfolio's investments in foreign (non-U.S.) currencies or in securities that trade in, and receive revenues in, or in derivatives that provide exposure to, foreign (non-U.S.) currencies.

Leveraging Risk is the risk that certain transactions of the Portfolio, such as reverse repurchase agreements, loans of portfolio securities, and the use of when-issued, delayed delivery or forward commitment transactions, or derivative instruments, may give rise to leverage, magnifying gains and losses and causing the Portfolio to be more volatile than if it had not been leveraged. This means that leverage entails a heightened risk of loss.

Management Risk is the risk that the investment techniques and risk analyses applied by PIMCO will not produce the desired results and that legislative, regulatory, or tax restrictions, policies or developments may affect the investment techniques available to PIMCO and the individual portfolio manager in connection with managing the Portfolio. There is no guarantee that the investment objective of the Portfolio will be achieved.

Short Sale Risk is the risk of entering into short sales, including the potential loss of more money than the actual cost of the investment, and the risk that the third party to the short sale will not fulfill its contractual obligations, causing a loss to the Portfolio.

8. 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 are disclosed in the Notes to Schedule of Investments.

Prime Broker Arrangements may be entered into to facilitate execution and/or clearing of listed equity option transactions or short sales of equity securities between the Portfolio and selected counterparties. The arrangements provide guidelines surrounding the rights, obligations, and other events, including, but not limited to, margin, execution, and settlement. These agreements maintain provisions for, among other things, payments, maintenance of collateral, events of default, and termination. Margin and other assets delivered as collateral are typically in the possession of the prime broker and would offset any obligations due to the prime broker. The market values of listed options and securities sold short and related collateral are disclosed in the Notes to Schedule of Investments.

International Swaps and Derivatives Association, Inc. Master Agreements and Credit Support Annexes ("ISDA Master Agreements") govern 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.

9. 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 as noted in the table in note (b) below.

(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 Investment Advisory Fee and Supervisory and Administrative Fees for all classes, as applicable, are 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):

Investment Advisory Fee	Supervisory and Administrative Fee		
All Classes	Institutional Class	Administrative Class	Advisor Class
0.25%	0.25%	0.25%	0.25%

(c) Distribution and Servicing Fees PIMCO Investments LLC, 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 $36,850, plus $3,800 for each Board meeting attended in person, $775 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 $6,000, the valuation oversight committee lead receives an additional annual retainer of $4,250 (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 $2,125) and the governance committee chair receives an additional annual retainer of $2,750. 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.

(e) Expense Limitation Pursuant to the Expense Limitation Agreement, PIMCO has agreed to waive a portion of the Portfolio's Supervisory and Administrative Fee, or reimburse the Portfolio, to the extent that the Portfolio's organizational expenses and pro rata share of Trustee Fees exceed 0.0049%, the "Expense Limit" (calculated as a percentage of the Portfolio's average daily net assets attributable to each class). The Expense Limitation Agreement will automatically renew for one-year terms unless PIMCO provides written notice to the Trust at least 30 days prior to the end of the then current term.

Under certain conditions, PIMCO may be reimbursed for these waived amounts in future periods, not to exceed thirty-six months after the waiver. At December 31, 2017, there were no recoverable amounts.

10. RELATED PARTY TRANSACTIONS

The Adviser, Administrator, and Distributor are related parties. Fees paid to these parties are disclosed in Note 9, 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, 2017, the Portfolio engaged in purchases and sales of securities pursuant to Rule 17a-7 under the Act (amounts in thousands):

Purchases	Sales
$ 2,308	$ 61,272

11. 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.

12. 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, 2017, were as follows (amounts in thousands):

U.S. Government/Agency		All Other	
Purchases	Sales	Purchases	Sales
$ 8,484,717	$ 8,962,178	$ 417,402	$ 488,233

13. SHARES OF BENEFICIAL INTEREST

The Trust 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 12/31/2017		Year Ended 12/31/2016	
	Shares	Amount	Shares	Amount
Receipts for shares sold				
Institutional Class	1,014	$ 10,391	557	$ 5,723
Administrative Class	35,577	364,467	26,077	267,411
Advisor Class	15,484	158,679	20,114	206,250
Issued as reinvestment of distributions				
Institutional Class	18	181	13	137
Administrative Class	1,633	16,740	1,856	19,034
Advisor Class	906	9,281	943	9,668
Cost of shares redeemed				
Institutional Class	(382)	(3,909)	(529)	(5,435)
Administrative Class	(34,889)	(357,250)	(35,065)	(359,498)
Advisor Class	(12,111)	(124,128)	(17,083)	(174,933)
Net increase (decrease) resulting from Portfolio share transactions	7,250	$ 74,452	(3,117)	$ (31,643)

As of December 31, 2017, two shareholders each owned 10% or more of the Portfolio's total outstanding shares comprising 41% of the Portfolio.

14. 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.

The foregoing speaks only as of the date of this report.

15. 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, 2017, 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. federal, state, and local tax returns as required. The Portfolio's tax returns are subject to examination by relevant tax authorities until expiration of the applicable statute of limitations, which is generally three years after the filing of the tax return but which can be extended to six years in certain circumstances. Tax returns for open years have incorporated no uncertain tax positions that require a provision for income taxes.

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, 2017, 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	$ 7,775	$ 0	$ (38,543)	$ 0	$ (9,348)

† 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, straddle loss deferrals, and Lehman securities.
(3) Represents differences in income tax regulations and financial accounting principles generally accepted in the United States of America.
(4) Capital losses available to offset future net capital gains expire in varying amounts as shown below.
(5) Capital losses realized during the period November 1, 2017 through December 31, 2017 which the Portfolio elected to defer to the following taxable year pursuant to income tax regulations.
(6) Specified losses realized during the period November 1, 2017 through December 31, 2017 which the Portfolio elected to defer to the following taxable year pursuant to income tax regulations.

Under the Regulated Investment Company Modernization Act of 2010, a fund 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, 2017, the Portfolio had the following post-effective capital losses with no expiration (amounts in thousands†):

	Short-Term	Long-Term
PIMCO Low Duration Portfolio	$ 22,346	$ 16,197

† A zero balance may reflect actual amounts rounding to less than one thousand.

As of December 31, 2017, 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	$ 2,333,292	$ 61,090	$ (53,532)	$ 7,558

† 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, unrealized gain or loss on certain futures, options and forward contracts, realized and unrealized gain (loss) swap contracts, straddle loss deferrals, and Lehman securities.

For the fiscal year ended December 31, 2017 and December 31, 2016, respectively, the Portfolio made the following tax basis distributions (amounts in thousands†):

	December 31, 2017			December 31, 2016		
	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	$ 21,723	$ 0	$ 4,479	$ 14,198	$ 0	$ 14,641

† A zero balance may reflect actual amounts rounding to less than one thousand.
(8) Includes short-term capital gains distributed, if any.
(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 financial accounting to tax accounting.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of PIMCO Variable Insurance Trust and Shareholders of PIMCO Low Duration Portfolio

Opinion on the Financial Statements

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of PIMCO Low Duration Portfolio (one of the portfolios constituting PIMCO Variable Insurance Trust, referred to hereafter as the "Portfolio") as of December 31, 2017, the related statement of operations for the year ended December 31, 2017, the statement of changes in net assets for each of the two years in the period ended December 31, 2017, including the related notes, and the financial highlights for each of the five years in the period ended December 31, 2017 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Portfolio as of December 31, 2017, 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 ended December 31, 2017 and the financial highlights for each of the five years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Portfolio's management. Our responsibility is to express an opinion on the Portfolio's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Portfolio in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our procedures included confirmation of securities owned as of December 31, 2017 by correspondence with the custodian, transfer agent and brokers; when replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
Kansas City, Missouri

February 16, 2018

We have served as the auditor of one or more investment companies in PIMCO Variable Insurance Trust since 1998.

Glossary: (abbreviations that may be used in the preceding statements)

(Unaudited)

Counterparty Abbreviations:

BOA	Bank of America N.A.	**FICC**	Fixed Income Clearing Corporation	**NGF**	Nomura Global Financial Products, Inc.
BPS	BNP Paribas S.A.	**GLM**	Goldman Sachs Bank USA	**SCX**	Standard Chartered Bank
BRC	Barclays Bank PLC	**HUS**	HSBC Bank USA N.A.	**SOG**	Societe Generale
CBK	Citibank N.A.	**JPM**	JPMorgan Chase Bank N.A.	**TOR**	Toronto Dominion Bank
DUB	Deutsche Bank AG	**MSB**	Morgan Stanley Bank, N.A	**UAG**	UBS AG Stamford
FBF	Credit Suisse International				

Currency Abbreviations:

ARS	Argentine Peso	**INR**	Indian Rupee	**RUB**	Russian Ruble
BRL	Brazilian Real	**JPY**	Japanese Yen	**SEK**	Swedish Krona
CAD	Canadian Dollar	**KRW**	South Korean Won	**SGD**	Singapore Dollar
DKK	Danish Krone	**MXN**	Mexican Peso	**THB**	Thai Baht
EUR	Euro	**MYR**	Malaysian Ringgit	**TWD**	Taiwanese Dollar
GBP	British Pound	**NGN**	Nigerian Naira	**USD (or $)**	United States Dollar
ILS	Israeli Shekel				

Exchange Abbreviations:

CME	Chicago Mercantile Exchange	**OTC**	Over the Counter

Index/Spread Abbreviations:

12MTA	12 Month Treasury Average	**EUR003M**	3 Month EUR Swap Rate	**US0001M**	1 Month USD Swap Rate
BP0003M	3 Month GBP-LIBOR	**H15T1Y**	1 Year US Treasury Yield Curve Constant Maturity Rate	**US0003M**	3 Month USD Swap Rate
COF 11	Cost of Funds - 11th District of San Francisco	**LIBOR01M**	1 Month USD-LIBOR	**US0006M**	6 Month USD Swap Rate
CPI	Consumer Price Index	**LIBOR12M**	12 Month USD-LIBOR	**US0012M**	12 Month USD Swap Rate
CPI YOY	US CPI Year Over Year				

Other Abbreviations:

ALT	Alternate Loan Trust	**EURIBOR**	Euro Interbank Offered Rate	**OAT**	Obligations Assimilables du Trésor
CDI	Brazil Interbank Deposit Rate	**FDIC**	Federal Deposit Insurance Corp.	**TBA**	To-Be-Announced
CLO	Collateralized Loan Obligation	**LIBOR**	London Interbank Offered Rate	**YOY**	Year-Over-Year

As required by the Internal Revenue Code (the "Code") and Treasury Regulations, if applicable, shareholders must be notified 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 Fund's dividend distribution that qualifies under tax law. The percentage of the following Portfolio's fiscal 2017 ordinary income dividend that qualifies for the corporate dividend received deduction is set forth in the table below.

Qualified Dividend Income. Under the Jobs and Growth Tax Relief Reconciliation Act of 2003 (the "Act"), the percentage of ordinary dividends paid during the calendar year designated as "qualified dividend income", as defined in the Act, subject to reduced tax rates in 2017 is set forth for the Portfolio in the table below.

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 amounts of ordinary dividends paid during the fiscal year ended December 31, 2017 considered to be derived from "qualified interest income," as defined in Section 871(k)(1)(E) of the Code, and therefore designated as interest-related dividends, as defined in Section 871(k)(1)(C) of the Code are set forth in the table below. Further, the amounts of ordinary dividends paid during the fiscal year ended December 31, 2017 considered to be derived from "qualified short-term capital gain," as defined in Section 871(k)(2)(D) of the Code, and therefore designated as qualified short-term gain dividends, as defined by Section 871(k)(2)(C) of the Code are also set forth in the table below.

	Dividend Received Deduction %	Qualified Dividend Income %	Qualified Interest Income (000s†)	Qualified Short-Term Capital Gain (000s†)
PIMCO Low Duration Portfolio	0.00%	0.00%	$ 21,723	$ 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 2018, 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 2017.

Management of the Trust

(Unaudited)

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[1]				
Brent R. Harris (1959) *Chairman of the Board and Trustee*	08/1997 to present	Managing Director, PIMCO. Formerly, member of Executive Committee, PIMCO.	162	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.
Peter G. Strelow (1970) *Trustee*	05/2017 to present	Managing Director and Co-Chief Operating Officer, PIMCO. Formerly, Chief Administrative Officer, PIMCO.	141	Trustee, PIMCO Funds and PIMCO ETF Trust.
Independent Trustees				
George E. Borst (1948) *Trustee*	04/2015 to present	Executive Advisor, McKinsey & Company (since 10/14); Formerly, Executive Advisor, Toyota Financial Services (10/13-12/14); and CEO, Toyota Financial Services (1/01-9/13).	141	Trustee, PIMCO Funds and PIMCO ETF Trust; Director, MarineMax Inc.
Jennifer Holden Dunbar (1963) *Trustee*	04/2015 to present	Managing Director, Dunbar Partners, LLC (business consulting and investments). Formerly, Partner, Leonard Green & Partners, L.P.	162	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.	141	Trustee, PIMCO Funds and PIMCO ETF Trust; Director, State Auto Financial Corporation.
Gary F. Kennedy (1955) *Trustee*	04/2015 to present	Formerly, Senior Vice President, General Counsel and Chief Compliance Officer, American Airlines and AMR Corporation (now American Airlines Group) (1/03-1/14).	141	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.	162	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; and President, Chief Executive Officer, Hampton Affiliates (forestry products).	162	Lead Independent Trustee, PIMCO Funds and PIMCO ETF Trust; Trustee, PIMCO Equity Series and PIMCO Equity Series VIT.

* Unless otherwise noted, the information for the individuals listed is as of December 31, 2017.

[1] Mr. Harris and Mr. Strelow are "interested persons" of the Trust (as that term is defined in the 1940 Act) because of their affiliations with PIMCO.

† Trustees serve until their successors are duly elected and qualified.

Executive Officers

Name, Year of Birth and Position Held with Trust	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years*
Peter G. Strelow (1970) *President*	01/2015 to present Senior Vice President 11/2013 to 01/2015 Vice President 05/2008 to 11/2013	Managing Director and Co-Chief Operating Officer, 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. Formerly, Chief Administrative Officer, PIMCO.
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.
Joshua D. Ratner (1976)** *Vice President - Senior Counsel, Secretary*	11/2013 to present Assistant Secretary 10/2007 to 01/2011	Executive Vice President and Deputy General 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.
Wu-Kwan Kit (1981) *Assistant Secretary*	08/2017 to present	Vice President and 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, Assistant General Counsel, VanEck Associates Corp.
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, PIMCO Equity Series VIT, 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.
Bijal Y. Parikh (1978) *Vice President*	02/2017 to present	Senior 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.
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, PIMCO Equity Series VIT, 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.
Colleen D. Miller (1980)** *Assistant Treasurer*	02/2017 to present	Senior 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 Cohen & Steers Capital Management.
Christopher M. Morin (1980) *Assistant Treasurer*	08/2016 to present	Senior 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.

Name, Year of Birth and Position Held with Trust	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years*
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]

(Unaudited)

The Trust[2,3] 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. If you are a registered user of the Trust's website, the Trust or their service providers or third party firms engaged by the Trust or their service providers may collect or share information submitted by you, which may include personally identifiable information. This information can be useful to the Trust when assessing and offering services and website features. 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. The Trust does not look for web browser "do not track" requests.

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 February 15, 2017.
[2] PIMCO Investments LLC ("PI") serves as the Trust's distributor. This Privacy Policy applies to the activities of PI to the extent that PI regularly effects or engages in transactions with or for a Trust shareholder who is the record owner of such shares. For purposes of this Privacy Policy, references to "the Trust" shall include PI when acting in this capacity.
[3] 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 21-22, 2017, 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, 2018. 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, 2018. 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, 2018.

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 Broadridge Financial Solutions, 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 21-22, 2017 meeting. The Independent Trustees also conducted an in-person meeting and a telephonic meeting with counsel to the Trust and the Independent Trustees on July 21, 2017 and August 18, 2017, respectively, 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 connection with its review of the Agreements the Board received comparative information on the performance as well as the fees and expenses of other peer group funds and share classes. In addition, the Independent Trustees requested and received from PIMCO additional information including, but not limited to a proposal to reduce the advisory fee for the PIMCO Unconstrained Bond Portfolio.

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 renewal of the Agreements and the Asset Allocation Agreement, but is not intended to summarize all of the factors considered by the Board.

2. NATURE, EXTENT AND QUALITY OF SERVICES

(a) PIMCO, Research Affiliates, their Personnel, and Resources: The Board considered the depth and quality of PIMCO's investment management process, including: the experience, capability and integrity of its senior management and other personnel; the overall financial strength and stability of its organization; and the ability of its organizational structure to address changes in 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, compliance and risk management, 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 that PIMCO has continued to strengthen the process it uses to actively manage counterparty risk and 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 2016, including, but not limited to: continuing enhancement of its analytics and technology systems by upgrading hardware and software; enhancing data processing and security and development of tools and applications to support Portfolio Management, Compliance, Analytics, Risk Management, Client Reporting and Customer Relationship Management; continuing investment in its enterprise risk management function, including PIMCO's cybersecurity program; developing the PIMCO Global Advisory Board and continuing to hire new portfolio managers; expanding the Funds and Operations Group global operating model; developing a website monitoring application to ensure accurate data content; adding staff to fund accounting and financial reporting; engaging a third party to perform an independent assessment of PIMCO's proprietary accounting application and enhancing the same system to provide portfolio managers with more timely and high quality income reporting; establishing a Fund Treasurer's Office; developing a global tax management application that will enable investment professionals to access foreign market and security tax information on a real-time basis; enhancing reporting of tax reporting for portfolio managers for income products with improved transparency on tax factors impacting income generation and dividend yield; redesigning shareholder statements to be more user friendly and enable e-delivery; and continuing expansion of the pricing portal and the proprietary performance reconciliation tool.

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 further considered PIMCO's oversight of Research Affiliates in connection with Research Affiliates providing asset allocation services to the Asset Portfolio and 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 the overall financial strength of the organization.

Ultimately, the Board concluded that the nature, extent and quality of services provided or procured by PIMCO under the Agreements and provided 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 March 31, 2017 and other performance data, as available, over short- and long-term periods ended June 30, 2017 (the "PIMCO Report") and from Lipper concerning the Portfolios' performance, as available, over short- and long-term periods ended March 31, 2017 (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 21-22, 2017 meeting. The Trustees noted that a majority of the Portfolios outperformed their respective Lipper medians over the three- and ten-year periods ended March 31, 2017. The Board also noted that, as of March 31, 2017, the Administrative Class of 65%, 40% and 91% of the Portfolios outperformed its Lipper category median on a net-of-fees basis over the three-, five- 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 March 31, 2017. The Board noted that, as of March 31, 2017, 23%, 67% and 91% of the Trust's assets (based on Administrative Class performance) outperformed their respective benchmarks on a net-of-fees basis over the three-, five- and ten-year periods, respectively. 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 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 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 for 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 and the competitive marketplace for financial products. 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 carefully and considers changes where appropriate due to competitive positioning considerations or changes in the overall strategic positioning of the Portfolios.

In addition, PIMCO reported to the Board that it periodically reviews the fees charged to the Portfolios. The Board noted that, based upon this review, PIMCO may propose advisory fee or supervisory and administrative fee changes where (i) a Portfolio's long-term performance warrants additional consideration; (ii) there is a notable aid to market position; (iii) a Portfolio's fee does not reflect the current level of supervision or administration provided to the Portfolio; or (iv) PIMCO would like to change a Portfolio's overall strategic positioning.

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 considered that PIMCO reviews the Portfolios' fee levels and carefully considers changes where appropriate, and noted in particular, the proposed reduction in the advisory fee for the PIMCO Unconstrained Bond Portfolio effective October 2, 2017.

The Board also reviewed data comparing the Portfolios' advisory fees to the standard and negotiated fee rates PIMCO charges to separate accounts, collective investment trusts and sub-advised clients with similar investment strategies. In cases where the fees for other clients were lower than those charged to the Portfolios, the Trustees noted that the differences in fees were attributable to various factors, including, but not limited to, differences in the advisory and other services provided by PIMCO to the Portfolios, differences in the number or extent of the 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. The Board considered that, with respect to collective investment trusts, PIMCO performs fewer or less extensive services because collective investment trusts are generally exempt from SEC regulation; investors in a collective investment trust may receive shareholder services from a trustee bank, rather than PIMCO; collective investment trusts have less regulatory disclosure; and the management structure of collective investment trusts differs from that of funds. The Trustees also considered that PIMCO faces increased entrepreneurial, legal and regulatory risk in sponsoring and managing mutual funds and ETFs as compared to separate accounts, external sub-advised funds or other investment products.

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 differences 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 over the contract period, 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 over the contract period even if the Portfolios' operating costs rise when assets remain flat or decrease. Other factors the Board considered in assessing the unified fee include PIMCO's approach of pricing Portfolios to scale at inception and reinvesting in other important areas of the business that support the Portfolios. 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, such as service provider costs, are passed through to a smaller asset base. The Board considered historical advisory fee reductions implemented for different Portfolios, noting that the unified fee can be increased or decreased in subsequent contractual periods and is subject to the periodic reviews discussed above. 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 during the contractual period, 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 many of the Portfolios are 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. The Board noted that PIMCO is continuing waivers for these Funds of Funds, as well as for certain other Portfolios of the Trust.

The Board then discussed the proposal to reduce the advisory fee for the PIMCO Unconstrained Bond Portfolio by 0.05% for each share class of the Portfolio. The Board considered that the purpose of the proposal is to improve strategic positioning for the Portfolio. The Board noted that the fee reduction would be effective October 2, 2017.

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, after the proposal to decrease the management fee, 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 positive in 2016, on a pre- and post-distribution basis, as the allocation of compensation and benefits and other administrative expenses to the Trust decreased from 2015. 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 further noted PIMCO's engagement of a third party to review and to make recommendations regarding PIMCO's processes supporting its profitability estimation materials. 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 global infrastructure, technology capabilities, risk management processes and qualified personnel 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 investing in portfolio and trade operations management, firm technology, middle and back office support, legal and compliance, and fund administration logistics; senior management supervision and governance of those services; and through the pricing of Portfolios to scale from inception and the enhancement of services and oversight 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 during the contractual period 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 and noted that PIMCO has continued to reinvest in many areas of the business to support the Portfolios.

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 PIMCO is appropriately sharing economies of scale, if any, through the Portfolios' unified fee structure, generally pricing Portfolios to scale at inception and reinvesting in its business to provide enhanced and expanded services to the Portfolios and their 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. Such benefits may include possible ancillary benefits to PIMCO's institutional investment management business due to the reputation and market penetration of the Trust or third party service providers' relationship-level fee concessions, which decrease fees paid by PIMCO. 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

Investment Adviser and Administrator
Pacific Investment Management Company LLC
650 Newport Center Drive
Newport Beach, CA 92660

Distributor
PIMCO Investments LLC
1633 Broadway
New York, NY 10019

Custodian
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Transfer Agent
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PricewaterhouseCoopers LLP
1100 Walnut Street, Suite 1300
Kansas City, MO 64106

This report is submitted for the general information of the shareholders of the PIMCO Variable Insurance Trust.

pimco.com/pvit

PIMCO

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FRANKLIN TEMPLETON INVESTMENTS

Annual Report

December 31, 2017

Franklin Templeton Variable Insurance Products Trust

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Franklin Templeton Variable Insurance Products Trust Annual Report

Table of Contents

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.

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, 2017.

Class 2 Performance Summary as of December 31, 2017

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 12/31/17	1-Year	5-Year	10-Year
Average Annual Total Return	+40.41%	+3.77%	+0.95%

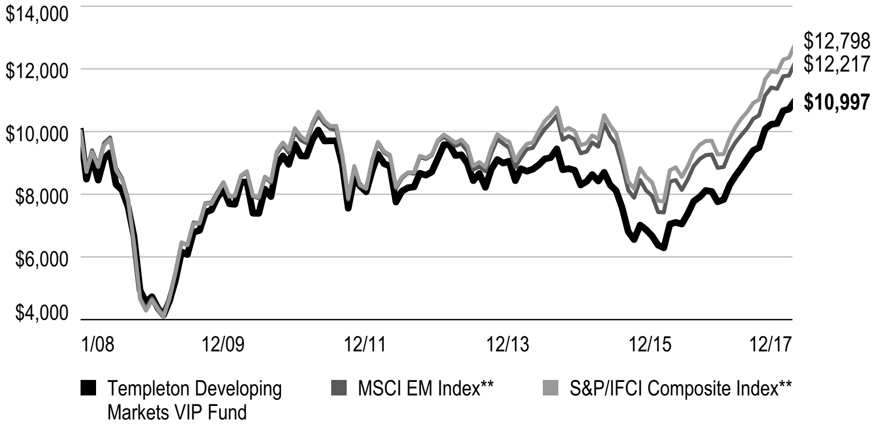
*The Fund has a fee waiver associated with any investment it makes in a Franklin Templeton money fund and/or other Franklin Templeton fund, contractually guaranteed through 4/30/18. Fund investment results reflect the fee waiver; without this waiver, the results would have been lower.

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 (1/1/08–12/31/17)

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

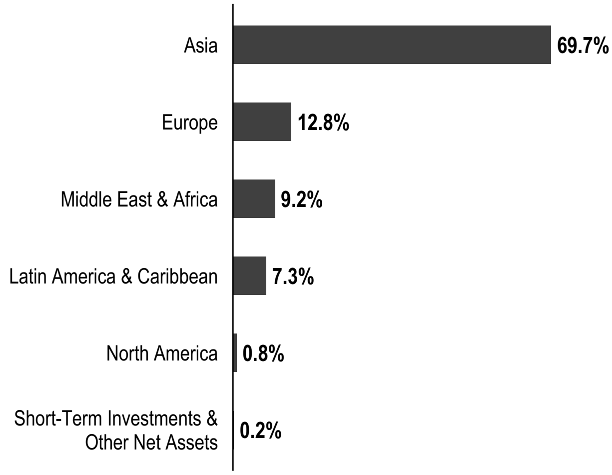
You can find the Fund's one-year total return in the Performance Summary. In comparison, the MSCI EM Index generated a +37.75% total return, and the S&P/IFCI Composite Index produced a +37.89% total return for the same period.[1] Please note, index performance numbers are for reference and we do not attempt to track an index but rather undertake investments on the basis of fundamental research.

Economic and Market Overview

Emerging market economies in general continued to grow faster than developed market economies during the 12 months under review. China's economy grew faster in 2017 compared to the previous year, driven by solid growth in industrial production, services, fixed-asset investment, retail sales, and imports and exports. After moderating for two quarters, India's economy grew faster in 2017's third quarter compared to the prior-year period, as investment and inventory growth offset private and public spending slowdowns. Russia's economy grew at the fastest annualized rate in nearly five years in 2017's second quarter, but it grew slower in the third quarter as industrial production declined. Brazil's economy grew in 2017's third quarter compared to the prior-year period, supported by growth in household spending and exports. South Africa's economic growth moderated in 2017's third quarter compared to the prior-year period amid faster mining growth and manufacturing decline. South Korea's economy grew in 2017's fourth quarter compared to the prior-year period; however, it contracted compared to the third quarter due to declines in manufacturing and construction.

Geographic Composition

Based on Total Net Assets as of 12/31/17



Several central banks, including those of South Korea and Mexico, raised their benchmark interest rates during the 12-month period, while some, including those of South Africa and Chile, lowered their benchmark interest rates. Russia's central bank reduced its key rate several times as the inflation rate continued to miss its target. Brazil's central bank cut its benchmark interest rate several times during the period to support economic growth. India's central bank reduced its benchmark interest rate in August due to slower inflation growth. China's central bank left its benchmark interest rate unchanged during the period.

Emerging market stocks rose significantly during the 12 months under review, as improving corporate earnings growth and encouraging economic data from China and other emerging

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).

market countries helped offset investor concerns about the US Federal Reserve's interest rate increases and geopolitical tensions in the Korean peninsula and other regions. Further supporting emerging market stocks were generally higher commodity prices, subsiding concerns about the potential for a protectionist US trade policy, emerging market currencies' overall strength against the US dollar, and robust investment inflows. In this environment, emerging market stocks, as measured by the MSCI EM Index, generated a +37.75% total return for the 12 months ended December 31, 2017.[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 of the company's securities. 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 stock contributors to the Fund's absolute performance included investments in Naspers, Samsung Electronics and Brilliance China Automotive Holdings.

Naspers is an internet and media group based in South Africa. It has sizable investments in some of the world's leading technology companies, including China-based Tencent Holdings and Russia-based Mail.ru Group (both Fund holdings). Shares of Naspers rose during the 12-month period, largely driven by positive sentiment in Tencent, one of the world's largest and most widely used internet service portals. Tencent reported strong year-over-year growth in quarterly earnings throughout 2017, driven by its online gaming, advertising and social networking segments. Investors also viewed positively Naspers's addition of new investments in the online food delivery segment in 2017.

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. The company is also a leading supplier of memory chips for high-end phones and is a key provider of OLED (organic light-emitting diode) displays. Its share price increase was driven by solid quarterly corporate sales and

Top 10 Countries
12/31/17

	% of Total Net Assets
China	23.5%
South Korea	17.3%
Taiwan	10.4%
South Africa	8.2%
Russia	7.3%
India	6.7%
Brazil	4.9%
Thailand	3.9%
Indonesia	3.1%
UK	3.0%

earnings results reported in 2017, a new shareholder return policy for 2018-2020, including plans to boost its dividends, and a cancelation of existing company-held treasury shares. News that Samsung Electronics dethroned Intel (not a Fund holding) to become the world's largest chip producer in 2017 in revenue terms also contributed to investor sentiment.

Brilliance China Automotive manufactures and sells automobiles for the Chinese domestic market, predominantly through its joint venture with German luxury car manufacturer BMW (nota Fund holding). The company reported strong sales volume and profit growth in 2017, supported by generally robust demand. The rise of China's upper middle class has continued to drive luxury car demand in the country, as buyers pay more attention to vehicle performance and product quality. The announcement of a joint venture between Brilliance China Automotive and French automobile manufacturer Groupe Renault (not a Fund holding) to manufacture and sell light commercial vehicles under the Jinbei, Renault and Huasong brands further supported share price performance.

In contrast, key detractors from the Fund's absolute performance included positions in Habib Bank, IMAX and Glenmark Pharmaceuticals.

Habib Bank is Pakistan's biggest bank and one of the country's largest companies in asset terms. News of a significant fine by the New York State Department of Financial Services on the bank's New York branch for failure to comply with New York laws and regulations designed to combat money laundering, terrorist financing and other illicit financial transactions weighed on the bank's profits and share price. Additionally, following Pakistan's upgrade from the MSCI Frontier Markets Index to the MSCI EM Index, the Pakistani market corrected sharply due to political turmoil and weaker-than-expected foreign investment inflows.[2]

IMAX is one of the world's leading entertainment technology companies, specializing in immersive motion picture technologies. Its systems are used globally, and it has a notable market position in China. Disappointing corporate results for the first two quarters of 2017 pressured the US-based company's shares. Revenues and gross profit margin declined in the second quarter compared to the year-ago period, following a decline in first-quarter gross margin. Third-quarter results, however, were better than expected, with revenue, earnings and gross margin all exceeding market forecasts, driven by a successful cost-cutting program and higher sales, leading its share price to rebound from period lows. The company also announced a new share-repurchase program to enhance shareholder value.

Glenmark Pharmaceuticals is an India-based manufacturer of generic drugs and pharmaceutical ingredients. Glenmark produces formulation products in areas such as oncology, respiratory and cardiology. It also researches and develops its own chemical and biological entities. In addition to India, the US is its main market. Its share price declined significantly in May 2017 as the company announced a weaker-than-expected first-quarter operating performance with disappointing revenue growth. Sales in India were impacted by the government's demonetization efforts (recall of large-denominated currency notes from circulation), with price pressures also evident in other key markets. Better-than-expected second-quarter results and approval from the US Food & Drug Administration for a birth control pill in late 2017 provided investors with some reasons to remain optimistic.

It is important to recognize the effect of currency movements on the Fund's performance. In general, if the value of the US dollar goes up compared with a foreign currency, an investment traded in that foreign currency will go down in value because it will be worth fewer US dollars. This can have a negative effect on Fund performance. Conversely, when the US dollar weakens in relation to a foreign currency, an investment traded in that foreign currency will increase in value, which can contribute to Fund performance. For the 12 months ended December 31, 2017, the US dollar declined in value relative to most currencies. As a result, the Fund's performance was positively affected by the portfolio's investment predominantly in securities with non-US currency exposure. However, one cannot expect the same result in future periods.

Top 10 Holdings
12/31/17

Company ***Sector/Industry, Country***	**% of Total Net Assets**
Samsung Electronics Co. Ltd. *Technology Hardware, Storage & Peripherals, South Korea*	7.7%
Naspers Ltd. *Media, South Africa*	7.1%
Brilliance China Automotive Holdings Ltd. *Automobiles, China*	6.2%
Taiwan Semiconductor Manufacturing Co. Ltd. *Semiconductors & Semiconductor Equipment, Taiwan*	6.1%
Alibaba Group Holding Ltd. *Internet Software & Services, China*	3.7%
Tencent Holdings Ltd. *Internet Software & Services, China*	3.4%
Unilever PLC *Personal Products, UK*	3.0%
ICICI Bank Ltd. *Banks, India*	2.3%
Itau Unibanco Holding SA *Banks, Brazil*	2.0%
Hon Hai Precision Industry Co. Ltd. *Electronic Equipment, Instruments & Components, Taiwan*	1.9%

During the 12-month period, we increased the Fund's holdings in Russia, South Korea, Mexico and Peru as we identified companies in these countries with what we considered solid fundamentals. In sector terms, we increased holdings in financials and consumer discretionary and made some purchases in energy.[3] Key purchases included new investments in Sberbank of Russia, Russia's leading bank, and Russia-based Gazprom, the world's largest gas producer. Additionally, we increased the Fund's holdings in South Korea-based POSCO, one of the world's biggest steel producers, and Grupo Financiero Santander Mexico, a major financial services company in Mexico.

Conversely, we reduced the Fund's holdings in India and Brazil to focus on securities we considered to be more attractively valued within our investment universe. We also made some sales in China and South Africa. In sector terms, we reduced holdings in industrials and consumer staples and made some

2. Please see Index Descriptions following the Fund Summaries.
3. The financials sector comprises banks, capital markets, diversified financial services and insurance 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 energy sector comprises oil, gas and consumable fuels in the SOI.

sales in information technology (IT).[4] Key sales included closing the Fund's position in Remgro, a South African holding company with interests in food, finance and health care. We also reduced investments in the aforementioned Tencent Holdings and in Brazilian financial conglomerate Itau Unibanco Holding.

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, 2017, 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 industrials sector comprises construction and engineering, distributors, trading companies and distributors, and transportation infrastructure in the SOI. The consumer staples sector comprises beverages, food and staples retailing, food products and personal products in the SOI. The IT sector comprises electronic equipment, instruments and components; internet software and services; IT services; semiconductors and semiconductor equipment; and technology hardware, storage and peripherals 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 7/1/17**	**Ending Account Value 12/31/17**	**Fund-Level Expenses Paid During Period 7/1/17–12/31/17[1,2]**	**Ending Account Value 12/31/17**	**Fund-Level Expenses Paid During Period 7/1/17–12/31/17[1,2]**	**Net Annualized Expense Ratio[2]**
Class 2	$1,000	$1,158.60	$8.76	$1,017.09	$8.19	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 184/365 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,				
	2017	**2016**	**2015**	**2014**	**2013**
Class 1					
Per share operating performance					
(for a share outstanding throughout the year)					
Net asset value, beginning of year	$ 7.42	$ 6.37	$ 9.27	$10.26	$10.58
Income from investment operations[a]:					
Net investment income[b]	0.08	0.05	0.06	0.15[c]	0.13
Net realized and unrealized gains (losses)	2.92	1.08	(1.63)	(0.97)	(0.22)
Total from investment operations	3.00	1.13	(1.57)	(0.82)	(0.09)
Less distributions from:					
Net investment income	(0.11)	(0.08)	(0.20)	(0.17)	(0.23)
Net realized gains	—	—	(1.13)	—	—
Total distributions	(0.11)	(0.08)	(1.33)	(0.17)	(0.23)
Redemption fees	—	—	—	—[d]	—[d]
Net asset value, end of year	$10.31	$ 7.42	$ 6.37	$ 9.27	$10.26
Total return[e]	40.65%	17.79%	(19.42)%	(8.09)%	(0.73)%
Ratios to average net assets					
Expenses before waiver and payments by affiliates	1.36%	1.38%	1.33%	1.36%	1.35%
Expenses net of waiver and payments by affiliates	1.35%[f]	1.36%	1.32%	1.36%[g]	1.35%
Net investment income	0.86%	0.79%	0.74%	1.51%[c]	1.25%
Supplemental data					
Net assets, end of year (000's)	$105,493	$82,596	$77,000	$114,487	$145,707
Portfolio turnover rate	10.76%	26.78%	71.69%	82.87%	44.59%

[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 expense reduction rounds to less than 0.01%.

[g]Benefit of waiver and payments by affiliates rounds to less than 0.01%.

Templeton Developing Markets VIP Fund (continued)

	Year Ended December 31,				
	2017	2016	2015	2014	2013
Class 2					
Per share operating performance					
(for a share outstanding throughout the year)					
Net asset value, beginning of year	$ 7.36	$ 6.32	$ 9.20	$10.19	$10.50
Income from investment operations[a]:					
Net investment income[b]	0.05	0.04	0.04	0.12[c]	0.10
Net realized and unrealized gains (losses)	2.91	1.06	(1.61)	(0.96)	(0.21)
Total from investment operations	2.96	1.10	(1.57)	(0.84)	(0.11)
Less distributions from:					
Net investment income	(0.09)	(0.06)	(0.18)	(0.15)	(0.20)
Net realized gains	—	—	(1.13)	—	—
Total distributions	(0.09)	(0.06)	(1.31)	(0.15)	(0.20)
Redemption fees	—	—	—	—[d]	—[d]
Net asset value, end of year	$10.23	$ 7.36	$ 6.32	$ 9.20	$10.19
Total return[e]	40.41%	17.44%	(19.60)%	(8.39)%	(0.92)%
Ratios to average net assets					
Expenses before waiver and payments by affiliates	1.61%	1.63%	1.58%	1.61%	1.60%
Expenses net of waiver and payments by affiliates	1.60%[f]	1.61%	1.57%	1.61%[g]	1.60%
Net investment income	0.61%	0.54%	0.49%	1.26%[c]	1.00%
Supplemental data					
Net assets, end of year (000's)	$270,433	$205,151	$192,120	$250,813	$274,683
Portfolio turnover rate	10.76%	26.78%	71.69%	82.87%	44.59%

[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 expense reduction rounds to less than 0.01%.

[g]Benefit of waiver and payments by affiliates rounds to less than 0.01%.

Templeton Developing Markets VIP Fund (continued)

	Year Ended December 31,				
	2017	2016	2015	2014	2013
Class 4					
Per share operating performance					
(for a share outstanding throughout the year)					
Net asset value, beginning of year	$ 7.39	$ 6.34	$ 9.22	$10.20	$10.50
Income from investment operations[a]:					
Net investment income[b]	0.05	0.03	0.03	0.12[c]	0.10
Net realized and unrealized gains (losses)	2.92	1.06	(1.62)	(0.97)	(0.21)
Total from investment operations	2.97	1.09	(1.59)	(0.85)	(0.11)
Less distributions from:					
Net investment income	(0.08)	(0.04)	(0.16)	(0.13)	(0.19)
Net realized gains	—	—	(1.13)	—	—
Total distributions	(0.08)	(0.04)	(1.29)	(0.13)	(0.19)
Redemption fees	—	—	—	—[d]	—[d]
Net asset value, end of year	$10.28	$ 7.39	$ 6.34	$ 9.22	$10.20
Total return[e]	40.30%	17.32%	(19.70)%	(8.48)%	(1.07)%
Ratios to average net assets					
Expenses before waiver and payments by affiliates	1.71%	1.73%	1.68%	1.71%	1.70%
Expenses net of waiver and payments by affiliates	1.70%[f]	1.71%	1.67%	1.71%[g]	1.70%
Net investment income	0.51%	0.44%	0.39%	1.16%[c]	0.90%
Supplemental data					
Net assets, end of year (000's)	$7,199	$6,377	$7,109	$11,106	$15,225
Portfolio turnover rate	10.76%	26.78%	71.69%	82.87%	44.59%

[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 expense reduction rounds to less than 0.01%.

[g]Benefit of waiver and payments by affiliates rounds to less than 0.01%.

Statement of Investments, December 31, 2017
Templeton Developing Markets VIP Fund

	Industry	Shares	Value
Common Stocks 95.5%			
Belgium 0.9%			
Anheuser-Busch InBev SA/NV	Beverages	31,970	$ 3,572,244
Brazil 1.2%			
[a] B2W Cia Digital	Internet & Direct Marketing Retail	148,600	919,652
B3 SA - Brasil Bolsa Balcao	Capital Markets	55,400	380,990
M. Dias Branco SA	Food Products	136,200	2,142,227
Mahle-Metal Leve SA	Auto Components	136,600	984,360
			4,427,229
Cambodia 1.0%			
NagaCorp Ltd.	Hotels, Restaurants & Leisure	4,824,000	3,741,713
China 23.5%			
[a] Alibaba Group Holding Ltd., ADR	Internet Software & Services	82,310	14,192,713
BAIC Motor Corp. Ltd., H	Automobiles	1,686,100	2,196,957
[a] Baidu Inc., ADR	Internet Software & Services	14,556	3,409,161
Brilliance China Automotive Holdings Ltd.	Automobiles	8,909,300	23,833,092
China Life Insurance Co. Ltd., H	Insurance	539,000	1,693,678
China Mobile Ltd.	Wireless Telecommunication Services	490,500	4,975,409
China Petroleum & Chemical Corp., H	Oil, Gas & Consumable Fuels	5,918,000	4,340,303
CNOOC Ltd.	Oil, Gas & Consumable Fuels	2,000,500	2,872,909
COSCO Shipping Ports Ltd.	Transportation Infrastructure	1,091,638	1,135,951
Dah Chong Hong Holdings Ltd.	Distributors	1,746,100	809,037
Inner Mongolia Yitai Coal Co. Ltd., B	Oil, Gas & Consumable Fuels	441,500	636,202
NetEase Inc., ADR	Internet Software & Services	11,526	3,977,277
Ping An Bank Co. Ltd., A	Banks	1,636,500	3,345,108
Ping An Insurance Group Co. of China Ltd., A	Insurance	524,863	5,645,787
Poly Culture Group Corp. Ltd., H	Media	229,200	462,927
Tencent Holdings Ltd.	Internet Software & Services	252,800	13,136,922
Uni-President China Holdings Ltd.	Food Products	2,937,400	2,458,846
Weifu High-Technology Co. Ltd., B	Auto Components	334,339	715,079
			89,837,358
Czech Republic 0.4%			
Moneta Money Bank AS	Banks	390,403	1,510,788
Hong Kong 2.8%			
Dairy Farm International Holdings Ltd.	Food & Staples Retailing	149,333	1,173,757
MGM China Holdings Ltd.	Hotels, Restaurants & Leisure	1,731,200	5,240,454
Sands China Ltd.	Hotels, Restaurants & Leisure	807,600	4,170,906
			10,585,117
Hungary 1.2%			
Richter Gedeon Nyrt	Pharmaceuticals	177,170	4,637,170
India 6.7%			
Bajaj Holdings & Investment Ltd.	Diversified Financial Services	35,390	1,589,529
Biocon Ltd.	Biotechnology	552,287	4,648,243
Coal India Ltd.	Oil, Gas & Consumable Fuels	256,918	1,058,217
Glenmark Pharmaceuticals Ltd.	Pharmaceuticals	292,323	2,723,357
ICICI Bank Ltd.	Banks	1,806,409	8,884,906
Infosys Ltd.	IT Services	119,268	1,946,792
Reliance Industries Ltd.	Oil, Gas & Consumable Fuels	89,710	1,294,289
Tata Chemicals Ltd.	Chemicals	171,000	1,959,509
[a] Tata Motors Ltd., A	Automobiles	401,271	1,534,308
			25,639,150

Templeton Developing Markets VIP Fund (continued)

	Industry	Shares	Value
Common Stocks (continued)			
Indonesia 3.1%			
Astra International Tbk PT	Automobiles	10,115,100	$ 6,187,973
Bank Danamon Indonesia Tbk PT	Banks	5,707,000	2,923,431
Perusahaan Gas Negara (Persero) Tbk PT	Gas Utilities	6,697,400	863,862
Semen Indonesia (Persero) Tbk PT	Construction Materials	2,764,700	2,017,360
			11,992,626
Kenya 0.4%			
Equity Group Holdings Ltd.	Banks	3,712,900	1,439,108
Mexico 1.3%			
Grupo Financiero Santander Mexico SAB de CV, B, ADR	Banks	545,057	3,984,367
Nemak SAB de CV	Auto Components	1,426,300	1,035,133
			5,019,500
Nigeria 0.0%[†]			
Nigerian Breweries PLC	Beverages	170,327	63,873
Pakistan 0.6%			
Habib Bank Ltd.	Banks	1,550,000	2,338,302
Peru 1.1%			
Compania de Minas Buenaventura SA, ADR	Metals & Mining	299,680	4,219,494
Philippines 0.3%			
BDO Unibank Inc.	Banks	327,469	1,073,787
Russia 7.3%			
Gazprom PJSC, ADR	Oil, Gas & Consumable Fuels	666,900	2,941,029
LUKOIL PJSC, ADR	Oil, Gas & Consumable Fuels	95,300	5,453,066
[a,b] Mail.Ru Group Ltd., GDR, Reg S	Internet Software & Services	179,485	5,187,116
MMC Norilsk Nickel PJSC, ADR	Metals & Mining	137,400	2,574,876
Sberbank of Russia PJSC, ADR	Banks	402,166	6,808,670
[a] Yandex NV, A	Internet Software & Services	150,078	4,915,055
			27,879,812
Singapore 0.1%			
DBS Group Holdings Ltd.	Banks	25,706	477,603
South Africa 8.2%			
Massmart Holdings Ltd.	Food & Staples Retailing	293,714	3,312,603
MTN Group Ltd.	Wireless Telecommunication Services	80,702	891,007
Naspers Ltd., N	Media	97,448	27,180,907
			31,384,517
South Korea 17.3%			
Daelim Industrial Co. Ltd.	Construction & Engineering	50,242	3,878,619
Fila Korea Ltd.	Textiles, Apparel & Luxury Goods	33,470	2,558,756
Hankook Tire Co. Ltd.	Auto Components	21,600	1,104,916
Hankook Tire Worldwide Co. Ltd.	Diversified Financial Services	37,500	664,012
Hanon Systems	Auto Components	292,362	3,807,314
Hite Jinro Co. Ltd.	Beverages	64,320	1,452,266
Hyundai Development Co-Engineering & Construction	Construction & Engineering	126,830	4,580,674
iMarketKorea Inc.	Trading Companies & Distributors	70,490	595,025
Interpark Holdings Corp.	Internet & Direct Marketing Retail	142,053	524,360
KT Skylife Co. Ltd.	Media	176,060	2,218,533
LG Corp.	Industrial Conglomerates	19,524	1,664,536
Naver Corp.	Internet Software & Services	2,573	2,097,210
POSCO	Metals & Mining	13,592	4,234,070
Samsung Electronics Co. Ltd.	Technology Hardware, Storage & Peripherals	12,367	29,522,067

Templeton Developing Markets VIP Fund (continued)

	Industry	Shares	Value
Common Stocks (continued)			
South Korea (continued)			
SK Hynix Inc.	Semiconductors & Semiconductor Equipment	96,260	$ 6,899,065
Youngone Corp.	Textiles, Apparel & Luxury Goods	22,200	655,159
			66,456,582
Taiwan 10.4%			
Catcher Technology Co. Ltd.	Technology Hardware, Storage & Peripherals	341,000	3,770,115
FIT Hon Teng Ltd.	Electronic Equipment, Instruments & Components	1,759,800	1,191,543
Hon Hai Precision Industry Co. Ltd.	Electronic Equipment, Instruments & Components	2,327,500	7,468,838
Largan Precision Co. Ltd.	Electronic Equipment, Instruments & Components	14,000	1,897,057
Pegatron Corp.	Technology Hardware, Storage & Peripherals	973,800	2,363,353
Taiwan Semiconductor Manufacturing Co. Ltd.	Semiconductors & Semiconductor Equipment	3,001,000	23,215,340
			39,906,246
Thailand 3.9%			
Kasikornbank PCL, fgn.	Banks	619,500	4,545,916
Kiatnakin Bank PCL, fgn.	Banks	1,009,800	2,457,066
Land and Houses PCL, fgn.	Real Estate Management & Development	4,853,900	1,564,813
PTT Exploration and Production PCL, fgn.	Oil, Gas & Consumable Fuels	584,500	1,794,596
Siam Commercial Bank PCL, fgn.	Banks	306,400	1,411,115
Thai Beverage PCL, fgn.	Beverages	4,816,500	3,313,032
			15,086,538
United Kingdom 3.0%			
Unilever PLC	Personal Products	206,804	11,521,633
United States 0.8%			
[a] IMAX Corp.	Media	134,442	3,112,332
Total Common Stocks (Cost $243,258,667)			365,922,722
[c] **Participatory Notes 0.6%**			
Saudi Arabia 0.6%			
Deutsche Bank AG/London, Samba Financial Group, 8/03/20	Banks	88,055	546,132
HSBC Bank PLC, Saudi Basic Industries Corp., 1/22/18	Chemicals	66,324	1,803,869
Total Participatory Notes (Cost $1,923,033)			2,350,001
Preferred Stocks 3.7%			
Brazil 3.7%			
[d] Banco Bradesco SA, 3.687%, ADR, pfd.	Banks	627,815	6,428,826
[d] Itau Unibanco Holding SA, 3.67%, ADR, pfd.	Banks	589,962	7,669,506
Total Preferred Stocks (Cost $6,333,451)			14,098,332
Total Investments before Short Term Investments (Cost $251,515,151)			382,371,055

Templeton Developing Markets VIP Fund (continued)

	Shares	Value
Short Term Investments (Cost $1,128,203) 0.3%		
Money Market Funds 0.3%		
United States 0.3%		
[e,f] Institutional Fiduciary Trust Money Market Portfolio, 0.89% . . .	1,128,203	$ 1,128,203
Total Investments (Cost $252,643,354) 100.1% . . .		383,499,258
Other Assets, less Liabilities (0.1)% . . .		(374,154)
Net Assets 100.0% . . .		$383,125,104

See Abbreviations on page TD-23.

[†] Rounds to less than 0.1% of net assets.

[a] Non-income producing.

[b] Security was purchased pursuant to Regulation S under the Securities Act of 1933, which exempts from registration securities offered and sold outside of the United States. Such a security cannot be sold in the United States without either an effective registration statement filed pursuant to the Securities Act of 1933, or pursuant to an exemption from registration. This security has been deemed liquid under guidelines approved by the Trust's Board of Trustees. At December 31, 2017, the value of this security was $5,187,116, representing 1.4% of net assets.

[c] See Note 1(c) regarding Participatory Notes.

[d] Variable rate security. The rate shown represents the yield at period end.

[e] See Note 3(e) regarding investments in affiliated management investment companies.

[f] The rate shown is the annualized seven-day yield at period end.

Financial Statements

Statement of Assets and Liabilities

December 31, 2017

	Templeton Developing Markets VIP Fund
Assets:	
Investments in securities:	
Cost - Unaffiliated issuers	$251,515,151
Cost - Non-controlled affiliates (Note 3e)	1,128,203
Value - Unaffiliated issuers	$382,371,055
Value - Non-controlled affiliates (Note 3e)	1,128,203
Receivables:	
Capital shares sold	293,848
Dividends	1,047,093
Foreign tax refund	24,025
Other assets	37
Total assets	384,864,261
Liabilities:	
Payables:	
Capital shares redeemed	374,617
Management fees	396,461
Distribution fees	116,462
Deferred tax	662,038
Accrued expenses and other liabilities	189,579
Total liabilities	1,739,157
Net assets, at value	$383,125,104
Net assets consist of:	
Paid-in capital	$279,397,363
Undistributed net investment income	1,595,154
Net unrealized appreciation (depreciation)	130,180,412
Accumulated net realized gain (loss)	(28,047,825)
Net assets, at value	$383,125,104
Class 1:	
Net assets, at value	$105,492,696
Shares outstanding	10,227,498
Net asset value and maximum offering price per share	$10.31
Class 2:	
Net assets, at value	$270,433,425
Shares outstanding	26,441,621
Net asset value and maximum offering price per share	$10.23
Class 4:	
Net assets, at value	$ 7,198,983
Shares outstanding	700,382
Net asset value and maximum offering price per share	$10.28

Statement of Operations
for the year ended December 31, 2017

	Templeton Developing Markets VIP Fund
Investment income:	
Dividends: (net of foreign taxes)*	
Unaffiliated issuers	$ 7,749,767
Non-controlled affiliates (Note 3e)	16,602
Total investment income	7,766,369
Expenses:	
Management fees (Note 3a)	4,358,250
Distribution fees: (Note 3c)	
Class 2	615,493
Class 4	23,821
Custodian fees (Note 4)	115,586
Reports to shareholders	165,956
Professional fees	80,869
Trustees' fees and expenses	1,428
Other	43,857
Total expenses	5,405,260
Expense reductions (Note 4)	(92)
Expenses waived/paid by affiliates (Note 3e)	(13,236)
Net expenses	5,391,932
Net investment income	2,374,437
Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments:	
Unaffiliated issuers	15,797,502
Foreign currency transactions	74,401
Net realized gain (loss)	15,871,903
Net change in unrealized appreciation (depreciation) on:	
Investments:	
Unaffiliated issuers	98,134,621
Translation of other assets and liabilities denominated in foreign currencies	20,125
Change in deferred taxes on unrealized appreciation	(392,645)
Net change in unrealized appreciation (depreciation)	97,762,101
Net realized and unrealized gain (loss)	113,634,004
Net increase (decrease) in net assets resulting from operations	$116,008,441

*Foreign taxes withheld on dividends	$ 1,176,928

Statements of Changes in Net Assets

	Templeton Developing Markets VIP Fund	
	Year Ended December 31,	
	2017	2016
Increase (decrease) in net assets:		
Operations:		
Net investment income	$ 2,374,437	$ 1,776,761
Net realized gain (loss)	15,871,903	10,092,119
Net change in unrealized appreciation (depreciation)	97,762,101	34,428,227
Net increase (decrease) in net assets resulting from operations	116,008,441	46,297,107
Distributions to shareholders from:		
Net investment income:		
Class 1	(1,158,124)	(875,959)
Class 2	(2,409,152)	(1,674,699)
Class 4	(56,318)	(44,436)
Total distributions to shareholders	(3,623,594)	(2,595,094)
Capital share transactions: (Note 2)		
Class 1	(8,439,257)	(6,421,627)
Class 2	(13,542,309)	(17,591,736)
Class 4	(1,401,998)	(1,794,556)
Total capital share transactions	(23,383,564)	(25,807,919)
Net increase (decrease) in net assets	89,001,283	17,894,094
Net assets:		
Beginning of year	294,123,821	276,229,727
End of year	$383,125,104	$294,123,821
Undistributed net investment income included in net assets:		
End of year	$ 1,595,154	$ —
Distributions in excess of net investment income included in net assets:		
End of year	$ —	$ (1,674,192)

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 eighteen 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. 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 may differ 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 Depositary Receipts, futures contracts and exchange traded funds). These price movements are measured against

Templeton Developing Markets VIP Fund (continued)

1. Organization and Significant Accounting Policies (continued)

a. Financial Instrument Valuation *(continued)*

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 certain foreign markets without registering with the market regulator. 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. 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, 2017, 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

Templeton Developing Markets VIP Fund (continued)

years are those that remain subject to examination and are based on the statute of limitations in each jurisdiction in which the Fund invests.

e. 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. Distributable earnings are determined according to income tax regulations (tax basis) and 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, excluding 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.

f. 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.

g. 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.

2. Shares of Beneficial Interest

At December 31, 2017, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

	Year Ended December 31,			
	2017		2016	
	Shares	Amount	Shares	Amount
Class 1 Shares:				
Shares sold	1,136,991	$ 10,043,847	1,670,412	$ 11,807,302
Shares issued in reinvestment of distributions	132,055	1,158,124	130,351	875,960
Shares redeemed	(2,176,842)	(19,641,228)	(2,747,707)	(19,104,889)
Net increase (decrease)	(907,796)	$ (8,439,257)	(946,944)	$ (6,421,627)
Class 2 Shares:				
Shares sold	6,636,331	$ 58,458,562	6,851,485	$ 48,325,937
Shares issued in reinvestment of distributions	276,596	2,409,152	251,080	1,674,699
Shares redeemed	(8,351,598)	(74,410,023)	(9,617,120)	(67,592,372)
Net increase (decrease)	(1,438,671)	$(13,542,309)	(2,514,555)	$(17,591,736)

Templeton Developing Markets VIP Fund (continued)

2. Shares of Beneficial Interest (continued)

	Year Ended December 31,			
	2017		2016	
	Shares	Amount	Shares	Amount
Class 4 Shares:				
Shares sold	85,028	$ 793,112	84,033	$ 595,503
Shares issued in reinvestment of distributions	6,437	56,318	6,622	44,436
Shares redeemed	(253,881)	(2,251,428)	(348,788)	(2,434,495)
Net increase (decrease)	(162,416)	$ (1,401,998)	(258,133)	$ (1,794,556)

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

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, 2017, the gross effective investment management fee rate was 1.243% 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.

Templeton Developing Markets VIP Fund (continued)

c. Distribution Fees

The Board has adopted distribution plans for Class 2 and Class 4 shares pursuant to Rule 12b-1 under the 1940 Act. Under the Fund's compensation distribution plans, the Fund pays Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to 0.25% and 0.35% per year of its average daily net assets of Class 2 and Class 4, respectively. The plan year, for purposes of monitoring compliance with the maximum annual plan rates, is February 1 through January 31.

d. Transfer Agent Fees

Investor Services, under terms of an agreement, performs shareholder servicing for the Fund and is not paid by the Fund for the services.

e. Investments in Affiliated Management Investment Companies

The Fund invests in 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 Statement of Operations, in an amount not to exceed the management and administrative fees paid directly or indirectly by each affiliate. Prior to January 1, 2014, the waiver was accounted for as a reduction to management fees. During the year ended December 31, 2017, 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	Dividend Income	Realized Gain (Loss)	Net Change in Unrealized Appreciation (Depreciation)
Non-Controlled Affiliates								
Institutional Fiduciary Trust Money Market Portfolio, 0.89%	4,395,622	55,728,619	(58,996,038)	1,128,203	$1,128,203	$16,602	$ —	$ —

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, 2017, the custodian fees were reduced as noted in the Statement of Operations.

5. Income Taxes

For tax purposes, capital losses may be carried over to offset future capital gains, if any. At December 31, 2017, the capital loss carryforwards were as follows:

Capital loss carryforwards not subject to expiration:	
Short term	$17,661,798
Long term	7,528,497
Total capital loss carryforwards	$25,190,295

During the year ended December 31, 2017, the Fund utilized $8,216,255 of capital loss carryforwards.

The tax character of distributions paid during the years ended December 31, 2017 and 2016, was as follows:

	2017	2016
Distributions paid from ordinary income	$3,623,594	$2,595,094

Templeton Developing Markets VIP Fund (continued)

5. Income Taxes (continued)

At December 31, 2017, the cost of investments, net unrealized appreciation (depreciation) and undistributed ordinary income for income tax purposes were as follows:

Cost of investments	$256,909,704
Unrealized appreciation	$139,816,903
Unrealized depreciation	(13,227,349)
Net unrealized appreciation (depreciation)	$126,589,554
Distributable earnings - undistributed ordinary income	$ 3,003,976

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.

6. Investment Transactions

Purchases and sales (excluding short term securities) for the year ended December 31, 2017, aggregated $37,048,792 and $58,443,812, 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.

The United States and other nations have imposed and could impose additional sanctions on certain issuers in Russia due to regional conflicts. These sanctions could result in the devaluation of Russia's currency, a downgrade in Russian issuers' credit ratings, or a decline in the value and liquidity of Russian stocks or other securities. Such sanctions could also adversely affect Russia's economy, possibly forcing the economy into a recession. The Fund may be prohibited from investing in securities issued by companies subject to such sanctions. In addition, if the Fund holds the securities of an issuer that is subject to such sanctions, an immediate freeze of that issuer's securities could result, impairing the ability of the Fund to buy, sell, receive or deliver those securities. There is also the risk that countermeasures could be taken by Russia's government, which could involve the seizure of the Fund's assets. These risks could affect the value of the Fund's portfolio. While the Fund holds securities of certain issuers impacted by the sanctions, existing investments satisfy the applicable terms and conditions of the sanctions. At December 31, 2017, the Fund had 7.3% of its net assets invested in Russia.

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 9, 2018. 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 9, 2018, the Borrowers renewed the Global Credit Facility for a one year term, maturing February 8, 2019, for a total of $2 billion.

Templeton Developing Markets VIP Fund (continued)

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, 2017, the Fund did not use the Global Credit Facility.

9. Fair Value Measurements

The Fund follows a fair value hierarchy that distinguishes between market data obtained from independent sources (observable inputs) and the Fund's own market assumptions (unobservable inputs). These inputs are used in determining the value of the Fund's financial instruments and are summarized in the following fair value hierarchy:

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

The input levels are not necessarily an indication of the risk or liquidity associated with financial instruments at that level.

For movements between the levels within the fair value hierarchy, the Fund has adopted a policy of recognizing the transfers as of the date of the underlying event which caused the movement.

A summary of inputs used as of December 31, 2017, in valuing the Fund's assets carried at fair value, is as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments in Securities:[a]				
Equity Investments[b]	$ 380,021,054	$ —	$ —	$ 380,021,054
Participatory Notes	—	2,350,001	—	2,350,001
Short Term Investments	1,128,203	—	—	1,128,203
Total Investments in Securities	$ 381,149,257	$ 2,350,001	$ —	$ 383,499,258

[a]For detailed categories, see the accompanying Statement of Investments.
[b]Includes common and preferred stocks.

10. Subsequent Events

The Fund has evaluated subsequent events through the issuance of the financial statements and determined that no events have occurred that require disclosure other than those that have already been disclosed in the financial statements.

Abbreviations

Selected Portfolio

ADR American Depositary Receipt
GDR Global Depositary Receipt

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Franklin Templeton Variable Insurance Products Trust and Shareholders of Templeton Developing Markets VIP Fund

Opinion on the Financial Statements

We have audited the accompanying statement of assets and liabilities, including the statement of investments, of Templeton Developing Markets VIP Fund (the "Fund") as of December 31, 2017, the related statement of operations for the year ended December 31, 2017, the statement of changes in net assets for each of the two years in the period ended December 31, 2017, including the related notes, and the financial highlights for each of the five years in the period ended December 31, 2017 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2017, 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 ended December 31, 2017 and the financial highlights for each of the five years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on the Fund's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Fund in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our procedures included confirmation of securities owned as of December 31, 2017 by correspondence with the custodian and transfer agent. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California
February 15, 2018

We have served as the auditor of one or more investment companies in the Franklin Templeton Group of Funds since 1948.

Tax Information (unaudited)

Templeton Developing Markets VIP Fund

At December 31, 2017, 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 2018 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: Frank Russell Company is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Frank Russell Company.

See www.franklintempletondatasources.com for additional data provider information.

Bloomberg Barclays US Aggregate Bond Index is a market capitalization-weighted index representing the US 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 US Government Index: Intermediate Component is the intermediate component of the Barclays US Government Index, which includes public obligations of the US Treasury with at least one year to final maturity and publicly issued debt of US government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the US government.

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.

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 of assets among different fixed income securities sectors (not primarily in one sector except for defensive purposes), including US and foreign governments, with a significant portion rated below investment grade. For the 12-month period ended 12/31/17, there were 316 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 12/31/17, there were 75 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 US Government Funds Classification Average is an equally weighted average calculation of performance figures for all funds within the Lipper General US Government Funds classification in the Lipper VIP underlying funds universe. Lipper General US Government Funds invest primarily in US government and agency issues. For the 12-month period ended 12/31/17, there were 56 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 US) and 23 emerging markets countries. The index covers approximately 85% of the global equity opportunity set outside the US.

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 Frontier Markets Index is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in frontier markets.

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 1000® Value Index is market capitalization weighted and measures performance of those Russell 1000® Index companies with lower price-to-book ratios and lower forecasted growth values.

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 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 US 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.

Special Meeting of Shareholders

MEETING OF SHAREHOLDERS: OCTOBER 30, 2017

(UNAUDITED)

A Special Meeting of Shareholders of Franklin Templeton Variable Insurance Products Trust was held at the offices of Franklin Templeton Investments, One Franklin Parkway, San Mateo, California on October 30, 2017. The purpose of the meeting was to elect Trustees of Franklin Templeton Variable Insurance Products Trust and to vote on the following proposals: for each of the Funds, except Franklin Founding Funds Allocation VIP Fund and Franklin VolSmart Allocation VIP Fund, to approve the use of a "manager of managers" structure whereby the Fund's investment manager would be able to hire and replace subadvisers without shareholder approval; for Franklin Rising Dividends VIP Fund, to approve a new Investment Management Agreement with Franklin Advisers, Inc.; for Templeton Developing Markets VIP Fund, to approve a new Subadvisory Agreement with Franklin Templeton Investment Management Limited; and for each of the Funds, to approve an amended fundamental investment restriction regarding investments in commodities. At the meeting, (i) the following persons were elected by the shareholders to serve as Trustees of Franklin Templeton Variable Insurance Products Trust: Harris J. Ashton, Terrence J. Checki, Mary C. Choksi, Edith E. Holiday, Gregory E. Johnson, Rupert H. Johnson, Jr., J. Michael Luttig, Larry D. Thompson, and John B. Wilson; and (ii) all other proposals voted on were approved by shareholders. No other business was transacted at the meeting.

The results of the voting at the meeting are as follows:

Proposal 1. To elect a Board of Trustees:

Name	For	Withheld
Harris J. Ashton	1,483,931,005	63,700,507
Terrence J. Checki	1,487,851,289	59,780,222
Mary C. Choksi	1,487,649,087	59,982,424
Edith E. Holiday	1,487,786,345	59,845,166
Gregory E. Johnson	1,490,898,162	56,733,349
Rupert H. Johnson, Jr.	1,485,176,267	62,455,244
J. Michael Luttig	1,488,062,993	59,568,519
Larry D. Thompson	1,486,098,183	61,533,328
John B. Wilson	1,489,011,786	58,619,724

Total Trust Shares Outstanding*: 1,598,054,299

Proposal 2. To approve the use of a "manager of managers" structure whereby the Fund's investment manager would be able to hire and replace subadvisers without shareholder approval:

Franklin Flex Cap Growth VIP Fund

	Shares
For	13,749,224
Against	879,952
Abstain	1,118,404
Total Fund Shares Voted	15,747,580
Total Fund Outstanding Shares*	15,802,049

* As of the record date.

Franklin Rising Dividends VIP Fund

	Shares
For	58,234,322
Against	5,102,328
Abstain	3,925,714
Total Fund Shares Voted	67,262,364
Total Fund Outstanding Shares*	69,031,623

Franklin Small-Mid Cap Growth VIP Fund

	Shares
For	23,115,445
Against	2,258,073
Abstain	1,396,522
Total Fund Shares Voted	26,770,040
Total Fund Outstanding Shares*	27,311,145

Franklin Small Cap Value VIP Fund

	Shares
For	53,566,894
Against	4,789,585
Abstain	3,897,280
Total Fund Shares Voted	62,253,759
Total Fund Outstanding Shares*	73,514,199

Franklin Strategic Income VIP Fund

	Shares
For	50,927,089
Against	5,281,784
Abstain	3,535,384
Total Fund Shares Voted	59,744,257
Total Fund Outstanding Shares*	60,841,388

Franklin U.S. Government Securities VIP Fund

	Shares
For	89,132,433
Against	7,353,649
Abstain	6,346,786
Total Fund Shares Voted	102,832,867
Total Fund Outstanding Shares*	109,725,751

Franklin Mutual Global Discovery VIP Fund

	Shares
For	27,411,088
Against	2,091,298
Abstain	2,391,763
Total Fund Shares Voted	31,894,149
Total Fund Outstanding Shares*	32,602,413

Franklin Mutual Shares VIP Fund

	Shares
For	173,288,690
Against	16,123,033
Abstain	11,727,399
Total Fund Shares Voted	201,139,121
Total Fund Outstanding Shares*	201,829,901

Templeton Developing Markets VIP Fund

	Shares
For	33,445,421
Against	2,083,042
Abstain	1,602,155
Total Fund Shares Voted	37,130,617
Total Fund Outstanding Shares*	38,665,160

Templeton Foreign VIP Fund

	Shares
For	90,056,367
Against	6,884,702
Abstain	5,875,891
Total Fund Shares Voted	102,816,960
Total Fund Outstanding Shares*	113,425,059

Templeton Global Bond VIP Fund

	Shares
For	153,662,270
Against	14,159,085
Abstain	9,838,114
Total Fund Shares Voted	177,659,469
Total Fund Outstanding Shares*	188,040,251

Templeton Growth VIP Fund

	Shares
For	77,388,057
Against	7,366,622
Abstain	5,511,620
Total Fund Shares Voted	90,266,300
Total Fund Outstanding Shares*	91,604,126

Franklin Growth and Income VIP Fund

	Shares
For	6,587,641
Against	468,056
Abstain	110,295
Total Fund Shares Voted	7,165,992
Total Fund Outstanding Shares*	7,208,893

Franklin Income VIP Fund

	Shares
For	331,527,467
Against	31,877,033
Abstain	26,008,222
Total Fund Shares Voted	389,412,722
Total Fund Outstanding Shares*	392,023,197

Franklin Large Cap Growth VIP Fund

	Shares
For	5,389,158
Against	481,087
Abstain	485,968
Total Fund Shares Voted	6,356,213
Total Fund Outstanding Shares*	6,415,938

Franklin Global Real Estate VIP Fund

	Shares
For	10,375,756
Against	709,592
Abstain	684,561
Total Fund Shares Voted	11,769,909
Total Fund Outstanding Shares*	11,847,583

Proposal 3. To approve a new Investment Management Agreement with Franklin Advisers, Inc:

Franklin Rising Dividends VIP Fund

	Shares
For	61,230,619
Against	1,892,274
Abstain	4,139,471
Total Fund Shares Voted	67,262,364
Total Fund Shares Outstanding*	69,031,623

Proposal 4. To approve a new Subadvisory Agreement with Franklin Templeton Investment Management Limited:

Templeton Developing Markets VIP Fund

	Shares
For	34,067,321
Against	1,503,503
Abstain	1,559,793
Total Fund Shares Voted	37,130,617
Total Fund Shares Outstanding*	38,665,160

Proposal 5. To approve an amended fundamental investment restriction regarding investments in commodities:

Franklin Flex Cap Growth VIP Fund

	Shares
For	13,865,526
Against	747,561
Abstain	1,134,493
Total Fund Shares Voted	15,747,580
Total Fund Outstanding Shares*	15,802,049

Franklin Rising Dividends VIP Fund

	Shares
For	59,751,082
Against	2,758,376
Abstain	4,752,906
Total Fund Shares Voted	67,262,364
Total Fund Outstanding Shares*	69,031,623

Franklin Small-Mid Cap Growth VIP Fund

	Shares
For	23,646,532
Against	1,565,814
Abstain	1,557,694
Total Fund Shares Voted	26,770,040
Total Fund Outstanding Shares*	27,311,145

Franklin Small Cap Value VIP Fund

	Shares
For	54,478,087
Against	3,057,279
Abstain	4,718,393
Total Fund Shares Voted	62,253,759
Total Fund Outstanding Shares*	73,514,199

Franklin Strategic Income VIP Fund

	Shares
For	52,089,907
Against	3,535,016
Abstain	4,119,335
Total Fund Shares Voted	59,744,257
Total Fund Outstanding Shares*	60,841,388

Franklin U.S. Government Securities VIP Fund

	Shares
For	90,516,652
Against	4,962,770
Abstain	7,353,445
Total Fund Shares Voted	102,832,867
Total Fund Outstanding Shares*	109,725,751

Franklin Mutual Global Discovery VIP Fund

	Shares
For	28,033,432
Against	1,252,638
Abstain	2,608,079
Total Fund Shares Voted	31,894,149
Total Fund Outstanding Shares*	32,602,413

Franklin Mutual Shares VIP Fund

	Shares
For	177,273,923
Against	10,129,961
Abstain	13,735,237
Total Fund Shares Voted	201,139,121
Total Fund Outstanding Shares*	201,829,901

Templeton Developing Markets VIP Fund

	Shares
For	34,011,236
Against	1,427,546
Abstain	1,691,835
Total Fund Shares Voted	37,130,617
Total Fund Outstanding Shares*	38,665,160

Templeton Foreign VIP Fund

	Shares
For	91,743,616
Against	4,425,178
Abstain	6,648,165
Total Fund Shares Voted	102,816,960
Total Fund Outstanding Shares*	113,425,059

Templeton Global Bond VIP Fund

	Shares
For	157,121,313
Against	8,459,106
Abstain	12,079,050
Total Fund Shares Voted	177,659,469
Total Fund Outstanding Shares*	188,040,251

Templeton Growth VIP Fund

	Shares
For	79,782,773
Against	4,136,520
Abstain	6,347,006
Total Fund Shares Voted	90,266,300
Total Fund Outstanding Shares*	91,604,126

Franklin Growth and Income VIP Fund

	Shares
For	6,699,033
Against	291,508
Abstain	175,451
Total Fund Shares Voted	7,165,992
Total Fund Outstanding Shares*	7,208,893

Franklin Income VIP Fund

	Shares
For	338,299,973
Against	18,075,707
Abstain	33,037,042
Total Fund Shares Voted	389,412,722
Total Fund Outstanding Shares*	392,023,197

Franklin Large Cap Growth VIP Fund

	Shares
For	5,515,296
Against	284,582
Abstain	556,334
Total Fund Shares Voted	6,356,213
Total Fund Outstanding Shares*	6,415,938

Franklin Global Real Estate VIP Fund

	Shares
For	10,531,666
Against	347,186
Abstain	891,057
Total Fund Shares Voted	11,769,909
Total Fund Outstanding Shares*	11,847,583

Franklin Founding Funds Allocation VIP Fund

	Shares
For	122,854,798
Against	4,270,018
Abstain	14,343,426
Total Fund Shares Voted	141,468,242
Total Fund Outstanding Shares*	142,224,672

Franklin VolSmart Allocation VIP Fund

	Shares
For	13,979,495
Against	469,722
Abstain	1,491,733
Total Fund Shares Voted	15,940,951
Total Fund Outstanding Shares*	15,940,951

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 US 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	139	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).				
Terrence J. Checki (1945) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since October 2017	113	Hess Corporation (exploration of oil and gas) (2014-present).
Principal Occupation During at Least the Past 5 Years: Member of the Council on Foreign Relations (1996-present); Member of the National Committee on U.S.-China Relations (1999-present); member of the Board of Trustees of the Economic Club of New York (2013-present); member of the Board of Trustees of the Foreign Policy Association (2005-present) and member of various other boards of trustees and advisory boards; and **formerly**, Executive Vice President of the Federal Reserve Bank of New York and Head of its Emerging Markets and Internal Affairs Group and Member of Management Committee (1995-2014); and Visiting Fellow at the Council on Foreign Relations (2014).				
Mary C. Choksi (1950) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2014	139	Avis Budget Group Inc. (car rental) (2007-present), Omnicom Group Inc. (advertising and marketing communications services) (2011-present) and White Mountains Insurance Group, Ltd. (holding company) (2017-present)
Principal Occupation During at Least the Past 5 Years: Director of various companies; and **formerly**, Founder and Senior Advisor, Strategic Investment Group (investment management group) (2015-2017); 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	139	Hess Corporation (exploration 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	139	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	139	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; Counsel, Finch McCranie, LLP (law firm) (2015-present); Independent Compliance Monitor and Auditor, Volkswagen AG (manufacturer of automobiles and commercial vehicles) (2017-present); John A. Sibley Professor of Corporate and Business Law, University of Georgia School of Law (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	113	None

Principal Occupation During at Least the Past 5 Years:
President and Founder, Hyannis Port Capital, Inc. (real estate and private equity investing) (2002-present); serves on private and non-profit boards; and **formerly**, President, Staples International and Head of Global Transformation (office supplies) (2012-2016); 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	153	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 43 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	139	None

Principal Occupation During at Least the Past 5 Years:
Vice Chairman, Member – Office of the Chairman and Director, Franklin Resources, Inc.; Director, Franklin Advisers, Inc.; Senior Vice President, Franklin Advisory Services, LLC; and officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 41 of the investment companies in Franklin Templeton Investments.

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
Gaston Gardey (1967) One Franklin Parkway San Mateo, CA 94403-1906	Chief Financial Officer, Chief Accounting Officer and Treasurer	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 28 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 FASA, LLC; and officer of 45 of the investment companies in Franklin Templeton Investments.

Matthew T. Hinkle (1971) One Franklin Parkway San Mateo, CA 94403-1906	Chief Executive Officer – Finance and Administration	Since June 2017	Not Applicable	Not Applicable

Principal Occupation During at Least the Past 5 Years:
Senior Vice President, Franklin Templeton Services, LLC; officer of 45 of the investment companies in Franklin Templeton Investments; and **formerly**, Vice President, Global Tax (2012-April 2017) and Treasurer/Assistant Treasurer, Franklin Templeton Investments (2009-2017).

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 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 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 US registered investment companies within the Franklin Templeton Investments fund complex. These portfolios have a common investment manager or affiliated investment managers.

**Gregory E. Johnson is considered to be an interested person of the Fund under the federal securities laws due to his position as an officer and director of Franklin Resources, Inc. (Resources), which is the parent company of the Fund's investment manager and distributor. Rupert H. Johnson, Jr. is considered to be an interested person of the Fund under the federal securities laws due to his position as officer and director and major shareholder of Resources.

Note 1: Rupert H. Johnson, Jr. is the uncle of Gregory E. Johnson.

Note 2: Officer information is current as of the date of this report. It is possible that after this date, information about officers may change.

The Sarbanes-Oxley Act of 2002 and Rules adopted by the Securities and Exchange Commission require the Fund to disclose whether the Fund's Audit Committee includes at least one member who is an audit committee financial expert within the meaning of such Act and Rules. The Fund's Board has determined that there is at least one such financial expert on the Audit Committee and has designated John B. Wilson as its audit committee financial expert. The Board believes that Mr. Wilson qualifies as such an expert in view of his extensive business background and experience, including service as chief financial officer of Staples, Inc. from 1992 to 1996. Mr. Wilson has been a Member and Chairman of the Fund's Audit Committee since 2007. As a result of such background and experience, the Board believes that Mr. Wilson has acquired an understanding of generally accepted accounting principles and financial statements, the general application of such principles in connection with the accounting estimates, accruals and reserves, and analyzing and evaluating financial statements that present a breadth and level of complexity of accounting issues generally comparable to those of the Fund, as well as an understanding of internal controls and procedures for financial reporting and an understanding of audit committee functions. Mr. Wilson is an independent Board member as that term is defined under the relevant Securities and Exchange Commission Rules and Releases.

The Statement of Additional Information (SAI) includes additional information about the board members and is available, without charge, upon request. Shareholders may call (800) 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 US 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 US 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.

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.